(ITEM)

TO: THE EXECUTIVE
12 DECEMBER 2006

CAPITAL PROGRAMME 2007/2008 - 2009/2010
(Director of Corporate Services - Finance)

1 PURPOSE OF DECISION

1.1 Under the Council's Constitution, the Executive are required to issue their budget proposals for consultation for a minimum period of six weeks prior to making their recommendations to full Council on 28 February 2007. The capital programme forms an important part of the overall budget proposals and a key means by which the Council can deliver its medium term objectives. This report draws together each service's proposals so that the Executive can agree a draft capital programme for 2007/08-2009/10 as the basis for consultation. In compiling the draft programme the main focus is inevitably on determining the requirements for 2007/08, although future year's schemes do form an important part of the programme.

1.2 The financial implications of the recommendations in this report are reflected in the subsequent reports on the Council's draft revenue budget and Housing Revenue Account proposals. Any revisions to the proposals put forward by each service would also need to be reflected in these reports which will also be published as the basis for consultation following the Executive's meeting.

2 RECOMMENDATIONS

That the Executive:

2.1 Approves, for consultation, an initial General Fund capital programme of £8.471m for 2007/08, including the schemes listed in Annexes B – F.

2.2 Approves for consultation, an initial Housing Revenue Account capital programme of £5.500m for 2007/08, including the schemes listed in Annex G.

2.3 Approves the revised criteria for Invest to Save schemes at Annex A.

2.4 Approves for consultation, the inclusion of an additional budget of £1m for Invest to Save schemes.

2.5 Approves the use of the capital receipt from the disposal of the miscellaneous property, Homefield, as a contribution towards the provision of affordable housing on the Met Office site (paragraph 5.12).

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The alternative options are considered in the report.

5 SUPPORTING INFORMATION

Capital Resources

5.1 Each year the Council agrees a programme of capital schemes. In the past these schemes have been funded from three main sources:

- the Council's accumulated capital receipts
- Government Grants
- other external contributions

5.2 The Local Government Act 2003 brought in radical changes to the financing of capital expenditure including the "pooling" of housing capital receipts from 1 April 2004. From that date, the Government no longer issued borrowing approvals. Instead, under a new "prudential framework" Councils can set their own borrowing limits based on the affordability of the debt.

5.3 The Council's estimated total usable capital receipts at 31st March 2007 are zero. The impact of the Thames Basin Heath Special Protection Area has meant that the opportunity to dispose of Council property and generate further capital receipts has been severely curtailed over the last year. Even with a robust mitigation strategy in place it may be some time before the Council is able to realise further receipts from the disposal of assets. The proposed capital programme for 2007/08 has been developed, therefore, on the assumption that it will be funded by a combination of Government grants, other external contributions and some borrowing, but not capital receipts. The financing costs associated with the General Fund Capital Programme have been provided for in the Council's revenue budget plans which are appear later on tonight's agenda.

5.4 In addition to the above, £3.452m will be available from the Major Repairs Allowance, together with the remaining capital receipts (£2.048m) arising from the transitional arrangements associated with the "pooling" regime, which are earmarked for investment in the Council's own housing stock. The total Housing Improvement Programme for 2007/08 is, therefore, £5.500m.

New Schemes

5.5 Within the general financial framework outlined above, Service Departments have considered new schemes for inclusion within the Council's Capital Programme for 2007/08 - 2009/10. Given that capital resources are under pressure, each Department has evaluated and prioritised proposed schemes into the broad categories, set out in the Council's Corporate Capital Strategy and Asset Management Plan. This includes schemes within the previously approved programme for 2006/07, 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 2006/07 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 capital planning process, property condition surveys are carried out and updated annually to assess the overall maintenance needs. The bids put forward this year by Departments will ensure that the most urgent works required by each service can be carried out.

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 which was approved by the Executive on 14 March 2006. In accordance with the Capital Strategy it is proposed that a further £1.000m be included in the 2007/08 capital programme for potential Invest to Save schemes.

Experience of operating the Invest to Save process has shown that some worthwhile schemes may be excluded because they do not meet exactly the existing Invest to Save criteria. Typically, these are schemes that generate non cashable efficiency savings. Examples might include more effective working arrangements (bringing two teams together in a single location) or where an immediate capital investment will avoid longer term revenue costs (such as disabled access works reducing the cost of care packages or out Borough placements). Whilst such schemes are clearly beneficial to the Council's longer term financial position, because there is no immediate additional revenue income or savings associated with the capital investment they would not be able to proceed under the existing Invest to Save criteria. It is recommended, therefore, that if Directors can identify alternative cashable revenue savings or additional revenue income such schemes should be allowed to proceed. A revised set of Invest to Save criteria is attached and Annex A and the Executive is asked to approve this for implementation.

5.6 A detailed list of suggested schemes within the draft capital programme, together with a brief description of each project, for each service is included in Annexes B – F. 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. A summary of the cost of schemes proposed by Departments is set out in the table below. This shows that the total net funding requested is £8.471m in 2007/08.

Capital Programme 2007/08-2009/10				
Annex	**Service Area**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
B	Corporate Services	330	155	110
C	Education, Children's Services & Libraries	2,205	2,430	1,820
D	Environment & Leisure	3,507	3,424	5,029
E	Social Services and Housing	514	596	213
F	Council Wide	1,915	1,706	1,600
	Total request for Council funding	**8,471**	**8,311**	**8,772**

Externally funded projects are excluded from the above.

Externally Funded Schemes

5.7 A number of external funding sources are also available to fund schemes within the capital programme, allowing the Council to plan a programme that is significantly greater than the £8.471m that is proposed. External support has been identified from two main sources:

Government Grants

5.8 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 schemes funded by Schools Devolved Formula Capital and the NOF Sports and PE Programme Bid for the Brakenhale Trampoline Centre.

Section 106

5.9 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 financially committed to specific projects, is £3.913m.

Officers have identified a number of schemes that could be funded from Section 106 funds in 2007/08. Under the constitutional arrangements, the Council must approve the release of such funding. However, this does not preclude the Executive bringing forward further schemes to be approved by the Council to be funded from Section 106 funds during the year.

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

Housing Investment Programme

5.10 The draft Housing Improvement Programme attached at Annex G proposes a programme of £5.500m, funded, in part, by the Major Repairs Allowance (£3.452m) in 2007/08. Further details are included in the Housing Revenue Account 2007/08 report elsewhere on this agenda.

Miscellaneous Housing Receipts

5.11 The current capital financing regime requires 50% of all non right to buy housing sales to be paid over to the Government unless it can be demonstrated that these receipts are used for affordable housing.

5.12 On 18 October 2005 the Executive agreed to dispose of the miscellaneous property Homefield with £110,000 of the receipt being allocated to Warden Housing Association to enable the provision of 8 new affordable homes at the Santa Catalina site. It is recommended that this money be switched to the Met Office site where Warden Housing Association are providing the affordable and key worker units. The £110,000 will contribute towards the provision of 102 new affordable and key worker homes which will be available to local people in housing need. Included within the affordable rented homes are two large 3 bed wheelchair houses with through floor lifts and individual car ports. The affordable homes will be provided at a high specification including carpets with some of the apartments benefiting from appliances. The Santa Catalina site has been subject to extensive delay in achieving planning permission as a result of the ongoing restrictions as a result of the Thames Valley Basin Special Protection Area and development remains uncertain.

Funding Options

5.13 There are a number of important issues concerning the long term funding of capital expenditure. As indicated above, capital receipts are unlikely to be available in 2007/08 due to the impact of the Special Protection Area and it has, therefore, been assumed that capital programme will be funded by Government Grant, other external contributions and borrowing. The revenue consequences of this are set out in the revenue budget report elsewhere on this agenda. Should any capital receipts be generated in 2007/08 the interest earned on these will be used to support the Council's revenue budget.

5.14 In practice it is unlikely that the Council will need to resort to external borrowing as it will be able to utilise resources held internally. The Capital Finance Regulations, however, 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.

5.15 The reduction in available capital receipts has placed greater emphasis on the capital programme and its impact on the revenue budget. Representing a fundamental change in capital control arrangements, local authorities will henceforth be 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. 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. Full Council will need to agree the prudential indicators for 2007/08 to 2009/10 in March, alongside its consideration of the specific budget proposals for 2007/08 and the Council's medium-term financial prospects.

5.16 Given the known revenue budget gap, 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 2008/09 onwards, will need to be undertaken during next summer.

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 and regulations made thereunder.

Borough Treasurer

6.2 The financial implications are contained within the report.

Impact Assessment

6.3 None arising directly from this report, although impact assessments on the specific schemes within the capital programme will need to be undertaken before work commences.

Strategic Risk Management Issues

6.4 The most significant risk facing the Council is the impact of the capital programme on the revenue budget. In a full year financing costs represent approximately 10% of the capital investment. A General Fund Capital Programme of £8.5m, therefore results in an additional revenue pressure of £850,000. 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 year's 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.

6.4 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.

7 CONSULTATION

7.1 Details of the Council's overall consultation arrangements are set out in the Chief Executive's covering report. The proposals outlined above will be submitted to the Overview & Scrutiny Commission and the report will also be made available for public consultation on the Council's web site, www.bracknell-forest.gov.uk. The responses will be reported to the Executive on 13 February 2007.

Background Papers
Corporate Capital Strategy & Asset Management Plan - Executive 14 March 2006

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ANNEX A

INVEST TO SAVE SCHEMES

Introduction

Invest to Save schemes are those where the additional revenue income or savings arising from their implementation exceed the additional revenue costs (including borrowing costs associated with any capital investment). Examples might include an investment in an energy efficient boiler resulting in lower annual running costs, or an investment in a new car park generating an additional income stream.

Experience of operating the Invest to Save process has shown that some worthwhile schemes may be excluded because they do not meet exactly the above criteria. Typically, these are schemes that generate non cashable efficiency savings. Examples might include more effective working arrangements (bringing two teams together in a single location) or where an immediate capital investment will avoid longer term revenue costs (such as disabled access works reducing the cost of care packages or out Borough placements). Whilst such schemes are clearly beneficial to the Council's longer term financial position, because there is no immediate additional revenue income or savings associated with the capital investment they would not be able to proceed under the above criteria. In future, therefore, if Directors can identify alternative cashable revenue savings or additional revenue income such schemes should be allowed to proceed.

Process

- Each year the Council will include £1.0m in its three year capital programme for potential Invest to Save schemes.
- There will be no requirement to specify the exact nature of the schemes at the time the capital programme is approved. The inclusion of this item will not affect the impact of the capital programme on the revenue account as approval to spend will not be granted unless the financing costs are met from savings or additional income.
- At any time during the course of the financial year Directors may submit proposals to the Borough Treasurer who will review the robustness of the financial estimates (both for capital expenditure and revenue savings/additional income) and associated risk assessment before recommending to Corporate Management Team the release of funding from the Invest to Save budget.
- Priority will be given to those schemes making the greatest return over and above the cost of financing the capital expenditure, which will depend upon the estimated life of the asset.
- The cost of financing the capital expenditure will be calculated on the assumption that the amount borrowed will be repaid over the life of the asset together with interest at the rate of 6% p.a. The appropriate asset life will be determined by the Borough Treasurer, but the following table sets out indicative asset lives:

Type of Asset	Asset Life	Annual Repayment as % of Capital Sum
IT Equipment	4 years	31%
Vehicles & Plant	7 years	21%
Infrastructure	20 years	11%
Buildings	50 years	8%

- All decisions made by CMT will be reported through the Corporate Services Quarterly Operations Reports.

- Once agreed the Borough Treasurer will implement the necessary virements, which will be reflected in future revenue budget monitoring reports.
- Any savings or additional income in excess of that required to meet the cost of financing the capital expenditure can be retained by Departments as a part of their future budget savings.
- No individual scheme must exceed £400,000 as this represents a Key Decision which must be dealt with in accordance with the Council's Constitution.

Exceptions

Schools will be permitted to participate in Invest to Save. School budgets will not be adjusted to reflect the cost of financing capital expenditure, as outlined above. Instead, schools will be required to pay the Council the financing costs associated with money advanced from the Invest to Save budget.

Because of the complexities of ringfencing the Housing Revenue Account will not be permitted to participate in Invest to Save.