Report to Council

24 FEBRUARY 2010

LEADER *Councillor Stephen Greenhalgh*	**CAPITAL PROGRAMME 2010/11 TO 2014/15** This report sets out proposals in respect of the Capital Programme, together with ancillary issues.	**WARDS** **All**

CONTRIBUTORS

DFCS
ADLDS

<u>RECOMMENDATIONS:</u>

1. To approve that the General Fund Capital Programme is £32.768m for 2010/11.

2. To approve that any new receipts which exceed the target of £2.5m per annum be set aside for debt redemption.

3. To approve new borrowing, up to the level of the minimum revenue provision, from 2011/12 onwards.

4. To approve that 25% of future receipts generated for the decent neighbourhoods programme be used to support general capital investment.

5. To approve the following initiatives within the capital programme:

    - The continuation of the rolling programmes for Corporate Planned Maintenance (£2.5m), repairs to carriageways and footways (£2.1m), private sector housing grants (£0.45m) and Disabled Access Works (£0.25m).

    - The establishment of new rolling programmes for Parks Investment (£0.5m), IT infrastructure (£0.8m) and a contribution to the Invest to Save Fund (£0.75m).

6. To note that use of the new rolling programmes will be subject to a formal evaluation process.

7. To approve, subject to agreement of the overall programme, prudential borrowing of £5.6m regarding Building Schools for the Future.

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8. To note the level of resource forecast (Table 5) and indicative expenditure for the decent neighbourhoods programme as detailed in Appendix 2.

9. To note the level of resource forecast and indicative expenditure for the Housing Revenue Account as detailed in Appendix 3.

10. To approve that the capital contingency of £2.5m and unused sums regarding the reserve set aside for Imperial Wharf be placed in a capital reserve.

11. To approve the prudential indicators as set out in Appendix 4 to the report.

12. To approve the following annual Minimum Revenue Provision: (Appendix 5).

    - For debt which is supported through Formula Grant this authority will calculate the Minimum Revenue Provision in accordance with current regulations (namely 4% of the Capital Financing requirement net of adjustment A).

    - For debt which has arisen through prudential borrowing it should be written down in equal instalments over the estimated asset life. The debt write-off will commence the year after an asset comes into use.

1. INTRODUCTION

1.1 This report sets out an updated resource forecast and a capital programme for 2010/11 to 2014/15. Since 2006/07 the Council has put in place a debt reduction strategy which has enabled £24m of capital debt to be repaid by the end of 2008/09. By 2010/11 this will have delivered annual revenue saving of £2.9m. The capital programme now put forward seeks to consolidate these savings whilst funding essential new investment and key Council priorities. Opportunities for further debt reduction continue to be explored.

1.2 Progress towards meeting the decent homes standard by December 2010 is on-going.

1.3 The Council has embarked on a number of major projects such as Building Schools for the Future, the King Street Regeneration Strategy and a range of decent neighbourhood schemes. A brief update on these projects is set out in this report and appropriate allowance made within the overall capital programme.

2. THE GENERAL FUND CAPITAL PROGRAMME

Summary

2.1 The proposed capital programme and resource forecast is summarised in Table 1. The overall programme is forecast to be in broad balance with a forecast surplus of £1.079m to the end of 2014/15.

Table 1 – General Fund Capital Programme Summary

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000s	£'000s	£'000s	£'000s	£'000s
Forecast Resources (Table 2)	33,357	19,734	7,931	7,888	7,750
Capital Programme (Table 3)	32,768	17,745	8,368	8,350	8,350
In-Year Surplus/(Deficit)	**589**	**1,989**	**(437)**	**(462)**	**(600)**
Cumulative Balance Surplus/(Deficit)	**589**	**2,578**	**2,141**	**1,679**	**1,079**

Resources

2.2 The general fund resource forecast is detailed in Table 2.

Table 2 General Fund Resource Forecast.

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000s	£'000s	£'000s	£'000s	£'000s
Deficit b/fwd from 2009/10	(160)				
Right to Buy Receipts	500	1,000	1,000	1,000	1,000
Target for New Receipts	2,500	2,500	2,500	2,500	2,500
Planned Sales	5,452	3,839	0	0	0
Borrowing (MRP)	0	3,000	3,000	3,000	3,000
Decent Neighbourhood Receipts	2,352	250	413	388	250
Scheme Specific Resources	22,713	9,145	1,018	1,000	1,000
Total Forecast Resources	**33,357**	**19,734**	**7,931**	**7,888**	**7,750**

2.3 **Right to Buy (RTB) Receipts.** Usable RTB receipts (25% of sale value) are now running at £0.5m (10 properties) a year and are not expected, given current market conditions, to increase in 2010/11. An uplift to £1m per annum is provided for from 2011/12 onwards. The Council continues to explore options that promote the shared ownership of Council dwellings. No income from such schemes is assumed within the resource forecast

2.4 **Planned Sales .** The current forecast for planned asset sales is set out in Table 2. The actual level, and timing, of sales is subject to certain caveats. Not least they are dependant on the wider property market and planning considerations. The Council is continuously reviewing its asset holdings and an annual target of £2.5m is set for new receipts. Should receipts exceed the current target it is proposed that the additional funding be set aside for debt reduction.

2.5 **Borrowing.** From 2007/08 to 2009/10 the Council undertook no new general borrowing as part of the debt reduction strategy. It is now proposed that some limited new borrowing be undertaken. Each year the Council continues to set aside an amount from revenue (the MRP) for debt redemption. Rather than reduce debt further it is proposed that new borrowing be approved, from 2011/12 onwards, that is equivalent to the MRP. This will free up resources for new investment whilst not increasing net debt.

2.6 **Decent Neighbourhoods Receipts**. Via a number of specific Cabinet decisions, the council has opted to ringfence receipts from disposals of certain asset types (hostels, street properties, and other regeneration sites) for regeneration or affordable housing purposes. These receipts have been channelled into the Decent Neighbourhoods fund. Although this approach has allowed for investment in a number of such schemes, in general the level of receipts coming into the fund has outstripped the expenditure from it.

2.7 There is a central government imposed limit on the general use of these types of receipts, but this stands at £15m at the present time. Given the imbalance in funding between this and the general programme it is proposed that future receipts are top sliced by 25% to contribute to general resources. This approach will be reviewed over time to ensure that the overall limit is not breached and that there is no material impact on the delivery of regeneration or affordable housing initiatives.

2.8 **Specific Funding Allocations.** The specific funding resource forecast is based on current allocations and will be updated over the forthcoming months in accordance with relevant government, and other public and private, spending announcements

Expenditure

2.9 The Council's Capital Programme has, in recent years, been developed through a combination of agreed rolling programmes, ad hoc agreement of individual projects (via formal decision making processes), and the inclusion of specifically funded schemes. The framework for an annual bidding round has not been applied in recent years as available resources have been prioritised to repay debt.

2.10 The proposed programme for 2010/11 (Table 3) onwards provides for the completion of existing schemes and continuation of the previously agreed rolling programmes. Allowance is also made for a more structured approach to new investment which is intended to be both more equitable and better directed toward key priorities. The detailed programme is set out in Appendix 1.

Table 3 – 2010/11 t0 2014/15 Capital Programme

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
Completion of Existing Schemes (mainstream)	2,705	1,250	0	0	0
Continuation of Rolling Programmes:	5,300	5,300	5,300	5,300	5,300
New Investment:					
- Parks Maintenance	500	500	500	500	500
- IT Infrastructure	800	800	800	800	800
- Process Improvement/Invest to Save	750	750	750	750	750
Scheme Specific Schemes	22,713	9,145	1,018	1,000	1,000
Total	**32,768**	**17,745**	**8,368**	**8,350**	**8,350**

2.11 **Completion of Existing Schemes (mainstream).** The largest existing scheme is Bishops Park for which a stage 2 application for a Lottery Grant of £3.5m has been submitted. The overall scheme cost is estimated at £7.1m and the balance will be met from Council mainstream resources and other contributions. A reserve of £0.9m has been set aside should proposed elements of the partnership funding fail to be secured. Review will be on-going of all existing schemes to see if resources can be freed up for other purposes.

2.12 **Rolling Programmes.** With the exception of private sector housing grants the capital programme provides for the continuation of core rolling programmes at current funding levels. The private sector housing grants programme is reduced by £0.95m per annum from 2010/11 onwards in line with proposals put forward at the Medium Term Financial Strategy challenge meetings. Table 4 sets out the existing core programmes

Table 4 - Core Rolling Programmes

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
- Carriageways	1,350	1,350	1,350	1,350	1,350
- Footways	750	750	750	750	750
- Planned Maintenance	2,500	2,500	2,500	2,500	2,500
- Disabled Access	250	250	250	250	250
- Private Sector Housing Grants	450	450	450	450	450
Total	**5,300**	**5,300**	**5,300**	**5,300**	**5,300**

2.13 **New Investment.** As well as the current expenditure plans set out in Table 3 the Council has other ongoing expenditure requirements. The highest priorities, and proposed programmes, have been identified as:

- Continued investment in parks (£0.5m per annum).
- IT infrastructure (maintaining services) (£0.8m per annum).
- Pump-priming invest to save projects (£0.75m per annum)**.** The Council's current method of agreeing process improvements projects is to use the

resources available from the invest to save reserve to approve funding for projects on an ad hoc basis. An annual revenue contribution of £0.75m is made to the reserve and it is proposed that this be supplemented with an annual capital contribution to the reserve. The expectation would be that the vast majority of these projects would be self-financing, but the reserve would need to be able to provide pump priming resources, and to support essential (ie externally imposed for example) process changes which do not have a beneficial financial impact.

2.14 In effect it is proposed that the current range of rolling programmes be expanded. Use of the resources within each programme will be subject to Member approval with a structured bidding process. It is intended that bids regarding use of the pump priming invest to save fund will be timed to take place alongside the consideration of MTFS revenue proposals.

2.15 For 2010/11 onwards a target of £2.5m for new capital receipts has been identified. It is proposed that if receipts generated exceed this target then they be set aside for debt redemption.

3 DECENT NEIGHBOURHOODS – EXPENDITURE AND RESOURCE FORECAST

3.1 The Council continues to set aside housing capital receipts regarding it's objectives for regeneration and creating sustainable communities. The current regeneration receipts forecast, and expenditure plan, is set out in Appendix 2 and summarised in table 5.

Table 5 Decent Neighbourhoods - Resource/Expenditure Forecast.

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000s	£'000s	£'000s	£'000s	£'000s
Forecast expenditure (Appendix 2)	6,826	885	36		
Resources:					
Brought forward from 2009/10	13,078				
Planned Sales	7,435	750	1,238	1,163	750
Reimbursement from General Fund	918	0	0	0	0
Forecast Surplus/(Deficit) Resources	**14,605**	**(135)**	**1,202**	**1,163**	**750**
Cumulative Surplus resources	**14,605**	**14,470**	**15,672**	**16,835**	**17,585**

3.2 The programme is forecast to be in surplus by £17.5m by 2014/15. The expensive voids policy is still in place and the resources forecast is likely to increase as more properties come through for disposal.

3.3 The resources forecast include the sale of expensive to repair void properties. Part of this sum (£4.9m) has been made available to support the decent homes programme. This position will continue to be reviewed with such receipts only drawn down if they are required to keep the HRA capital programme in balance. Allowance has been made for the top-slice of 25% of future receipts to support general investment needs. The resources brought forward from 2009/10 include £4.4m of receipts that Cabinet previously approved be used to help deliver revenue savings for the benefit of regeneration initiatives. Options are under review that may extend this arrangement and the balance of resources brought forward would reduce accordingly.

3.4 The resources available for the decent neighbourhoods programme continue to be separately identified and their use is subject to Member approval.

4. OTHER MATTERS

4.1 The Council is currently progressing a number of major projects that are likely to impact on the capital programme over the next 5 years. An update is provided in this section on current progress. As these projects are progressed appropriate amendments will be made to Capital Estimates.

4.2 **Building Schools for the Future (BSF).** BSF is a largely government funded programme that is intended to deliver transformational teaching and learning environments to secondary age students. Based on pupil numbers it has been estimated that the authority will eventually incur capital expenditure of £207m of which £190m will be funded by capital grant . The balance of the £17m is due to come from:

- Prudential Borrowing £5.6m
- Section 106 contributions £5.1m
- Land Disposals £6.0m

Allowance for the prudential borrowing has been made within the Council's Revenue Budget, Capital Programme and Treasury Management Strategy.

The BSF team within Children's Services completed the Outline Business Case (OBS) on 7 October and is currently waiting approval from Partnership for Schools (PfS) in order to proceed to the procurement phase of the programme.

The ultimate funding mix and amount receivable will depend on PfS approving the final pupil mix and individual school proposals contained within the OBC. However the funding model indicates that 100% of the funding from PfS will be capital grant.

4.3 **Primary and Special Schools Strategy**. This strategy sets out a five year vision.

The funding vehicle for implementation of the Primary Strategy is the government capital grant provided through the Primary Capital Programme (PCP). This is intended to provide capital funding for transformation of the primary estate from 2009/10 over a period of 15 years. The current funding allocation is £3.159m in 2009/10 and £5.537 in 2010/11. Funding for subsequent years will be subject to Central Government spending reviews. Based on current projections, the capital programme currently indicates that the 2009/10 PCP allocation of £3.159m will be fully spent.

4.4 **King Street Regeneration.** The Council is currently taking forward proposals for this scheme which includes a major change to the existing Civic Accommodation provision in Hammersmith. At present a developer has been appointed to take forward this scheme. It is hoped that the strategy can be delivered at net nil cost to the Council but this position, particularly in the light of the current economic conditions, will need to be kept under review. Amendments will be made to the capital expenditure and resource forecast as appropriate and in line with Members approval.

4.5 **White City Collaborative Care Centre (LIFT CO) -** Work is expected to start on site during 2010 on the White City Collaborative Care Centre. The centre will be both a flagship joint health and social care service centre operated in conjunction with H&F PCT, and a major housing development delivering on the Council's priority to increase home ownership in the borough. It is also expected to play a significant role in regenerating the physical environment in the north of the borough.

4.6 The project will be delivered via a LIFT Co arrangement, a health finance vehicle with similarities to a PFI deal, where the Council will take a lease- plus interest in the building for a period of 25 years. The cost of the lease plus agreement will be met by freeing up various satellite premises as teams move into the new centre. The Collaborative Care Centre is based on the old Janet Adegoke Leisure Centre site, incorporating the Children's Services site at Sawley Road. The Council awaits the outcome of a PFI credits bid of £4.5m to fund its ongoing running costs.

4.7 The planning permission, subject to the completion of a section 106 Legal agreement, is for 175 residential units above the collaborative care centre, comprising of 105 market units and 70 affordable. The 70 affordable units will be a mixture of bed sizes from studio accommodation through to family sized dwellings. The affordable housing will be low cost home ownership tenures affordable to residents in the borough on low to moderate incomes

5 HOUSING CAPITAL PROGRAMME

5.1 The latest capital resource forecast for the Housing Capital Programme is set out in table 6 below (see Appendix 3 for details), together with the proposed Housing Revenue Account Capital Programme.

Table 6 HRA Capital resource forecast

	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000s	£'000s	£'000s	£'000s	£'000s
Planned HRA Capital Programme	**60,254**	**20,857**	**18,967**	**17,621**	**18,024**
Resources:					
Supported Borrowing	(10,755)	0	0	0	0
Major Repairs Allowance	(25,486)	(13,605)	(17,467)	(16,121)	(16,524)
Expensive Voids	(2,000)	0	0		0
Leasehold Contributions	(14,319)	(5,551)	(1,500)	(1,500)	(1,500)
Total mainstream resources	**(52,560)**	**(19,156)**	**(18,967)**	**(17,621)**	**(18,024)**
Specific Funding	(7,694)	(1,701)	0	0	0
Total Resources	**(60,254)**	**(20,857)**	**(18,967)**	**(17,621)**	**(18,024)**
In-Year (Surplus) / Deficit	**0**	**0**	**0**	**0**	**0**
Cumulative (Surplus) / Deficit	**0**	**0**	**0**	**0**	**0**

5.2 The 2010/11 programme will continue to concentrate on the delivery of the decent homes programme and the majority of resources are targeted towards this end. Other programmes of work currently at design stage, such as fire safety improvements, may require some reallocation of resources once figures are firmed up. Any adjustments will be reported via the corporate capital monitor.

5.3 The post 2010/11 programme will be largely informed by an investment planning process which is already underway. This process seeks to identify the investment needs of the housing stock to ensure the decent homes standard is maintained.

6. DIRECTOR OF FINANCE AND CORPORATE SERVICES COMMENTS

6.1 The Report sets out spending plans for the General Fund, Decent Neighbourhoods and Housing Capital Programme.

6.2 The programme is subject to a number of risks. In particular:

- The timing and delivery of receipts is particularly uncertain in current market conditions.
- Although new rolling programmes have been set aside to deliver new investment the programme is at risk from unavoidable new spending pressures.
- The Council is involved in a number of major initiatives, such as King Street Regeneration or Building Schools for the Future. Whilst these are due to be funded from specific resources there may be a call for council support to ensure their effective delivery.
- In 2009/10 the Council set aside a capital contingency of £2.5m which has not yet been called upon. £1m was also set aside as a possible contribution to the funding of the new Imperial Wharf station. It is now hoped that use of this contribution will not be required. It is proposed that these sums be carried forward as a capital reserve to help mitigate against future risks.

6.3 In accordance with the requirements of the Prudential Code for Capital Finance local authorities are required to maintain a number of prudential indicators. These are set out in appendix 4 . The indicator used to reflect the underlying need of an authority to borrow for a capital purpose is the Capital Financing Requirement (CFR). The General Fund CFR is estimated to be £129.8m at the start of 2010/11.

6.4 Each year local authorities are required to set aside some of their revenues as provision for debt repayment. This is commonly termed the minimum revenue provision (MRP). Before the start of each financial year full council is required to approve a statement of its policy on making MRP in respect of that financial year. Appendix 5 sets out the options now available to Hammersmith and Fulham and recommends which option should be followed.

LOCAL GOVERNMENT ACT 2000
BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department
1.	Capital Monitoring Documents	Isaac Egberedu Ext 2503	Finance Dept., 2nd floor , HTH Extension