

**TO: THE EXECUTIVE**  
**16 FEBRUARY 2010**

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**CAPITAL PROGRAMME 2010/11 - 2012/13**  
**Chief Executive and Borough Treasurer**

**1 PURPOSE OF DECISION**

- 1.1 As part of the Council's financial and policy planning process, the Executive issued its draft Capital Programme proposals for 2010/11 - 2012/13 for consultation on 15 December 2009. The main focus was inevitably departmental spending needs for 2010/11, although future year's schemes do form an important part of the programme. This report sets out the proposed capital programme, following the consultation exercise, for consideration by the Executive prior to submission to the Council on 3<sup>rd</sup> March 2010.
- 1.2 The revenue implications of the recommendations in this report are reflected in the subsequent report on the Council's revenue budget proposals. Any revisions to the proposals put forward for each service would also need to be reflected in the revenue budget report.

**2 RECOMMENDATIONS**

**That the Executive:**

- 2.1 **Recommends to the Council General Fund capital funding of £8.069m for 2010/11, in respect of those schemes listed in Annexes A - E.**
- 2.2 **Recommends to the Council in addition to the capital funding of £8.069m for 2010/11, the release of £1.28m in respect of new affordable housing resulting from the LSVT in 2008.**
- 2.3 **Recommends to the Council the inclusion of an additional budget of £1m for 'Invest To Save' schemes, based on the underlying principles set out in the Capital Strategy approved by the Executive on 15 December 2009**
- 2.4 **Recommends to the Council that those schemes that attract external grant funding are included within the 2010/11 capital programme at the level of funding received.**
- 2.5 **Recommends to the Council the release of £3.1m from s106 monies to fund capital projects outlined in paragraph 5.10.**
- 2.6 **Agrees that capital schemes that require external funding can only proceed once the Council is certain of receiving the grant.**
- 2.7 **Reviews the indicative programme for 2011/12 and 2012/13 in the light of resources available and spending priorities in December 2010.**

**3 REASONS FOR RECOMMENDATIONS**

- 3.1 The reasons for the recommendation are set out in the report.

## **4 ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 The alternative options are considered in the report below.

## **5 SUPPORTING INFORMATION**

### **Background**

- 5.1 The Local Government Act 2003 requires councils to have regard to the Prudential Code for Capital Finance in Local Authorities when setting their capital expenditure plans, which must be affordable, prudent and sustainable.
- 5.2 The proposed capital programme for 2010/11 has been developed, therefore, with particular regard to affordability and the impact of the Council's capital expenditure plans on the revenue budget. The financing costs associated with the General Fund Capital Programme have been provided for in the Council's revenue budget plans which appear later on tonight's agenda.
- 5.3 In addition to those schemes funded by the Council, the capital programme is supplemented by schemes funded by government grants and other external contributions. Details of these schemes are also included in the proposals for 2010/11 – 2012/13.

### **Capital Programme Proposals 2010/11 – 2012/13**

- 5.4 The Executive's draft proposals for the Council's capital programme for 2010/11 – 2012/13 were evaluated and prioritised into five broad categories, in accordance with the Council's Corporate Capital Strategy and Asset Management Plan. This includes schemes within the previously approved programme for 2009/10, some of which are re-phased to reflect current information and priorities.

#### **Unavoidable (Including committed schemes)**

This category covers schemes which must proceed to ensure that the Council is not left open to legal sanction and includes items relating to health and safety issues, new statutory legislation etc. Committed schemes are those that have been started as part of the 2009/10 Capital Programme. By their nature, schemes in this category form the first call on the available capital resources.

#### **Maintenance (Improvements and capitalised repairs)**

The Council is responsible for a significant number of properties and assets. As part of the established asset management planning process, property condition surveys are carried out and updated annually to assess the overall maintenance needs. Historically the Council has funded all Priority 1 maintenance works identified in these surveys. These represent the works that are necessary, within the next 12 months, to maintain buildings in beneficial use through the prevention of closure, dealing with health and safety items and potential breaches of legislation. The latest assessment based on condition surveys undertaken in 2009 identified a backlog of urgent Priority 1 outstanding repairs of £9.2m. However £4.1m of this requirement relates to schools and as such must be a first call on their resources. The Council has provided for an allocation within its Capital Programme of £0.2m as a contingency for where urgent works cannot be met from within their Devolved Formula Capital budgets.

As such, based on the most recent survey data, £5.1m of the Priority 1 urgent repairs relate to Council buildings other than schools. Given the

resource restraints of the Council, the Capital Programme is restricted to £2.081m (inclusive of Schools contingency) and as such this will result in £3.2m of urgent repairs being deferred to future years and increasing the overall level of backlog maintenance.

The Council recognises that the current approach is unsustainable and if nothing changes additional resources will be required. However asset replacement and renewal over the medium term will alleviate some of the shortfall e.g. Town Centre renewal, Building Schools for the Future, Primary Capital Programme and the modernisation of social care. As such the Council will review the existing Asset Management Plans currently in place.

The implications of failing to maintain Council buildings and to address the backlog will be a major issue for the Council over the coming years and efforts will be focussed on ensuring that the highest priority items are tackled first, that efficiencies are maximised in the procurement of works and that maintenance which will result in energy efficiencies are undertaken through the invest-to-save programme. The Council has already established an officer group to investigate options for future funding of maintenance.

### **Rolling programmes**

These programmes cover more than one year and give a degree of certainty for forward planning schemes to improve service delivery. They make an important contribution towards the Council's Medium Term Objectives and established Asset Management Plans.

### **Other Desirable Schemes**

In addition to the schemes identified in the above categories, each service has requested funding for other high priority schemes that meet the needs and objectives of their service and the Council's Medium Term Objectives. The net cost of schemes which attract partial external funding are included in the schemes put forward.

### **Invest To Save Schemes**

These are schemes where the additional revenue income or savings arising from their implementation exceeds the additional revenue costs. The Council's approach to Invest to Save schemes is included in its Capital Strategy and in accordance with the Capital Strategy it is proposed that a further £1m be included in the 2010/11 capital programme for potential Invest to Save schemes.

- 5.5 A detailed list of suggested schemes within the draft capital programme for each service is included in Annexes A – E. As indicated above, in some cases, the schemes within the proposed programme modify previously agreed programmes to reflect the latest available information on the phasing of expenditure and revised priorities. This shows that the total net funding requested is £8.069m in 2010/11.

<b>Capital Programme 2010/11-2012/13</b>				
<b>Annex</b>	<b>Service Area</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>
A	Corporate Services	0	55	0
B	Council Wide	2,989	3,221	3,145

C	Children, Young People & Learning	1,065	1,060	1,000
D	Adult Social Care & Health	375	0	0
E	Environment Culture & Communities	3,640	4,255	3,279
	<b>Total request for Council funding</b>	<b>8,069</b>	<b>8,591</b>	<b>7,424</b>
Externally funded and self-funded projects are excluded from the above.				

- 5.6 Schemes funded from the LSVT Transfer receipt and a number of self-funding schemes are included within the proposed Capital Programme and are all included within the Environment, Culture and Communities Programme totalling £3.38m in 2010/11. These are detailed below.
- 5.7 The Council gave a commitment to spend 75% of the available receipt on new affordable housing and the 2010/11 – 2012/13 programme includes an allocation of £9.3m, with £1.28m earmarked for 2010/11. The remainder of the receipt will be used in subsequent years.
- 5.8 The Executive agreed in October 2008 a £1m investment in the crematorium facilities in order to abate mercury emissions as required by new legislation. As a result of more up-to-date data, it is considered that funding of £1.1m will be required to complete this project. However the total funding request of £1.1m can still be self-funded, from increased charges, over the 20-year working life of the investment.
- 5.9 The third self-funding scheme relates to the provision of mortgages for the purchase of low-cost home ownership properties in partnership with local Registered Social Landlords. The Executive agreed an allocation of £1m on the 17<sup>th</sup> November 2009 and this has been included within the 2010/11 Programme.

### **Externally Funded Schemes**

- 5.10 A number of external funding sources are also available to fund schemes within the capital programme, amounting to an additional £24.65m of investment. External support has been identified from two main sources:

#### **Government Grants**

A number of capital schemes attract specific grants. It is proposed that all such schemes should be included in the capital programme at the level of external funding that is available. Examples include Garth Hill College and Local Transport Plan funding

#### **Section 106**

Each year the Council enters into a number of agreements under Section 106 of the Town & Country Planning Act 1990 by which developers make a contribution towards the cost of providing facilities and infrastructure that may be required as a result of their development. Usually the monies are given for work in a particular area and/or for specific projects. The total money available at present, which is not as yet financially committed to specific projects, is £4.15m.

The constitutional arrangements require the Council to approve the release of such funding and it is therefore proposed that the schemes below are included within the capital programme proposals, with the detailed programme of works being agreed by the relevant Executive Member during the course of the year. This does not

preclude the Executive bringing forward further schemes to be approved by the Council to be funded from s106 funds during the year.

	£000
Local Transport Plan Scheme	750
Leisure, Culture and Visual Environment	250
Jennetts Park Primary School	1,600
Other CYPL Schemes	250
Community Centres	250
<b>Total</b>	<b>3,100</b>

Annexes A - E also include details of all schemes that will be funded from the various external sources in the next year.

### **Proposed Changes to Schemes**

- 5.11 For 2010/11 the Executive's draft proposals were for a General Fund capital programme of £8.069m. Since the proposals were first published it has been noted that following the transfer of services relating to Community Centres from Environment, Culture & Communities to Corporate Services, there is no provision for the allocation of S106 monies towards schemes related to Community Centres. As such the request for the release of funding has been increased by £0.25m (see para 5.10).

### **Funding Options**

- 5.12 There are a number of important issues concerning the long term funding of capital expenditure. Following the transfer of the housing stock in 2008, the Council's capital receipts are limited to miscellaneous asset sales and the contribution from the VAT Shelter Scheme and Right-to-Buy claw back agreed as part of the transfer. These receipts are likely to be depressed by the general economic conditions and as such receipts in 2010/11 are estimated to be in the region of £2m.
- 5.13 The proposed capital programme for 2010/11 has been developed, therefore, on the assumption that it will be funded by a combination of £2m of capital receipts, Government grants, other external contributions and some internal borrowing. The financing costs associated with the Capital Programme have been provided for in the Council's revenue budget plans.
- 5.14 Should any additional capital receipts be generated in 2010/11 the interest earned on these will be used to mitigate the revenue cost of the capital programme.
- 5.15 In practice it is unlikely that the Council will need to resort to external borrowing as it will be able to utilise revenue resources held internally. However the Capital Finance Regulations, require the General Fund to set aside an amount which would be broadly equivalent to the amount the Council would need to pay if it borrowed externally. If any amendments are made to the capital programme the revenue consequences will need to be adjusted accordingly. Executive Members will therefore need to consider the impact of the capital programme as part of the final revenue budget decisions.
- 5.16 The reduction in available capital receipts has placed greater emphasis on the capital programme and its impact on the revenue budget. Following the introduction of the Prudential Borrowing regime local authorities are able to determine the level of their own capital expenditure with regard only to affordability on the revenue account. In practice this represents the amount of borrowing they can afford to

finance, and will necessitate taking a medium-term view of revenue income streams and capital investment needs.

- 5.17 To achieve its aim of ensuring that capital investment plans are affordable, prudent and sustainable, the Local Government Act requires all local authorities to set and keep under review a series of prudential indicators included in the CIPFA Prudential Code for Capital Finance in Local Authorities. The Capital Programme recommended in this report can be sustained and is within the prudential guidelines. Full Council will need to agree the prudential indicators for 2010/11 to 2012/13 in March 2010, alongside its consideration of the specific budget proposals for 2010/11 and the Council's medium-term financial prospects.
- 5.18 Members will need to carefully balance the level of the Capital Programme in future years against other revenue budget pressures and a thorough review, including the prioritisation of those schemes planned for 2011/12 onwards, will need to be undertaken during next summer. In particular an indicative rolling programme budget of £500,000 has been included within Children, Young People and Learning to provide investment for a range of schemes that were identified as part of the capital programme proposals in 2010/11. The scheme will include investment at Foundation Stage across a range of Primary schools, in addition to funding for school kitchen refurbishments and sustainability issues.

## **6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS**

### Borough Solicitor

- 6.1 The authorisation for incurring capital expenditure by local authorities is contained in the legislation covering the service areas. Controls on capital expenditure are contained in the Local Government Act 2003.

### Borough Treasurer

- 6.2 The financial implications are contained within the report.

### Impact Assessment

- 6.3 An assessment of the Capital Strategy which underpins the Capital Programme proposed in this report has identified no potential to cause an adverse impact or discriminate against different groups in the community.

### Strategic Risk Management Issues

- 6.4 The most significant risk facing the Council is the impact of the capital programme on the revenue budget. The scale of the Council's Capital Programme for 2010/11 will impact upon the revenue budget and has been subject to consultation. All new spending on services will need to be funded from new capital receipts or borrowing from internal resources. The additional revenue costs of the proposed Capital Programme of £8.069m for 2010/11 after allowing for projected capital receipts of £2m and the cash-flow requirements associated with the Garth Hill redevelopment, but excluding the self-funding Invest to Save schemes will be £100,000 in 2010/11 and £600,000 in subsequent years. This effect is compounded by future year's capital programmes. As revenue resources are limited it is clear that a capital programme of this magnitude is not sustainable in the medium term without significant revenue economies. The generation of capital receipts in future years may mitigate the impact on the revenue budget, but as the timing and scale of these receipts is uncertain their impact is unlikely to be significant.

- 6.5 There are also a range of risks that are common to all capital projects which include:
- Tender prices exceeding the budget
  - Planning issues and potential delays
  - Uncertainty of external funding (especially when bids are still to be submitted or the results of current bids are unknown)
  - Building delays due to unavailability of materials or inclement weather
  - Availability of staff with appropriate skills to implement schemes and IT projects in particular.
- 6.6 These can be managed through the use of appropriate professional officers and following best practice in project management techniques.
- 6.7 The report also identifies the risk associated with the shortfall in maintenance expenditure compared to that identified by the latest condition surveys. With only those highest priorities receiving funding in 2010/11, there will be further build up in the maintenance backlog and a risk that the deterioration in Council assets will hamper the ability to deliver first class services and maintain income streams from leisure facilities. The report identifies the ways in which the Council is addressing this risk including the need to revisit Asset Management Plans and assessing the impact of asset replacement and renewal initiatives. This will also include ensuring efficiencies are maximised in the procurement of works and that maintenance which will result in energy efficiencies are fully examined.

## **7 CONSULTATION**

- 7.1 See the General Fund Revenue Budget 2010/11 report on tonight's agenda outlining the results of the budget consultation.

### Background Papers

Capital Programme Proposals – Executive 15 December 2009

### Contact for further information

Chris Herbert – 01344 355694  
[Chris.herbert@bracknell-forest.gov.uk](mailto:Chris.herbert@bracknell-forest.gov.uk)

Alan Nash – 01344 352180  
[Alan.nash@bracknell-forest.gov.uk](mailto:Alan.nash@bracknell-forest.gov.uk)

Calvin Orr– 01344 352125  
[calvin.orr@bracknell-forest.gov.uk](mailto:calvin.orr@bracknell-forest.gov.uk)

### Doc. Ref

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