

REPORT

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Councillor Mrs Warrander, Portfolio Holder for Resources

CAPITAL PROGRAMME 2004/05 TO 2009/10

EXECUTIVE SUMMARY

This report brings together the amendments to the five year capital programme as outlined in the portfolio plans and updates members on any significant changes to scheme profiling within the existing capital programme.

The significant new projects within the proposed programme included are:

- The Office Project Construction Phases
- I.T. Disaster Recovery
- E Government – ODPM Priority outcomes

In addition, due to the magnitude of the proposed office project, an outline of the project and it's proposed funding is included.

1. PURPOSE OF REPORT

The purpose of the report is to:

- 1.1 Update members on the financing of the Capital Programme. (Appendix 1)
- 1.2 Update members on issues relating to the current and future programme.
- 1.3 Seek approval of the revised Capital Programme for 2004/05 to 2009/10 (Appendix 2)
- 1.4 To approve in principle the financing arrangements for the construction of centralised offices at Bourne Hill (Appendix 3)

2. POLICY CONSIDERATIONS

- 2.1 The Council believes in the use of its resources to provide flexible and responsive services, which offer best value and excellent customer service. In setting it's overall budget strategy, the Council has undertaken public consultation to allow the community the opportunity to influence spending plans.

- 2.2 The Capital programme is a result of an integrated corporate planning process and reflects the Council's political priorities. New areas for investment are identified in the portfolio plans
- 2.3 Although the Capital Programme is a five year rolling programme it can be varied at regular intervals to reflect changing need, available finance and political priorities.

3. INTRODUCTION AND BACKGROUND

- 3.1 The latest Capital Programme (Month 6) was reported to Members in November.
- 3.2 The Council has as part of its medium term financial strategy indicated that it will use the new prudential system on a case by case basis for capital schemes that are invest to save initiatives.
- 3.3 The Office Project is progressing and as the capital programme is a five year programmes the proposed detailed design, construction and fit out phases are now within this period.

4. OFFICE CENTRALISATION – FINANCING ARRANGEMENTS

- 4.1 The existing capital programme already provides finance for the project through to gateways 'C' (outline design) 'D' (detailed Planning application) as well as works to Churchfields and the City Hall and setting up the Customer Contact Centre.

4.2 Potential Financing Arrangements – Construction Phase

In December 2004 the Cabinet requested officers to explore two potential methods of financing the remainder of the office project as capital receipts from the sale of surplus office space together with other available capital receipts are unlikely to cover the total cost of the project. The two methods are:

- Using the prudential system with external borrowing
- Using the prudential system without external borrowing

- 4.3 As the two potential methods of finance both use the new prudential system, the decision as to whether to borrow or not is effectively a treasury management decision depending on the overall cost of the project and the amount of projected surplus cash that the Council has available. The capital repayment mechanisms are statutorily set in either case (4% per annum reducing balance method) therefore the only real difference is the potential to change the mixture of fixed and variable interest rates. This can be achieved through the treasury management strategy which is set on an annual basis.

4.4 **Estimated Total Cost**

The current estimated cost of the construction phase of the project is £11.750m using the following main assumptions:

- Total space requirement of 4050 m2 (All SDC requirements plus Registrars)
- Specification of £1250 per m2 for new build extension
- A Refurbishment rate of £1200 per m2 for the Existing House (Until the structural condition of the property is established by way of intrusive investigations and average cost is recommended by the Design Team for estimate purposes)

4.5 The risks of variation from the current estimated total cost are principally in connection with:

- The Specification chosen
- Constraints imposed by external influence e.g. English Heritage/Archaeology
- Condition of existing structure
- Future space requirements

4.6 **Affordability**

Appendix 2 shows an affordability model that is being developed alongside the project to show the relationship between the total cost of the project and the savings that have to be generated in order to finance the capital costs. The principle assumptions in this are:

- Long term interest rates will average 5%
- £4m capital receipts will be raised from the disposal of surplus assets
- Savings of £300,000 per annum will be achieved through consolidating Customer Services
- Other savings on energy and repairs and maintenance are calculated at the level of current budgets (i.e. no allowance is made for increasing repairs and maintenance costs of the status quo)
- Rent from the County Council for Registrars will be at market levels
- As the cost of capital reduces on the new building there will be a compensating need for repairs and renewals

4.7 **Value for Money**

In addition to affordability, there is a requirement to show value for money.

When the major variables in the project are eliminated, the project needs to be re-benchmarked against alternatives such as:

- The do nothing option
- Other viable alternatives

In order to satisfy this requirement this exercise needs to be carried out independently. The Audit Commission has agreed that it will undertake this work as part of its annual audit programme.

4.8 Project Risk Management

The Project Manager will maintain a high level risk register which will be reviewed regularly by the Steering Group. This will incorporate issues raised by the design team and others responsible for the delivery of the project, agree a strategy for mitigation/elimination of the risk and identify a risk owner for implementation.

Within the design team the Quantity Surveyor will maintain a risk register with similar actions and responsibilities. The detail of the implementation of this role post contract will be dependant upon the selected procurement route. The apportionment of risk will be a key factor in the selection of the appropriate procurement route for the project.

5. PROPOSED REVISIONS TO THE EXISTING CAPITAL PROGRAMME

5.1 Structural Repairs and Maintenance

A five year programme of structural maintenance was approved by Council in February 2003. The programme is subject to ongoing review and the amount required to finance the programme agreed annually. There will be an impact on this programme as the office project progresses. Members will be updated accordingly. Maintenance of the existing administrative offices is currently being kept to a minimum and only repairs of an operational, health and safety and/or statutory nature are being undertaken.

5.2 Investment in IT Infrastructure

The IT Strategy Group decides priorities and identifies resource needs to the Council, any amendments in financing requirements are dealt with through the portfolio plan for Resources. An additional £210,000 was identified in the Portfolio Plan in order to achieve the ODPM priority outcomes in 2005/06. An update on the IT Strategy was submitted in January. Up to £350,000 was also included in the plan for the Council to put in place disaster recovery plans.

5.3 Housing Grants

Included in the Community and Housing Portfolio Plan was a proposal to stop awarding Renovation Grants. In 2005/06 the subsequent saving of £100,000 is to be redirected to Disabled Facilities Grants (£50,000 per annum) and to substantially finance the 2005/06 Housing Needs Survey (£60,000 non recurring)

5.4 Beehive Park and Ride Site

The Council has been in dispute with the previous landowner in respect of the compulsory purchase of the site. Provision up to the amount of the original offer by the Council is included in the capital programme, however the provision is £80,000 less than the settlement plus fees incurred in contesting the claim estimated at £40,000. This is shown in the Environment and Transport Portfolio.

5.5 Operating Leases

The Council has for a number of years been using operating leases in order to finance short life assets such as vehicles and plant. Under the new prudential system there is no incentive to do this any longer. In 2004/05 the Council has made purchases to the value of £660,000. The rentals for these assets are fully financed from existing revenue budgets however in order to comply with the code of practice these purchases need to be shown in the first instance as capital expenditure. In order to facilitate this and allow for further renewals in the current year £750,000 is shown in the capital programme under the Resources Portfolio.

5.6 Financial Profile of Existing Schemes

There is an ongoing exercise of profiling capital spending against financial years. As a result £3.3m of the current 2004/05 programme has been re-profiled to 2005/06.

6. FUTURE CONSIDERATIONS

- 6.1 The Council's pursuance of housing stock options is currently under way and this may have a significant effect on the future Capital Programme.
- 6.2 In March the Council will be asked to approve its prudential limits for 2005/06 as required by the 2003 Local Government Act.
- 6.3 As the Office project is refined and in accordance with the Office Centralisation Project Execution Plan, an asset disposal strategy and value for money study will need to be developed alongside regular project updates to members which may impact on the capital programme.

7. RECOMMENDATIONS:

- 7.1 Members are requested to:
 - i) Note the current financing of the Capital Programme (**Appendix 1**)
 - ii) Approve the Revised Capital Programme 2004/2005-2009/2010 (**Appendix 2**)
 - iii) Approve in Principle a financing strategy using the prudential system for the construction of Centralised Offices that has no impact (or a saving) on the Councils revenue budget. (**Appendix 3**)
 - iv) Instruct officers to commission an independent value for money assessment of the preferred option for centralised offices between gateways 'C' and 'D' of the project.

8. BACKGROUND PAPERS:

Capital Strategy and Asset Management Plan - July 2004.
Medium Term Financial Strategy - November 2004.
Draft Portfolio Plans 2005/06 – December 2004.
Office Centralisation –Current Progress and Funding Routes – December 2004.
Office Centralisation Project Execution Plan and Programme

9. IMPLICATIONS:

- **Financial:** The Council currently continues to be finance its capital expenditure primarily from capital receipts. The Office Centralisation Project will require revenue savings to made in order to service and repay the initial finance used.
- **Legal:** None identified.
- **Human Rights:** The human rights relating to this issue have been considered and any potential interference is considered proportionate to the legitimate end to be achieved.
- **Personnel:** None
- **Environmental:** None
- **Council's Core Values:** The capital programme is a financial expression of the Council's aims and objectives, underpinned by the Council's core values.
- **Council's priorities:** Areas for investment are in line with the capital strategy and portfolio plans, which take these into account.
- **Wards Affected:** All

OVERALL CAPITAL FINANCING
2004/05 to 2009/10

Appendix 1

	Revised					
<u>CAPITAL PROGRAMME</u>	2004/2005 £	2005/2006 £	2006/2007 £	2007/2008 £	2008/2009 £	2009/2010 £
- General Fund	3,767,030	5,725,930	7,945,000	5,696,000	2,920,000	1,400,000
- Housing Revenue Account	4,729,090	3,709,590	3,000,000	3,000,000	3,000,000	3,000,000
- City Area	48,730	150,000	0	0	0	0
Total Funding Required	8,544,850	9,585,520	10,945,000	8,696,000	5,920,000	4,400,000
<u>FINANCING AVAILABLE:-</u>						
Grants - Other	158,000	153,000	153,000	153,000	153,000	153,000
Capital Receipts -RTB	3,250,000	2,500,000	1,750,000	1,000,000	1,000,000	1,000,000
Capital Receipts-Other	3,697,500	0	0	2,000,000	2,000,000	0
MRA	4,229,090	3,709,590	3,000,000	3,000,000	3,000,000	3,000,000
City Reserve	47,310	0	0	0	0	0
Revenue Contributions	501,420	150,000	0	0	150,000	150,000
Capital Financing Reserve	1,978,000	0	0	0	0	0
Total Capital Resources	13,861,320	6,512,590	4,903,000	6,153,000	6,303,000	4,303,000
Opening Usable Capital Receipts	(5,146,000)	(10,462,470)	(7,389,540)	(1,347,540)	1,195,460	812,460
(Surplus)/Deficit for Year	(5,316,470)	3,072,930	6,042,000	2,543,000	(383,000)	97,000
Finance Available	(10,462,470)	(7,389,540)	(1,347,540)	1,195,460	812,460	909,460

CAPITAL PROGRAMME

Summary	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
	£	£	£	£	£	£
Resources Portfolio	2,796,510	3,390,000	6,420,000	4,745,000	2,545,000	1,025,000
Community and Housing Portfolio	538,540	2,209,000	1,500,000	937,000	375,000	375,000
Planning & Economic Development Portfolio	13,260	0	0	0	0	0
Environment & Transport Portfolio	418,720	126,930	25,000	14,000	0	0
Total General Fund Capital Programme	3,767,030	5,725,930	7,945,000	5,696,000	2,920,000	1,400,000
Total HRA - Non Repairs and Maintenance	367,310	351,810	275,000	275,000	275,000	275,000
Refurbishment & Modernisation of Council Houses	4,361,780	3,357,780	2,725,000	2,725,000	2,725,000	2,725,000
Total Housing Revenue Account	4,729,090	3,709,590	3,000,000	3,000,000	3,000,000	3,000,000
City Area	48,730	150,000	0	0	0	0
Total City Area	48,730	150,000	0	0	0	0
Overall Capital Programme	8,544,850	9,585,520	10,945,000	8,696,000	5,920,000	4,400,000

CAPITAL PROGRAMME

Resources Portfolio	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
<i>Scheme</i>	£	£	£	£	£	£
Structural Repairs & Maintenance	471,280	525,000	425,000	425,000	425,000	425,000
Bourne Hill Disabled Access	23,710					
Offices Centralisation to Gateway D	531,380	1,000,000				
Offices Centralisation Construction Phases		570,000	5,400,000	3,900,000	1,700,000	180,000
Customer Services Project	378,480	250,000				
IT Capital Projects General	291,900	295,000	295,000	295,000	295,000	295,000
IT Disaster Recovery (Maximum Cost)		175,000	175,000			
E- Government Priority Outcomes		210,000				
Corporate Financial Management System	74,760	90,000				
Internal Fees	125,000	125,000	125,000	125,000	125,000	125,000
Invest to Improve*	50,000	50,000				
Invest to Save*	100,000	100,000				
Internal Leasing Fund (Self financing)	750,000					
Total Resources Portfolio	2,796,510	3,390,000	6,420,000	4,745,000	2,545,000	1,025,000

*Individual Schemes over £25,000 Subject to specific Cabinet Approval

CAPITAL PROGRAMME

Community & Housing Portfolio	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
<i>Scheme</i>	£	£	£	£	£	£
Mere Meeting Room		87,000				
Salisbury Leisure Centre	85,780					
Salisbury Arts Centre Grant	9,430					
Home Repairs Grants	70,000	70,000	70,000	70,000	70,000	70,000
Disabled Facilities Grants	313,330	305,000	305,000	305,000	305,000	305,000
Housing Needs Survey		60,000				
Renovation Grants	25,000					
Affordable Housing (Linked to Transitional Relief)		1,687,000	1,125,000	562,000		
Athletics Track -Low level Floodlights**	15,000					
Gainsborough Close - Kickabout**	20,000					
Total Community & Housing Portfolio	538,540	2,209,000	1,500,000	937,000	375,000	375,000

** Financed From R2 Deposits

CAPITAL PROGRAMME

<i>Planning & Economic Development Portfolio</i>	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
<i>Scheme</i>	£	£	£	£	£	£
CCTV System	7,260					
Tetra Radio Equipment	6,000					
<i>Total Planning & Economic Development</i>	13,260	0	0	0	0	0

CAPITAL PROGRAMME

<i>Environment & Transport Portfolio</i>	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
<i>Scheme</i>	£	£	£	£	£	£
Refurbish Queen Elizabeth Gardens Toilets	36,450					
Land Drainage Works	8,000					
Recycling Centres		9,990				
Residents' Parking Scheme		35,100				
Transportation Strategy Implementation		56,840				
Bee Hive Park & Ride	120,000					
Avon Valley Country Park	18,830					
Downton Flood Relief	148,440					
Portway Pavillion**	30,000					
Flood Alleviation Schemes	36,000	25,000	25,000	14,000		
Fuel Tank Upgrade at Depot	11,000					
Vehicle Weighing Equipment	10,000					
<i>Environment & Transport Portfolio</i>	418,720	126,930	25,000	14,000	0	0

** Financed From R2 Deposits

CAPITAL PROGRAMME

<i>Housing Revenue Account</i>	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
<i>Scheme</i>	£	£	£	£	£	£
Disabled Adaptations	321,730	275,000	275,000	275,000	275,000	275,000
Refurbishment & Modernisation of Council Housing	4,361,780	3,357,780	2,725,000	2,725,000	2,725,000	2,725,000
Replacement of Housing Computer System	45,580	76,810				
<i>Total Housing Revenue Account</i>	4,729,090	3,709,590	3,000,000	3,000,000	3,000,000	3,000,000

CAPITAL PROGRAMME

City Area Committee	<i>Revised 2004/5</i>	<i>Estimate 2005/6</i>	<i>Estimate 2006/7</i>	<i>Estimate 2007/8</i>	<i>Estimate 2008/9</i>	<i>Estimate 2009/10</i>
<i>Scheme</i>	£	£	£	£	£	£
Victoria Park Tennis Courts**		20,000				
Play Area Refurbishments**		35,000				
Play Areas -Hudsons Field**		95,000				
Ashley Rd -Vehicle Barrier	11,260					
Refurbish Queen Elizabeth Toilets	36,050					
Replacement Pavilions**	1,420					
Total City Area Committee	48,730	150,000	0	0	0	0

** Financed from R2 Deposits

Office Project - Post Stage D

Project Costs	£'000
Consultancy Fees	993
Statutory Fees	25
Construction	8068
Decanting Costs	615
Fit-Out Costs and Removals	345
Inflation Allowance	879
Contingency	825
TOTAL COST	11,750
Less Assumed Disposal Receipts	4,000
Net Capital Cost of Scheme	7,750
Capital Receipts Unapplied - Existing Programme	4,000
To be financed by Revenue or future Capital Receipts	3,750
Capital Repayment Per annum (Year 2 onwards) @ 4% on £3750 (Reducing Balance Method)	150
Loss of Interest @ 5% on investment (£7750)	388
Total Annual Cost to Revenue	538
Savings: (All Per Annum)	
Premises Related Costs (Based on Current budgets)	150
Staffing Costs (Previously Reported)	300
Rent from County Council	25
Other savings required e.g. Green Travel Plan (May require some upfront costs)	63
Total Annual Revenue Savings	538
NET Impact on Annual Revenue Budget	0