



ANNUAL COUNCIL, 25 MAY 2011

REPORT OF THE LEADER OF THE COUNCIL

SUBJECT: THE COUNCIL'S CAPITAL PROGRAMME 2011/14

Council approved the budget for 2011/12 at the budget setting meeting in February. As part of that budget, Council approved a revised Capital Programme for 2010/11 and indicative programmes for 2011/12 and beyond. In agreeing the budget, Cabinet agreed that a further report would be submitted, setting out the detail Capital Programme for 2011/12. This report sets out the detailed schemes in line with that recommendation.

The opportunity has also been taken to review the Council's Capital Strategy.

RECOMMENDATIONS

Council is asked to:

1. Agree the Capital Strategy as set out in Appendix
2. Note the detailed Capital Programme for 2011/12 as set out in Appendix B.
3. To note that, where detailed schemes within each Programme Area are still being worked up, their approval, within the programme limits, has been delegated to the relevant Group Director in discussion with the Group Director Finance & Commerce.
4. To note that the indicative Capital Programme for 2012/13 and beyond will be subject to a further review over the Summer.
5. To note that the approval of business cases requiring the application of prudential borrowing will be delegated to the service Cabinet Member and the Cabinet Member for Value.

REPORT DETAIL

1. **INTRODUCTION**

Annual Council, 25 May 2011

- 1.1. The Council approved the adoption of an eight year Capital Programme as part of the planning process at its meeting in October 2008. This Programme was based on the gradual move towards the use of prudential borrowing to finance it and provision for this was reflected in the budget proposals. This Programme was subsequently approved by Council in February 2009.
- 1.2. Changes in the cost of prudential borrowing through the Public Works Loans Board were announced as part of the CSR. Given the current financial climate and this increase in costs, it is now felt that the Council's budget strategy should not incorporate the use of prudential borrowing, with minor exceptions. It is therefore proposed that the Capital Programme for the foreseeable future should rely on the use of capital and Section 106 receipts and any sources of external funding only.
- 1.3. With this approach in mind, a revised programme was submitted as part of the report to Cabinet in January. This included a revised core programme over the remainder of 2010/11, and an indicative core programme for the four following years, ending in 2014/15. Cabinet was advised that a detailed schedule of schemes would need to be compiled within each of the proposed programme areas.
- 1.4. This report sets out the detailed core programme for 2011/12 for Cabinet to approve. The report sets out the Council-funded programme and thus does not include any schemes relying entirely on external funding resources. Authority for progressing such schemes was included in the budget report to Cabinet and is summarised later in this report. The report does also not include any schemes approved as part of the 2010/11 programme, or earlier, as these have been authorised under delegations arising from previous budget cycles.
- 1.5. This report does not include the HRA capital programme for 2011/12 as this was set out in the report to Cabinet in March.
- 1.6. The Council's Capital Strategy was last subject to a major review in 2009. A further review has been undertaken in the context of the approach now being adopted, in particular revising the use of prudential borrowing such that it would generally only be used where supported by a business case, and the revised core programme now included in the budget.
- 1.7. The Council has already adopted a statement setting out its revenue budget strategy. It is proposed to adopt a similar principle for the capital programme. A statement setting out the capital strategy is set out in Appendix A for approval by Cabinet.
- 1.8. The Capital Strategy requires approval by Council. As part of the Council's ongoing financial strategy, a further report on the revenue budget will be submitted to Cabinet later in the year. This will include a statement of the Medium Term Financial Strategy (MTFS). The overall financial strategy will then be referred on to Council for approval.

2. THE PROPOSED PROGRAMME FOR 2011/12

- 2.1. The original programme for 2010/11 was based on the eight year concept referred to above. In the light of the current financial climate, a major review of the programme was carried out during the Autumn. As indicated, it was decided not to continue to pursue a programme based on a mixed funding approach reliant on external receipts and prudential borrowing. For the foreseeable future, the programme will only be based on external receipts (ie capital receipts, Section 106 receipts, and grant and other external funding sources).
- 2.2. As a result of this, and given that a number of elements of the originally planned programme for 2010/11 had yet to be committed, a revised programme was devised. This took due account of the particular issues over the flow of funds into the Council from capital receipts, as these were now expected to be achieved much later than originally envisaged.
- 2.3. With this in mind, revised programmes for 2010/11, and subsequently 2011/12, have been developed and brought together. In very broad terms, only schemes already committed by the Autumn have remained in this year's programme, to minimise the cash-flow impact of the timing of spend and receipts. Other schemes or programme areas originally intended for 2010/11 have either been deferred to later years, or removed from the programme, to ensure the level of spend remains within the available resources.
- 2.4. The revised programme also takes into account the actual incidence of spend. It is not unusual for spend planned in one year to run into the following year, or for schemes or programme areas to cover more than one year. Where ever possible this is reflected in the detailed schedules, but does mean as the year progresses, schemes may many different reasons slip into later financial years.
- 2.5. The proposed detailed core programme for 2011/12 for those programme areas and schemes funded by the Council is set out in Appendix B. This is within the overall budget approved by Council in February 2011. The programme includes a range of schemes within each head of service area within the confines of the overall block allocation for each service area where these have so far been identified and agreed. This does not cover the whole of the individual block allocations, as some of the details will not be determined until later in the financial year. Approval of these has been delegated to the relevant Group Director in discussion with the Group Director Finance & Commerce.
- 2.6. There are some specific elements of the proposed programme that require further clarification. These are covered in the following paragraphs.

Annual Council, 25 May 2011

Schools

Rainham and Hilldene Schools

- 2.7. Cabinet previously approved a major redevelopment of both Rainham and Hilldene schools site which were to be funded through a mix of Council resources and grant, and in the case of the former also contributions from the local PCT. The original proposals for rebuilding both schools were stopped because of major national changes to school capital allocations. Both the level of capital available to Havering was to be substantially reduced and priorities for investment changed.
- 2.8. Notwithstanding this disappointing news, in respect of Rainham the school funding was successfully secured from Partnership for Schools and the DFE for the Children's Centre to ensure the school would receive the major investment it required. In total a budget of £2.5m is now available to take forward a new project for the school which will address major maintenance problems, re-locate the nursery to the demountable and allow the Victorian building to become the new Children's centre. It will also provide a new hub which will become a central entrance linking the main building to the children's centre and provide a location for Havering's locality team as well as being a community resource.
- 2.9. The Council has also made a bid for a further £520,000 to London Thames Gateway Development Corporation which would allow further development of the school with newly built learning resources areas for science and humanities which would then allow the creation of a quad space acting as the heart of the school. This revised project would substantially improve the condition and fabric of the school while retaining the architectural legacy of the 1930s brick front.
- 2.10. This revised schools programme also includes significant works to both Hilldene and Branfill schools.

Rainham Library

- 2.11. The Rainham library scheme is largely to be funded through the London Thames Gateway Development Corporation (LTGDC) grant, with the Council funding the fit out of the building. Commencement of this is dependent on the time of the receipt from LTGDC.

Disabled Facilities Grant (DFG)

- 2.12. Details of the DFG grant funding for 2011/12 were announced in February. Havering will receive a sum of £626k in that year, however an assessment of need has been carried out and this has determined that a level of spend in the region of £1m will be needed. This has therefore been included in the programme.

Annual Council, 25 May 2011

Cemeteries & Crematoria

- 2.13. A business case is currently being formulated around the future approach to the Upminster Cemetery site, which will come forward to the Cabinet in due course.

Central Depot

- 2.14. The first stage of the Central Depot project has been completed and tenders have now been received for the second stage. The tender costs are being partly funded through the Council's Strategic Reserve, but as this is a capital scheme, needs to be reflected in the capital programme.

Harold Hill

- 2.15. It is anticipated that the main capital receipt that will be utilised to finance the Harold Hill Ambitions programme will not occur until early in 2012/13. As the Council's future strategy revolves around not committing spend until receipts have been realised, it is now unlikely that any further spend will be incurred until that year. As a result, there is only limited Council-funded expenditure included in the 2011/12 capital programme.

Section 106 Funding

- 2.16. In keeping with the capital strategy now proposed, any Section 106 receipts will only be deployed once the funds have actually been realised. Whilst the nature of any agreements may come with restrictions, where possible this will be kept as flexible as possible. This would then enable such funds to be potentially used to finance part of the overall core programme, should capital receipts not prove sufficient, as well as being used for any specified purpose.
- 2.17. At this stage, only those receipts realised have given rise to capital schemes. Nothing will be included in the forward capital programme until receipts are in fact realised.

Grant Funding

- 2.18. It is customary for the Council to receive notification of funding for capital schemes and programmes from external bodies during the course of the year. Approval has already been given by Council, as part of the budget-setting report, for such schemes to be included within the capital programme under the authority of the Cabinet Member for Value and the relevant service area Cabinet Members.

3. THE INDICATIVE PROGRAMME FOR 2012/13 AND BEYOND

- 3.1. The indicative programme for 2012/13 and beyond was set out in the report to Cabinet in February, which was again approved by Council.

Annual Council, 25 May 2011

- 3.2. Detailed schemes will now need to be developed within these overall sums for the indicative programme for 2012/13 and beyond. It is proposed that these details will be brought back to Cabinet as part of the budget-setting process. This will take into account a further review of capital receipts and other funding streams, including both Section 106 monies and any additional grant funding from Government. The additional funding for schools referred to above is expected to be continued beyond 2011/12 and this will be taken into account as part of this review. The programme will also include the various Harold Hill Ambition schemes, which are now expected to fall within that year.
- 3.3. It is not proposed at this stage to assess future capital spend beyond 2014/15. There are a number of major uncertainties over the financial climate, not the least of which is the imminent review of the funding of local government. The longer term programme will be considered once these issues are clearer.

4. DEVELOPMENT OF BUSINESS CASES AND PRUDENTIAL BORROWING

- 4.1. The capital strategy now proposed does provide for the use of prudential borrowing should the proposed scheme deliver either a revenue budget saving and/or an income stream, in other words be self-financing. Where such schemes are identified, it is anticipated that a business case would need to be developed and agreed.
- 4.2. The business case would need to set out the anticipated investment, costs and savings or income, and how any borrowing would be covered. The business case would need to take into account any existing savings targets, and the likelihood of any future ones.
- 4.3. To expedite the approval of any such business cases, such approval has been delegated to the appropriate service Cabinet Member and the Cabinet Member for Value.
- 4.4. There are no background papers.

CAPITAL STRATEGY

The following is recommended as a statement of Havering's capital budget strategy.

The capital budget strategy sets out the Council's approach to capital investment over the medium term. It has been developed in consultation between senior officers, Members and the Council's key strategic partners and is integrated with Havering's Community Strategy.

The Council will ensure it engages with the local community and wider stakeholders in developing its financial plans.

The Council has adopted a prudent capital programme in line with the Living Ambition designed to:

- Protect, maintain and develop existing assets and infrastructure – the backlog of repairs to existing assets such as school buildings, office accommodation, and infrastructure assets such as roads and paths;
- Develop new facilities for which there is significant public demand or upgrading assets to meet the expectations of local people, and obtaining value for money from the use of our assets and resources;
- Support the delivery of the Council's ambitious transformation programme and further initiatives to improve efficiency and effectiveness e.g. through the adoption of new technology to release revenue savings or improve service delivery to the community.

The Council will seek to continue to improve efficiency and value for money, in particular to:

- Maximise asset utilisation;
- Ensure assets are fit for purpose and health and safety compliant;
- Facilitate and promote community use;
- Explore alternative management arrangements e.g. leases to community groups;
- Explore opportunities for innovative ways to procure and deliver capital projects to maximise the resources available;
- Consider the wider aspects of capital projects for example whole life asset costs, equality and diversity, and environmental implications;
- Investigate shared usage/ownership arrangement with other local authorities, partners and stakeholders.

As well as the above, the Council's approach to capital asset management includes the review of existing assets in terms of suitability for purpose, alternative and future use, and maintenance requirements. The aim for the Council to rationalise its asset portfolio and only hold assets that support the delivery of its goals, offer value for

Annual Council, 25 May 2011

money or in some other way are important for community, heritage or other significant social purpose.

The capital budget strategy is intrinsically linked to the revenue budget strategy. The revenue implications of capital expenditure and funding decisions are explored and accounted for on an ongoing basis. These are reflected as appropriate and include the consideration of the challenging financial climate which the Council faces.

The Council will finance capital expenditure through a combination of:

- Receipts
- External Funding
- S106 Contributions
- Revenue Contributions to Capital
- Capital Grants
- Capital Allowances
- Supported Borrowing
- Prudential Borrowing

Each funding stream is considered in terms of risk and affordability in the short and longer term.

The current and future economic climates have a significant influence on capital funding decisions. As a result planned disposals are being reviewed to ensure the timing maximises the potential receipt in depressed market conditions. A bridge funding reserve has been established to manage cash flow and provide flexibility.

Prudential borrowing will only be used as a last resort, unless a business case can be made to finance the investment from an income or savings stream.

Every effort is made to maximise grant funding, leverage opportunities and other external funding opportunities; where they are consistent with the Council's vision, goals and other specific strategies.

S106 contributions are not committed until they are actually received. This is due to the complex conditions and timing issues that can be associated with them.

The Council is also continuing to attract private investment into Council facilities through exploration of potential partnership and outsourcing arrangements, for example leisure management and residential and day care services.

This funding approach has been made with reference to the Council's current and longer term financial position, the prudential code, the current and projected economic climate, and the Council's asset management strategy as set out in the Corporate Asset Management Plan.

The capital programme will be reviewed on an annual basis. This will consider items such as new funding opportunities and Member priorities. In year changes e.g. the availability of additional external funding, will be made on an ongoing basis as part of

Annual Council, 25 May 2011

routine programme management. These will be implemented with regard to the Council's Constitution and agreed procedures.