Leicester
City Council

RESOURCES AND EQUAL OPPORTUNITIES
SCRUTINY COMMITTEE **17 MARCH 2005**
CABINET **29 MARCH 2005**
COUNCIL **31 MARCH 2005**

CORPORATE CAPITAL PROGRAMME 2005/06 to 2007/08

Report of the Chief Financial Officer

1. Purpose of the report

1.1 This report proposes a "corporate" capital programme for 2005/06 to 2007/08 based on the Council's Capital Strategy, and seeks Resources and Equal Opportunities Scrutiny Committee's comments before Cabinet recommends the programme to the Council.

2 Summary

"Corporate" Programme

2.1 The Council approved a new Capital Strategy in November 2004. The current capital programme expires at the end of March 2005. The Council needs to set a 3-year capital programme (2005/06 to 2007/08) based upon the priorities and policies set out in that strategy, which are derived from the corporate plan.

2.2 This report suggests a programme derived from a prioritisation exercise. An additional number of reserve schemes are recommended which are dependent upon the availability of additional funding. (A separate report will be brought to the Cabinet later in the year). Schemes, which may attract external funding, will be investigated to establish the feasibility of additional funds.

2.3 In April 2004 the prudential framework for borrowing was introduced. Local authorities are free to borrow for capital investment providing the borrowing is "prudent, sustainable and affordable". The system is largely self-regulated and underpinned by regulation and guidance. The main requirement of the regulations is the need for authorities to follow CIPFA's Code of Practice on Prudential Borrowing.

2.4 As part of setting the Council's general fund revenue budget on 23 February, the Council approved a set of prudential indicators, which demonstrate that the council's proposed borrowing is "prudent, affordable and sustainable". These indicators are attached at Appendix E.

2.5 Three schemes meet the conditions in the Capital Strategy for use of prudential borrowing: major works to the Centrally Located Administrative Buildings (CLABs); City Centre Public Realm Schemes, which complement city centre regeneration, and a contribution towards the Performing Arts Centre. Provision for borrowing money to finance these schemes has been made in the revenue budget.

"Service" Programmes

2.6 The majority of the Council's capital programme is funded from "service" resources. These are resources that are hypothecated to services by law or local policy. Programmes funded from "service" resources are developed by the relevant corporate director with a recommended programme going to cabinet via scrutiny for comment.

2.7 The most significant "service" programmes are housing, transport and education. Council approved the housing programme on 27 January. A transport programme is to be considered by Council on 31 March and the education programme will be considered in the Spring.

2.8 The estimated resources, including unsupported borrowing, exceed the proposed programme (excluding the reserve programme) by £6.032million. If all schemes, including the reserve list were approved there would be a shortfall of £5.009million.

3. Recommendations

3.1 Resources and Equal Opportunities Scrutiny Committee is asked to give its comments on the draft programme to help inform Cabinet's recommendation to the Council.

3.2 Cabinet is asked to:

i. recommend the capital programme shown at Appendix B to Council, subject to any changes it wishes to make pursuant to comments from Resources and Equal Opportunities Scrutiny Committee;

ii. Recommend to Council the following status of the schemes in Appendix B.

(a) Block A, being schemes which can proceed once the programme is approved, subject to compliance with Finance Procedure Rules;

(b) Block B, being schemes which can proceed subject to a further approval by Cabinet with regard to the detailed implementation of the scheme;

(c) Block C, being schemes which can proceed subject to a further approval by Cabinet with regard to the detailed implementation of the scheme, and subject to additional funding becoming available.

iii. Note the proposed revisions to Finance Procedure Rules attached as Appendix D to this report, which are being submitted to the Council for approval under cover of a separate report.

iv. Designate the following as service resources for the purposes of this programme (being resources which fall outside the scope of the corporate programme): -
- housing capital receipts;
- housing, education and transport elements of the Single Capital Pot;
- profits made by the Housing Maintenance DSO;
- any supported capital expenditure allocations awarded by central government for specific purposes;
- third party contributions;
- departmental revenue contributions.

v. In connection with the revised Finance Procedure Rules: -

(a) approve a lower decision limit of £250,000, being the limit above which directors need to seek Cabinet approval for changes to the capital programme which would otherwise be delegated to them (principally changes funded by service resources and spend to save schemes);

(b) recommend that the Council approves a higher decision limit of £1million, being the amount below which the Cabinet can make changes to the programme, provided the revenue impact can be met from other budgets within the Cabinet's approved virement limit;

(separate arrangements have already been agreed by the Council in respect of the Performing Arts Centre.)

vi. Note that the above limits apply to the capital programme as a whole, not just the corporate capital programme(but without prejudice to any decisions the Council takes about the transport capital programme);

vii. Recommend to Council to determine that the Integrated Transport and Decent Homes Standards groups of capital schemes are deemed to be capital programme areas within which corporate directors are permitted to reallocate resources on grounds of operational efficiency.

viii. Note proposed revisions to spend to save rules as outlined in paragraph 8.3, and incorporated into the Finance Procedure Rules in Appendix C.

4. Financial and Legal Implications

4.1 This report is exclusively concerned with financial issues. Peter Nicholls, Legal Services has been consulted as Legal Advisor and has confirmed that there are no legal issues arising from the report.

5. Author

Steve Charlesworth
Head of Strategy and Development

DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	Yes
Executive or Council Decision	Council

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Report of the Chief Financial Officer

SUPPORTING INFORMATION

1. Capital Strategy

1.1 The Council adopted its Capital Investment Strategy in November 2004. The purpose of the strategy is to set out the policies and practices which the authority uses to establish, monitor and manage the Council's entire future capital programme for the period 2005/06 to 2007/08.

1.2 The strategy encompasses the requirements and opportunities afforded by the Prudential Framework which came into effect from April 2004.

1.3 The Capital Strategy sets out two overarching priorities for investment of "corporate" resources:

(a) Schemes which enhance the quality of the local environment which have a visible, lasting effect; and

(b) Spending which enables us to make continuous improvement in a well-managed organisation, particularly making appropriate investment in our stock of buildings and assets and in modernising service deliveries through technologies.

1.4 The strategy addresses the "Single Capital Pot", which is a sum of money allocated by Government to spend on capital, and is made with reference to individual services. The strategy acknowledges that, although authorities are free to spend Single Capital Pot allocations on whatever capital purposes they determine, government departments appear to expect allocations to be ring-fenced. In the case of DfES, the Secretary of State has reserve powers to enforce this. The DoT and Regional Housing Board are each able to back up their expectations with reference to future years' allocations.

1.5 The presumption is to ring-fence the allocations in the SCP to the services to which they are notionally allocated (Housing, Transport – including highways maintenance, and Education), subject to an appropriate case being made. The prime reason for this is a substantial service requirement for investment, specifically: the need to ensure that educational achievement is supported by buildings and infrastructure which are fit for purpose; the need to address the decent homes standard and to create new affordable housing; the need to improve the city's road conditions, a performance indicator (PI) on which the authority is struggling; and to achieve the Local Transport Plan.

2. Resources

2.1 <u>Types of Capital Resources</u>

2.1.1 Capital resources are sources of funding for capital projects. They include borrowing, capital grants, and the proceeds of the sale of property (capital receipts). The Council has divided capital resource into 2 categories: "Service" resources and "Corporate" resources.

2.1.2 "Service" resources are those resources ring-fenced to a particular service or scheme by legislation or government or local policy.

2.1.3 "Corporate" resources are those resources that can be spent entirely at the Council's discretion. <u>The Corporate capital programme is only concerned with schemes funded from "corporate" resources.</u> Programmes funded from "Service" resources are recommended to Cabinet by the relevant Corporate Director after consultation with the relevant scrutiny committee. Corporate resources may be "supported" (i.e. funded by central government) or "unsupported" (borrowed by the Council, and paid for out of the revenue budget)

2.1.4 The most significant "service" programmes are housing, transport and education.

2.2 <u>"Corporate" Resources</u>

2.2.1 All capital receipts, excluding housing receipts, have been designated as "corporate" resources for the 2005/06 to 2007/08 capital programme. The other main "corporate" resource is contained within the Single Capital Pot (SCP) for other services.

2.2.2 In 2005/06, the Council is anticipating receiving £2.4 million, payable over two years, from the capital element of the reward grant derived from local Public Service Agreements. This has been treated as a corporate resource.

2.3 <u>The Government's Capital Settlement</u>

2.3.1 The government has announced a SCP allocation for Leicester for 2005/06 of £20.137 million. This compares to an allocation of £23.598 million in 2004/05 and represents a reduction of 14.7% compared to the equivalent for last year. The reduction is largely due to a change in the way Education capital has been funded.

2.3.2 The SCP has been arrived at as follows.

Single Capital Pot	2004/05 £000	2005/06 £000	% increase
Housing	7,930	8,173	3.1
Transport – Package	6,077	6,388	5.1
Transport – Maintenance	3,777	3,226	(14.6)
Social Services	195	187	(4.1)
Education	5,619	2,163	(61.5)
Total	23,598	20,137	(14.7)

2.3.3 Housing

The housing allocation has increased by 3.1% from £7.930 million last year to £8.173 million in 2005/06. This is in line with inflation and expectations.

2.3.4 Transport

The LTP package element has increased by 5.1% from £6.077 million to £6.388 million. The maintenance element has reduced by 14.6% from £3.777 million to £3.226 million in 2005/06. There is cause for concern that indicative figures for future years suggest that a change in methodology may reduce the maintenance settlement by up to £1 million per year from 2006/07 onwards. At this stage we are unsure as to the full extent of this expected loss as the indicative figures exclude the primary route network.

2.3.5 Education

The decrease in the Education element of the Single Capital Pot by 61.5% compared to 2004/05 is mainly due to the fact that Modernisation Funds, which are aimed at transformational improvements of school buildings, are to be financed entirely by grant rather than through the SCP as was the case last year. Modernisation funds have, however, reduced nationally to provide money for Building Schools for the Future.

2.3.6 The SCP resources available as “corporate” resources are therefore £187K.

2.4 Funding

2.4.1 Capital Receipts are the main “corporate” resource available to fund the programme. The total Corporate Capital Resources for the period covered by the strategy is estimated as follows:

	2005/06 £m	2006/07 £m	2007/08 £m	Total £m
SCP	0.2	0.2	0.2	0.6
Capital Receipts	4.0	4.0	4.0	12.0
Local PSA	1.2	1.2	0.0	2.4
Underspends b/fwd	0.5	0.0	0.0	0.5
TOTAL	5.9	5.4	4.2	15.5

2.4.2 External Funding

In order to encourage creative means of increasing resources, the Council has recruited RSM Robson Rhodes as external funding advisors, whose main aim is to identify funding sources and scrutinise schemes within the programme with a view to profiling schemes in order to maximise external funding opportunities.

Robson Rhodes have provided the Council with free access to their grants database and once schemes have been approved, will be working with departments to structure schemes to achieve maximum funding opportunities.

2.4.3 Earmarked Resources

Two schemes within the programme are being resourced from earmarked receipts: Saffron Lane Sports Centre replacement changing rooms, gym and store, earmarked from proceeds of the sale of the velodrome; and Learning Disabilities Day Services Modernisation, earmarked from the proceeds of the Day Centre sale.

3. Process for setting the "Corporate" programme

3.1 The "corporate" capital programme being proposed has been developed through the Council's prioritisation system.

3.2 A 2-stage process is used to formulate the programme:

3.3 <u>Stage 1</u>

3.3.1 Stage 1 considers whether schemes can demonstrate quantifiable benefits that further the agreed corporate or other priorities, and is guided by the view of cabinet members. The main purpose of stage 1 is to reduce the number of schemes bid for to a manageable number, which can be considered in more detail at stage 2.

3.4 <u>Stage 2</u>

3.4.1 The second stage of the prioritisation process involves ranking schemes according to a financial and qualitative assessment. The financial assessment includes consideration of risk, financial benefits, additional match funding generated and revenue affordability. (A sample scorecard is attached as Appendix A)

3.4.2 The qualitative assessment considered such factors as the statutory requirement for spending; further consideration against stated priorities, whether the scheme meets Government expectations, community impact and findings from public consultation. The qualitative assessment is also guided by the views of cabinet members.

4. Recommended Schemes

4.1 The recommended programme is shown at Appendix B. The following section briefly describes each proposed scheme.

SCHEMES REQUIRING NO FURTHER APPROVAL (EXCEPT AS REQUIRED BY FINANCE PROCEDURE RULES)

4.2 Water Hygiene £350,000 per annum

Remedial work to reduce the risk to employees, customers and public of infection due to contaminated water in buildings as identified in the Water Hygiene Risk Assessments and to set up a system to automate works as required. High risk buildings are considered to be EPHs, primary schools (where the users are more susceptible to legionella) and leisure centres.

4.3 Glenfield Tunnel £745,000

Work is required to reduce the risk of structural collapse. A recent survey has established that the loading on the tunnel is above what is considered as satisfactory safety levels and is recommending the work should be carried out in the next 2 years.

4.4 Hamilton Footbridge £192,000

Planning obligation on Hamilton Trust to build bridge at a total cost of £750,000. Under development agreement, there is a time limit of November 2007. If the bridge were not built the Council would be obliged to pay additional costs.

4.5 Hamilton Community Facilities £670,000

This scheme provides various community / leisure facilities in keeping with the increase in size of the development of Hamilton as a community. The scheme includes an extension to the Community Hall, Football changing rooms and Neighbourhood Equipped Area for Play.

4.6 Watercourse Maintenance / Improvements £250,000

This scheme will carry out urgent repairs and improvements to watercourses in the City reducing the risk of flooding to properties. This includes maintaining the free flow of water throughout the watercourse network and maintains the upkeep of the city's flood retention areas.

4.7 Replacement of Litter Bins £50,000 per annum

This supplements the current revenue budget and enables the development of a rolling programme to replace existing litterbins across the whole city over the next few years.

4.8 Stokeswood Pavilion £65,000

A Council contribution towards the cost of building a pavilion which extends access and active participation for people to become engaged in allotments.

4.9 Mobile Customer Services Centre £80,000

This is a customer services centre provided by means of a Service Bus, able to visit areas of the City most in need of improved face-to-face access to the Council in a planned and on a regular basis.

4.10 CCTV – Kirby Frith £60,000

This is to install 3 CCTV cameras in the Kirby Frith area of the City.

4.11 Children's Residential Homes £100,000 per annum

This is a rolling programme to maintain and improve existing premises to enable compliance with national standards and Commission for Social Care Inspection requirements and compliance with Health and Safety rules. It will enable the Council to provide an appropriate and safe environment for children and young people in care, and an avoidance of expensive reactive repairs to buildings and equipment.

4.12 Electronic Scanning £500,000

Scanning of existing Social Care and Health service user paper files to allow for electronic retrieval within the departmental client system from a single file location for all information to speed up responses. Staff at remote sites will be able to access records with reduced risk of loss/theft/compromise and storage space will be released following the destruction of paper files.

4.13 Learning Disabilities Day Centre Modernisation £850,000

Modernisation of learning disability service provision, creating a centre of excellence and development of community bases, funded from earmarking the proceeds of the sale of sale of Fosse and South Lodge Day Centres.

4.14 Saffron Lane Improvements £1.220 million

This is to improve the facilities currently provided at Saffron Lane, by replacing the changing rooms, gym and store. These improvements are funded from part of the proceeds of the sale of the Saffron Lane velodrome.

4.15 Contribution to Performing Arts Centre £8 million

This reflects the increase in the Council's contribution to the Performing Arts Centre after changes agreed by Council in January 2005. £3million of the total is being funded from revenue and £5million from prudential borrowing via the Council's regeneration package.

SCHEMES REQUIRING FURTHER APPROVAL

Further reports will be brought to the Cabinet later in the year for the remaining recommended schemes, at which point more detailed information will be provided.

4.16 DDA Programme £1.3 million

Rolling programme to improve access to buildings / signage and lift refurbishment.

4.17 Bridge Refurbishment £175,000 per annum

This is a programme to improve the condition and appearance of bridges, mainly on the Great Central Way.

4.18 Festive Decorations £150,000 per annum

Replacement programme of existing decorations; Health and Safety Works and additional lighting for areas of the City.

4.19 Local Environment Works £330,000 per annum

This scheme will enable a programme of local works to be developed improving lighting, conditions of footways and verges, reducing delays to public transport and improving untidy land areas.

4.20 Adoption of Private Streets £500,000

This is a rolling programme to bring all roads / footways up to a reasonable standard and improve accessibility for local residents.

4.21 Customer Accounts System Replacement £140,000

Cost of replacement system due to on-going support for existing system unlikely to continue by the software supplier.

4.22 Elderly People's Homes £250,000

This is the first year cost of a rolling programme to maintain and improve existing premises.

4.23 Corporate EDRMS £600,000

Introduction of a corporate Electronic Document Records Management System (EDRMS) to rationalise, maintain and improve property by freeing up office space and providing the potential for remote working.

4.24 LAN Upgrade £100,000 per annum

Upgrading the Local Area Network (LAN) infrastructure to improve security, performance and resilience.

4.25 Riverside £351,000

This is a rolling programme to fund a range of environmental and regeneration improvements to the riverside, including improvements to wildlife habitats, access, mooring facilities and the appearance of the riverside area.

4.26 Centrally Located Admin Buildings (CLABs) Review £29.676million Gross

Major programme of works / acquisitions in respect of central offices (including New Walk Centre), together with improvements and relocation of Members to the Town Hall. (Note: the profile of spend of this scheme, which was based on the original CLABs report, is likely to be subject to slippage.)

4.27 City Centre Development £10.740 million

This scheme focuses on improving the environment of the City centre, including reconstructed streets, creation of a bus corridor to relieve Clock Tower, new City centre signing and information system, improvements to car parks, provision for cycling and improved access for disabled people.

5. Reserve Schemes

5.1 There are a number of schemes that are good schemes, according to the prioritisation system, but which cannot be afforded within available resources. It is recommended that these schemes are held as reserve schemes dependent upon further resources being identified. If additional funding is realised, further approval will be sought from Cabinet to include these schemes in the programme. In some cases, schemes are at a fairly early stage in their development and therefore further work is required before detailed proposals can be brought back to Cabinet. Members are asked to particularly note that a number of projects to modernise service delivery are included as reserve projects, and (given the links between modernisation and service improvement) it is hoped that funding will become available for some of these projects. Some projects may, in the alternative, be capable of programming as “spend to save” schemes.

The following schemes are recommended as reserve schemes, in order of priority – as influenced by the prioritisation scoring mechanism.

5.2 Duns Lane (Bowstring Bridge) £466,000

Further surveys are being carried out, but the likelihood is that the bridge will need to be demolished for Health and Safety reasons.

5.3 Kickabout Areas £730,000

Providing additional kickabout areas attached to 4 Neighbourhood Centres across the City, and one attached to Keepers Lodge.

5.4 Pool Refurbishment £400,000

Refurbishment to the pools and changing rooms at Evington and Beaumont Leys Leisure Centres.

5.5 Astroturf Pitches £550,000

This is to provide for the replacement of the Astroturf pitches currently situated at Saffron Lane Velodrome.

5.6 Capital Receipts Pump Priming £350,000

This is to enable works to be carried out which will then generate capital receipts. It is anticipated that the main calls on this would be used to fund environmental and traffic assessments at Ashton Green and, to a lesser extent, Hamilton.

5.7 Feasibility Studies £500,000

This is to provide Council wide reviews of depots and office accommodation to identify areas for rationalisation and disposal opportunities.

5.8 Financial System Replacement £1million

Existing system uses out of date technology which will cause problems with future integration, on-going support and reliability. The £1million does not respresent the full cost of replacement – the balance will need to be found on a spend to save basis.

5.9 Replacement of People's Network £150,000 per annum

This is a rolling programme to replace public access computers in all libraries across the City.

5.10 Mobile Working £120,000

Evaluation and development of ICT solutions in order to access corporate systems (email/intranet/applications) via portable devices (laptops, PDA, smart phones, etc).

5.11 Elderly People's Homes £500,000

This is the second and third year of a rolling programme to maintain and improve existing premises.

5.12 Library Improvements £500,000

This is a programme of maintenance and improvements to current City libraries.

5.13 Children's Federation £150,000 per annum

Pump priming of Children's Federation bases, systems and services, e.g. Family Centres.

5.14 Investment into LEP £300,000

This is a one-off cost enabling the City Council to make a financial investment to the Local Education Partnership.

5.15 Book Theft Detection System £200,000

This scheme provides for the replacement of the book detection system for 10 libraries within the City.

5.16 PC Server Business Continuity £100,000

This is to provide a disaster recovery plan for corporate PC servers.

5.17 Modernising Social Care Services £250,000 per annum

Extending and developing the use of new technology and its link to IT systems allowing all client records to be held electronically, enabling instant access to information, improved efficiency and home working.

5.18 Strengthening IT Infrastructure £200,000 per annum

This involves developing the use of hand held and other out-of-base devices for direct input and retrieval of data in Social Care and Health.

5.19 Built Heritage (Net) £50,000 per annum

This scheme involves awarding grants to the private sector to carry out work on properties in keeping with the area.

5.20 Neighbourhood Centre Refurbishment £50,000

This scheme is to carry out refurbishments at the Manor House Neighbourhood Centre.

5.21 Replace 2 Children's Mobile Library Vehicles £180,000

Replacement of 2 Children's Mobile Library Service Vehicles – the bookbus for the under 5s and the bookbus for children 5 – 14 in regeneration areas of the City.

5.22 Town Hall Improvements £115,000 per annum

This is the rolling programme to provide continuous routine maintenance and updating at the Town Hall.

5.23 Staff Bases and other buildings £200,000

This scheme is to provide essential and highly desirable minor works to staff bases and other Social Care and Health buildings and offices.

5.24 Learning Disability Bases £300,000

Alterations to improve out-dated accommodation and meet new registration requirements together with adaptations to community bases.

5.25 UNIX Server Business Continuity £1.250 million

Disaster recovery arrangements for UNIX server which is effectively an insurance against service disruption, in the event of a major incident.

5.26 Central Library – Option Appraisal £70,000

This scheme would involve carrying out an option appraisal for a PFI submission for a new Central Library.

5.27 Regeneration and Culture ICT Infrastructure £500,000

Development of the Regeneration and Culture ICT infrastructure fulfilling legislative requirements of the new Traffic Management Act and the Licensing Act.

5.28 Workplace Nursery £70,000

Alterations to the building which will enable the ratio of staff to children to be maximised and therefore assist the nursery become self-sufficient.

5.29 Telephone System Evaluation £10,000

Existing system likely to be outside of any maintenance arrangements within the next few years, which will precipitate the need for a new system beyond this capital programme.

6. Contingency for Further Pressures

6.1 The capital programme will be rolled forward by 1 year each year. It is considered unlikely that there will be scope for substantial additions to the 3-year programme from 2005/06 to 2007/08, especially given that there are already 28 schemes on the reserve list. The estimated resources exceed the proposed programme (excluding the reserve programme) by £6.032million. (If all the schemes on the reserve list were approved there would be a shortfall of £5.009million). At present, it is recommended that this sum of £6.032million be left uncommitted to deal with potential risk, particularly in respect of BSF and the Performing Arts Centre. The sum can be committed to reserve schemes later in the year assuming it is not required.

7. Slippage and the use of temporary funding

7.1 Although the recommended programme balances over the period 2005/06 to 2007/08, year 1of the programme shows a funding deficit. The Chief Finance Officer considers this cash flow issue to be manageable within the scope of the entire capital funding and it is likely to be addressed through unavoidable slippage.

8. Prudential Borrowing

8.1 The approved capital strategy states that the Council will use the prudential framework to finance capital investment in the following circumstances: -

a) "Spend to Save" schemes, where principal and interest costs of unsupported borrowing can be met from savings achievable from up front investment.

b) "Once in a generation" investment opportunities, and a small handful of significant development projects which meet corporate priorities. It is anticipated that unsupported borrowing in this context will only be used to support substantial projects which can attract significant leverage.

c) As a last resort, as a cost avoidance measure.

8.2 Spend to Save schemes

A specific protocol has been adopted. Experience suggests that this should be amended to include the following, and the protocol has been amended accordingly:

a) A further criteria of allowable prudential borrowing has been added, specifically where such borrowing is for vehicles / equipment that could otherwise have been leased and the lease rentals charged directly to revenue accounts.

b) Changes have been made to enable the Chief Finance Officer to vary the way departments are charged for prudential borrowing, in order that charges reflect the useful life of the asset acquired (i.e. borrowing will be repaid before the asset ceases to be of value).

The protocol has also been revised to reflect the proposed changes to the financial procedure rules; a revised version is attached as Appendix C.

There is no provision for spend to save schemes in the budget, as these should be self-supporting, though there may be a cashflow impact on the capital financing budget.

8.3 Unsupported Borrowing

The Corporate Capital Programme includes schemes which meet the conditions in the Capital Strategy for use of Prudential Borrowing: Centrally Located Administrative Buildings (CLABs), City Centre Public Realm Schemes, and a £5million (out of a total £8million) contribution to the Performing Arts Centre. The table below shows the amount of Unsupported Borrowing for each scheme and the revenue implications over the period of the Capital Programme 2005/06 to 2007/08.

Unsupported Borrowing	**2005/06**	**2006/07**	**2007/08**	**TOTAL**
	£	**£**	**£**	**£**
CLABs	2,571,000	10,365,000	12,090,000	25,026,000
Public Realm	2,740,000	4,000,000	4,000,000	10,740,000
Performing Arts Centre	2,500,000	2,500,000	0	5,000,000
SUB – TOTAL	7,811,000	16,865,000	16,090,000	40,766,000

The full year borrowing of these schemes (i.e. the cost in the first full year after completion) is as follows: -

Estimated Financing Costs	
	£
CLABs	2,377,470
Public Realm	1,485,700
Performing Arts Centre	475,000

The approved revenue budget strategy contains sufficient funding for these costs in the years to 2007/08.

These estimated capital financing costs resulting from the additional unsupported borrowing would be charged directly to the revenue budgets of the appropriate department. Provision for these costs has been made within the authority's revenue budget set by the Council on 23 February 2005, based on assumptions on asset lives and an interest rate of 5.5%. Assumed asset lives are: -

(a) CLABs and Performing Arts Centre – 25 years;

(b) Public Realm improvements – 12 years.

For the purposes of the revenue budget, it has been assumed that any surplus income available to the regeneration package will be used to repay the Performing Arts Centre loan faster than would otherwise have been the case.

8.4 Payback Fund

The Council also holds a Payback Fund which was financed from a revenue reserve, with a gross value of £400,000. This is used to finance relatively small scale spend to save projects, with a payback period typically of 3 years.

8.5 Prudential Indicators

The prudential indicators for general fund borrowing and HRA borrowing are attached at Appendix E.

9. Financial Implications

9.1 This report is exclusively concerned with financial issues.

10. Legal Implications

10.1 There are no specific legal implications arising from this report. Peter Nicholls, Legal Services has been consulted as Legal Advisor and has confirmed that there are no legal issues arising from the report.

11. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	No	
Policy	YES	The programme has been formulated with reference to the approved capital strategy.
Sustainable and Environmental	No	
Crime and Disorder	NO	
Human Rights Act	NO	
Elderly/People on Low Income	NO	

12. Background Papers – Local Government Act 1972

12.1 Council 25/11/04 – Capital Strategy 2005/06 to 2007/08

13. Consultations

13.1 All departments have been consulted on the programme. The public has been consulted on capital priorities.

14. Report Author

Steve Charlesworth
Head of Strategy and Development

Scheme A

FINANCIAL ASSESSMENT

	2002/03 £' 000	**2003/04 £' 000**	**2004/05 £' 000**	**TOTAL**
- Cost	73	0	0	73
- Unacceptable risk (Y/N)	N			
- Revenue Affordability (Y/N)	Y			

	Score (1 - 10)	**Weight**	**Weighted Average**
- NPV (opportunity cost)	10	3	30
Additional funding secured	5	3	15
- Risk assessment	8	2	16
- Alternative funding available	7	2	14
QUALITATIVE ASSESSMENT			
- Statutory / Service need	6	6	36
- Fit with corporate priorities	7	5	35
- Meets govt expectations	5	2	10
- Community Impact	5	4	20
- Public consultation	5	3	15
		30	**191**

Appendix C

Rules for Spend to Save Schemes under the Prudential Borrowing Regime

There are four distinct types of potential spend to save schemes which have been identified, and the rules recommended for each are set out below. Finance Procedure Rules set out the levels of delegation for approving spend to save schemes.

General Rules for Spend to Save Proposals under Prudential Borrowing

It is recommended that: -

- Bids under £20,000 will not be considered as it is assumed that such proposals could be financed from departmental revenue budgets.

- Proposals should be submitted to the Chief Finance Officer through the Financial Strategy section.

- All bids are to include a risk analysis, which will be specified by the CFO.

Option 1 Self financed investment

This scenario may occur when capital investment would result in ongoing revenue savings or increased income. Based on a 25 year annuity there would be a 7.5% charge to departmental budgets on a permanent basis (apart form the HRA, where a statutory charge is made). Part year costs would be split pro-rata to the start of the quarter when the payment is made. 7.5% equates approximately to the average cost of providing an annuity over a 25 year period.

This would have the effect of departments being subsidised by the centre in the early years, but after year 7, this position would be reversed. After 25 years the capital borrowing costs for the centre will have been paid off. This example is based on a long – term borrowing rate of 5.5%.

The Chief Finance Officer is able to vary the way departments are charged for prudential borrowing, in order that charges reflect the useful life of the asset acquired (i.e. borrowing will be repaid before the asset ceases to be of value). Debt will be written down, and charged to capital financing budgets, to match the life of the asset.

Option 2 Temporary “Pump Priming”

In this scenario, money would be borrowed up front with a repayment of the whole amount expected within a short-period i.e. within 5 years. This scenario could include examples where a new property is acquired, which would then be ultimately financed by the sale of the existing property, though this could not occur until the new premises are fully occupied for service delivery reasons. This scenario might also cover examples where grant funding was guaranteed for a future year, but where departments would want to start spending earlier.

It is important to note that interest costs of such borrowing are a real cost to the Council and will need to be reimbursed as well as the principal repayments. Such interest costs could have a considerable impact on Council Tax in the short-term if such costs were not funded.

This would result in an interest charge of 6.1% p.a. being the short-term borrowing rate, plus 4% MRP in year 2 onwards. We would seek to review this interest charge each year for new schemes in the light of changes in market rates. Part year interest costs could be split pro-rata to the start of the quarter when the payment is made. MRP would not be charged in the financial year the borrowing was taken out, nor of course in the year the loan was repaid. (A full repayment would of course be greater than MRP).

The borrowing would be subject to a robust business case being demonstrated including a risk analysis that satisfies the Chief Finance Officer that the proposed repayments can be relied upon, and an adequate contingency is in place. Early repayment of the principal sum would normally be allowed.

Option 3 Accelerated Payback

This scenario is similar to the current Payback Fund, although interest would need to be incorporated in the repayments, and a longer repayment period possibly up to 10 years could be considered, although shorter paybacks would be encouraged.

Interest would be charged at around 6.1% of the outstanding balance plus the capital repayments. This would be expressed in the form of a fixed repayment schedule based upon the average cost of buying an annuity for the value of the borrowing, repayable over whatever payback period is agreed at the start of the loan. The payback period will not exceed the useful life of the asset. The actual cost of the annuity will differ depending upon the length of the loan. The capital repayment would be recharged to departments regardless of actual compensating savings accruing.

Option 4 Alternative to Leasing

Where vehicles or other equipment is to be acquired and: -

a) which could be acquired by means of an operational lease; and

b) for which the department can identify revenue budget provision to meet the leasing costs;

the Chief Finance Officer may specify that prudential borrowing should be used as an alternative. In this instance, annuity charges would be made to the department to enable payback of the loan during the useful life of the asset.