

<b>Committee:</b> Overview & Scrutiny Committee  Cabinet	<b>Date:</b> 9 <sup>th</sup> February 2010  10 <sup>th</sup> February 2010	<b>Classification:</b> Unrestricted	<b>Report No:</b> (CAB 114/090)	<b>Agenda Item:</b>
<b>Report of:</b>  Corporate Director Resources  Originating officer(s): Chris Naylor, Corporate Director – Resources, Alan Finch: Service Head Corporate Finance.		<b>Title:</b>  Capital Programme 2010-11 to 2012-13  <b>Wards Affected: All</b>		

## 1. SUMMARY

- 1.1 On the 13<sup>th</sup> January, the Cabinet considered the Capital Programme for 2010/11. Subsequently initial proposals were referred to Overview & Scrutiny Committee for consultation in accordance with the Budget & Policy Framework.
- 1.2 The Overview & Scrutiny Committee was due to consider these proposals yesterday, 10<sup>th</sup> February and any comments made will be reported to you at your meeting.
- 1.3 This report sets out the proposed Capital Programme for the next three financial years and invites you to make a recommendation to the Budget Council on 3<sup>rd</sup> March for the programme for 2010/11. It is important that this report is considered in conjunction with the reports on the General Fund Revenue Budget and Medium Term Financial Plan and the Housing Revenue Account budget, elsewhere on this agenda.
- 1.4 The report indicates that the Council's capital programme continues to be subject to increasing resource constraints over the medium term which will necessitate prioritisation of projects to ensure they meet local strategic need and make effective use of limited resources.
- 1.5 A rigorous evaluation process has been applied to Directorate bids for resources to ensure that the projects recommended for inclusion in the programme are the ones which most effectively contribute towards the Council's corporate objectives.
- 1.6 The Council's revised Capital Strategy is attached at **Appendix C**. The Capital Strategy informs the development of capital plans and resource allocations in the context of spending pressures, such as the growth in the Borough's population, and the likely constraints on funding.

## **2. RECOMMENDATIONS**

Cabinet is recommended to:-

### **2.1 Recommend to Budget Council that:**

2.1.1. Resources provided by the Government and other funding bodies for 2010-11 for specific purposes to support Directorate Mainstream Capital Programmes be allocated as set out in **Appendix A**

2.1.2. The allocation of resources to the Local Priorities Programme, including pre-agreed projects and unavoidable capital schemes for 2010-11, be as set out at **Appendix B**.

2.1.3 The revised Capital Strategy for 2010 to 2025 be agreed as set out in **Appendix C**.

### **2.2. Note that any further allocations of mainstream resources will be reported to the Cabinet as they occur during the financial year.**

## **3. BACKGROUND**

3.1. The report forms part of a comprehensive Strategic and Resource Planning framework that ensures resources are deployed effectively to meet the objectives of the Tower Hamlets Strategic Plan (2009-10), Tower Hamlets Community Plan 2020 and Local Area Agreement 2008-2011 and secure value for money. Further details of this framework are set out in the companion report on this agenda on the General Fund Revenue Budget and Medium Term Financial Plan for 2010-11-2012/13

3.2. The Capital Strategy outlines the Council's approach to Capital investment and how the Council ensures that capital investment is directed to the Council's corporate priorities. The Capital Strategy's overarching aim is to provide a framework within which the Council's Capital Investment plans over the next 15 years may be delivered. The Strategy is driven by the Council's approved strategic objectives and is consistent with the Infrastructure Development Plan agreed by Council last year and which also covers a period of 15 years. The Capital Strategy emphasises the proactive management of the capital programme and considers the investment in infrastructure and assets required in that period.

3.3. The Capital Strategy indicates that the Borough's population is expected to continue to grow at a rapid rate over the next few years, while capital resources are likely to be more constrained than in the recent past due to public spending pressures and more limited opportunities for raising funding locally. This underlines the need for careful prioritisation of resources to meet local and national priorities. The revised Capital

Strategy is attached at **Appendix C** and needs to be taken into account in considering the strategic deployment of capital resources in future budget rounds.

- 3.3. Members are invited to adopt the updated Capital Strategy.
- 3.4. The Capital Programme comprises two elements, corresponding to the main sources of funding used to finance them.
  - The 'Mainstream' programme comprises schemes funded from Government grants and other allocations which are to some extent ring fenced or channelled to particular types of schemes. The size of the mainstream programme is determined primarily by these allocations.
  - The 'Local Priorities' programme is funded largely through locally generated resources, primarily capital receipts. This element of the programme is determined by the extent to which the authority can raise resources locally to fund it, and is allocated entirely at the authority's discretion.
- 3.5. As part of the implementation of this strategy, this report recommends allocating resources provided by Central Government to support the Council's mainstream programme and identifies bids for projects to be considered for inclusion in the 2010-11 – 2012-13 Local Priorities Capital Programme.
- 3.6. Bids for capital resources have been considered by the Corporate Management Team and by leading Members as part of the Strategic & Resource Planning process, which links revenue and capital budgeting with the development of Directorate and team plans in the context of the Strategic Plan and Community Plan. Bids have been brought together with revenue proposals and set alongside information on comparative service costs and performance to ensure that they are seen in their full context.
- 3.7. Reports on the Council's revenue budgets, for the General Fund and Housing Revenue Account, are set out elsewhere on this agenda. Revenue expenditure is normally concerned with the day to day running of services, while capital is concerned with investment in the assets required to deliver services successfully. Both aspects of service delivery are important and decisions concerning one clearly impact upon the other in relation to:
  - The ongoing running costs and upkeep of new buildings;
  - Any revenue costs of financing capital expenditure, including prudential borrowing;
  - Decisions whether to invest in assets as a Council, or seek partnership arrangements for alternative delivery options.

Decisions on the capital programme therefore need to be seen in relation to decisions on revenue budgets.

#### **4. *BUDGET AND POLICY FRAMEWORK***

- 4.1 The Council's Budget & Policy Framework, as set out in its Constitution, requires the Cabinet to submit initial budget proposals to the Chair of Overview and Scrutiny

Committee and to allow 10 working days for a response before considering final proposals.

- 4.2 Proposals agreed by the Cabinet on 13<sup>th</sup> January were considered at the Overview & Scrutiny Committee's meeting yesterday, 9<sup>th</sup> February. The outcome of Overview & Scrutiny Committee's considerations will be reported to you at this evening's meeting.

**5. THE MAINSTREAM PROGRAMME**

- 5.1 The resources for the mainstream programme are principally provided by Central Government, or other external funding providers, and are directed at specific projects or programme areas. The main areas are housing and children's services (schools). Funding is often allocated on the basis of bids by the Council but, once announced, there is in practice limited discretion as to how they are applied.
- 5.2 The Council's projected mainstream funding for 2010-11 to 2012-13 and how this is allocated to schemes is set out in **Appendix A**.
- 5.3 The Government's and other contributions to the funding of this investment are derived from two main sources:-

Supported Capital Expenditure (Revenue)	<p>This represents the Government's assessment of how much individual councils should spend on individual services to enable national targets and priorities to be met, based on bids by individual councils and formula allocations. The funds are supplied in the form of credit approvals which sanction the Council to access borrowing.</p> <p>The Government supports the expenditure by partially reimbursing councils for the annual debt charges associated with this borrowing through the Formula Grant settlement.</p> <p>It should be noted that because of the Formula Grant distribution methodology, the Council receives only a proportion of the debt charges it incurs on these allocations.</p> <p>The proposed mainstream programme includes £20.678m of supported borrowing and the revenue cost of this (£1.6m per annum) is reflected in the General Fund and HRA budgets reported elsewhere on this agenda.</p>
Supported Capital Expenditure (Capital Grants)	<p>This represents cash payments made by the Government to finance expenditure incurred in each financial year on specific projects. Capital grants are also received from other funding</p>

	<p>bodies, notably Transport for London.</p> <p>Announcements as part of the Government's Pre Budget Report indicate that grant support to local authorities' capital expenditure will be particularly affected by tighter public spending plans over the forthcoming period.</p>
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5.4 The support provided by the Government and other bodies for the 2010/11 mainstream capital programme totalling £164.615m is set out in summary in Table 1 (below) and detailed in **Appendix A**.

Table 1

Directorate	£ million
Adults, Health & Wellbeing	0.392
Children, Schools and Families (including Building Schools for the Future)	123.835
Communities, Localities & Culture	2.900
Development & Renewal	0.890
HRA	36.598
<b>TOTAL</b>	<b>164.615</b>

This programme differs slightly from the one submitted to the January meeting which included an incorrect figure for Adults social care IT infrastructure funding. The revised programme is £0.891m less than that previously reported.

5.5 It has been Council policy in previous years to allocate supported borrowing allocations to services in accordance with the Government's indicative allocations. Whilst in theory the authority has discretion to allocate funding in the Single Capital Pot as it sees fit, it is widely accepted that failure to spend in line with the allocations jeopardises future funding. The Capital Strategy adopted by Cabinet recognises that external funds obtained by services are used to support their capital programmes. Council policy priorities with respect to capital expenditure are reflected in the allocation of other resources, including capital receipts and prudential (i.e. unsupported) borrowing. It is therefore recommended that services be allocated resources at a level that corresponds to their respective Supported Capital Expenditure (Revenue) and capital grant allocations. As mainstream resources become much tighter in future years, it may be necessary to revisit this approach from 2011/12 onwards.

- 5.6. It is expected that more funding announcements may be made by the Government and these will be reported to Cabinet for formal inclusion in the Capital Programme as appropriate. Where necessary, Directorates will report individually during the year to seek approval for the allocation of funds to individual schemes within the overall allocations.
- 5.7. No funding announcements have been made in relation to the period from 2011/12 onwards and these will be subject to future Government spending rounds. Thus the proposed mainstream programme set out at A1 covers only one year; 2010/11. As indicated above, allocations are not expected to be as high as they have been in recent years.

## **6. LOCAL PRIORITIES PROGRAMME**

- 6.1 The Local Priorities Capital Programme comprises projects which meet local priorities identified in the Strategic Plan/Community Plan and not otherwise funded as part of the mainstream programme. Some Local Priorities schemes are also supported by external funding, but any scheme which relies upon funding generated locally is included in this part of the Programme. Traditionally this part of the Capital Programme has been financed primarily from the proceeds of asset sales although this has been less of the case recently. In allocating resources to local priorities, Members will wish to bear in mind the resources allocated in the mainstream programme and ensure that the allocation of local resources complements these allocations.
- 6.2 The scope of the programme has been considerably constrained in recent years because of reductions in the level of capital receipts. In addition, for the last year, the UK economy has been operating in a challenging environment. For these reasons, it is now considered that the Council should not anticipate any level of capital receipts in setting its capital programme, but should rely upon receipts in hand from assets already sold.
- 6.3. On this basis, the resources currently available from capital receipts and other sources to fund Local Priority Schemes, will support a programme of £71.014m in 2010-11 as detailed in **Appendix B**
- 6.4. This programme is funded as follows;

<b>Table 6.4</b>	<b>Funding</b>
<b>Funding of Local Priorities Programme 2010/11- 2012/13</b>	<b>£m</b>
Capital funding in hand (included receipts from asset sales)	35.005

Accelerated delivery programme (see Cabinet 4.11.2009)	1.581
Prudential borrowing (New Council House building)	9.165
<b>External sources</b>	
Capital grants	22.315
Developer contributions	2.949
<b>Total</b>	<b>71.014.</b>

- 6.5 Any further capital receipts received from now on will potentially be available to supplement the Local Priorities Programme. However as set out above Members are not advised to anticipate the receipt of any further sums for the purpose of setting this capital programme.
- 6.6 As set out in reports elsewhere on this agenda, revenue resources in both the General Fund and the Housing Revenue Account are considerably constrained. Funding from direct revenue contributions to the capital programme or from prudential borrowing will therefore be similarly constrained. As in previous years, prudential borrowing is only available to fund projects on a self-financing basis, where revenue savings or income are sufficient to finance the associated debt charges.
- 6.7. Funding towards the Building Britain's Future programme (new Council house building) amounting to £9.165m has been previously agreed by the Cabinet. The costs of borrowing will need to be contained within the Housing Revenue Account, a report on which is provided elsewhere on this agenda.
- 6.7. The report elsewhere in this agenda sets out general advice on reserves and balances. There are no additional reserves available for capital funding in this financial year in addition to those set out in Table 6.4 above.

## **7. REVENUE IMPLICATION OF THE CAPITAL PROGRAMME**

- 7.1 Directorates are required to ensure that the revenue implications of capital expenditure are reflected in their budget proposals and, if necessary, in growth bids and savings. The revenue budgets are set out elsewhere on this agenda.

## **8. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 8.1 The comments of the Chief Financial Officer have been incorporated into this report.

## **9. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 9.1 The financial procedures that the Council has in place in compliance with section 151 of the Local Government Act 1972 provide for the preparation of a three-year capital programme each year to ensure resources are maximised and potential resource gaps identified.
- 9.2 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's capital expenditure is a matter that should not be the sole responsibility of the authority's executive.
- 9.3 Consistent with the statutory provision, the Council's Constitution specifies that decisions relating to the control of the Council's capital expenditure form part of the budget. The approval or adoption of the budget is a function specified by the Constitution to be the responsibility of the full council.
- 9.4 To the extent that the capital programme constitutes a plan or strategy for control of the Council's capital expenditure, it is appropriate for it to be put forward to full council along with the other budget papers.
- 9.5 The items specified in the capital programme are broadly capable of being carried out within the Council's statutory functions. It will be for officers to ensure that individual commitments are carried out in accordance with legal requirements, including those contained in any grant funding agreement, and the Council's own policies and procedures such as the procurement procedures.
- 9.6 The adoption of a long term Capital Strategy related to the Community Plan is consistent with proper administration and delivery of the Council's various statutory functions. For the reasons set out above, this is a strategy that should not be the sole responsibility of the executive.

## **10. ONE TOWER HAMLETS CONSIDERATIONS**

- 10.1 The preparation of the capital programme is in line with the Council's approved capital strategy which has embedded into the document that for each project to be considered it has to demonstrate its compliance to the Tower Hamlets Community Plan 2020 and the Strategic Plan 2009/10 which detail the themes and priorities of ONE TOWER HAMLETS

## **11 SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 11.1 The sustainable implications for a greener environment of individual schemes have been taken into account during the selection process.



## **12 RISK MANAGEMENT IMPLICATIONS**

- 12.1 The report recognises that there is a degree of risk inherent in the programming process.
- 12.2 The greatest risk, in view of the constraints now existing, relates to the availability of Funding from capital receipts, and as reported above, the additional risk around economic uncertainty must now be considered.
- 12.3 The programme has also been managed flexibly in the past by allowing expenditure and funding to slip between years. The more constrained nature of the funding and the need to show good use of resources means that there will be more emphasis on planning when spending will occur.
- 12.4 Officers will continue to monitor the capital programme closely, both in terms of expenditure and income, to ensure that these risks are minimised.

## **13 EFFICIENCY STATEMENT**

- 13.1 Value for money and efficiency considerations are no less important in relation to capital investment than for other types of expenditure. The Capital Strategy identifies value for money as one of the key criteria on which capital schemes should be considered. The management of assets overall can also deliver important benefits in terms of value for money. The sale of surplus buildings to fund local priority schemes, for example, is one way in which this manifests itself in these proposals.
- 13.2 The use of prudential borrowing for invest to save schemes is proposed in this report. This enables the authority to borrow to fund capital schemes which will offer cash savings in subsequent years in order to improve services and deliver strategic priorities.
- 13.3 The Council is required to consider the value for money implications of its decisions and to secure best value in the provision of all its services. It is important that, in considering the budget, Members satisfy themselves that resources are allocated in accordance with priorities and that full value is achieved. The information provided by officers assists Members in these judgments.

## **14. INDEX OF APPENDICES**

Appendix A – Mainstream Capital Programme 2010-11-2011/12

Appendix B - Local Priorities Programme 2010/11 to 2012/13

Appendix C – Capital Strategy 2010 to 2025

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**Local Government Act, 1972 Section 100D (As amended)**  
**List of "Background Papers" used in the preparation of this report**

Directorate submissions and bids

Name and telephone number of holder  
and address where open to inspection.

**Alan Finch ext 4915 4<sup>th</sup> floor Mulberry  
Town Hall**

**Jasbir Sandhu ext. 4916 4<sup>th</sup> floor  
Mulberry Town Hall**