

COMMITTEE: Cabinet	DATE: 09 February 2011	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
Overview & Scrutiny Committee	08 February 2011			
REPORT OF: Corporate Director of Resources		TITLE: 2011/12 – 20113/14Capital Programme Report		
ORIGINATING OFFICER(S): Alan Finch, Service Head, Corporate Finance; Oladapo Shonola, Chief Financial Strategy Officer		Ward(s) affected: All		

Lead Member	Alibor Choudhury - Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report invites the Cabinet to set its proposals for a capital programme for the next three financial years and to refer the final proposed programme to Full Council. 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.
- 1.2 The report indicates that the Council's capital programme will be much curtailed in the medium term from 2011/12 due to the tightening of central government funding and a significant reduction in funds available locally. This will necessitate a prioritisation of projects undertaken to ensure they meet local strategic need and make effective use of limited resources.
- 1.3 An evaluation process has been undertaken to ensure that the Directorate proposals which are recommended for inclusion in the programme are for projects which are most urgent and most effectively contribute towards the Council's corporate objectives.
- 1.4 The Council's Capital Strategy was agreed at your meeting in February 2010. 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. The Capital Strategy indicates pressure on capital investment on schools and housing in particular, and cuts in Government funding may mean that the Council needs to turn increasingly to local funding to absorb the impact of population growth.

2. DECISIONS REQUIRED

Overview and Scrutiny Committee is recommended to:

- 2.1. Consider the draft capital programme as referred by Cabinet under the Budget and Policy Framework and advise Cabinet of any comments it wishes to make.

Cabinet is recommended to:

- 2.2 Agree a proposed mainstream capital programme as attached at Appendix 1 and note that this is fully funded from available resources.
- 2.3. Note the mainstream and locally generated resources currently available for new schemes.
- 2.4. Agree the locally funded projects as set out in Appendix 2.
- 2.5 Refer the draft Capital Programme to the Full Council for approval.

3 REASONS FOR DECISIONS

- 3.1 In order for capital works or investment in Council assets and infrastructure to be undertaken, funding needs to be set aside and estimates included in an approved capital programme. This report gives Cabinet an opportunity to consider the proposed capital budget prior to submission to Full Council.

4 ALTERNATIVE OPTIONS

- 4.1 Subject to the resources available, the fulfilment of statutory duties and any ring-fencing arrangements applying to grants, Members can determine their own local priorities for capital investment.

5 BACKGROUND

- 5.1 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, Tower Hamlets Community Plan 2020 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 2011-12-2013/14
- 5.2 The Council's Capital Strategy agreed in February 2010 sets out the Council's priorities and objectives for the deployment of capital resources. It indicates that the Borough's population is expected to continue to grow at a rapid rate over the next few years, while the introduction of austerity measures by the Coalition Government and more limited opportunities for raising funding locally will result in capital resources being more constrained than in the past.
- 5.3 This underlines the need for careful prioritisation of resources to meet local and national priorities. This report invites Cabinet to consider a Capital Programme for 2011/12 and allocations to 2012/13 and 2013/14 arising from these schemes.
- 5.4 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 channelled by the Government Department allocating them 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.

There is now less distinction between the mainstream programme and local priorities because the majority of Government grants for capital expenditure (with the exception of those relating to schools) have now be de-ringfenced by the Government and may be allocated to local priorities if Members so choose. However the allocation of mainstream funding by Government (for example, in relation to schools) often coincides with statutory duties the authority is under an obligation to fulfil (e.g. the provision of a sufficient number of school places) and this limits the extent to which mainstream funding can be redirected in practice.

- 5.5 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 2011/12 – 2013/14 Local Priorities Capital Programme.
- 5.6 Proposals for capital resources have been considered by the Corporate Management Team and lead 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.
- 5.7 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.
- 5.8. The Council's currently approved capital programme totals £435.343m as follows, and is fully funded from available resources.

Table 1

DIRECTORATE	Revised Budget 2010/11	Budget 2011/12	Budget 2012/13	Total Budget 2010/11-2012/13
MAINSTREAM PROGRAMME	£'000	£'000	£'000	£'000
Adults, Health and Wellbeing	0.735	0.060	0.000	0.795
Children , Schools and Families	31.719	10.462	1.074	43.255
Building Schools for the Future	73.584	94.469	36.768	204.821
Communities, Localities and Culture	14.304	8.199	4.792	27.295
Development & Renewal (Excluding HRA)	10.105	2.630	0.980	13.715
Chief Executive & Resources	0.000	0.000	0.000	0.000
HRA	47.587	31.636	36.911	116.134
Total (Mainstream) Budget	178.034	147.456	80.525	406.015
LPP PROGRAMME				
Adults, Health and Wellbeing	0.432	0.000	0.000	0.432
Children , Schools and Families	2.631	1.332	0.000	3.963
Building Schools for the Future	1.100	1.100	1.100	3.300
Communities, Localities and Culture	1.562	3.138	1.745	6.445
Development & Renewal (Excluding HRA)	9.137	0.635	0.000	9.772
Chief Executive & Resources	5.416	0.000	0.000	5.416
HRA	0.000	0.000	0.000	0.000
Total Budget	20.278	6.205	2.845	29.328
Total Programme	198.312	153.661	83.370	435.343

6. OUTCOME OF THE SPENDING REVIEW (SR)

- 6.1 The Chancellor announced that capital grants to local authorities will be reduced by 45% over the spending period (2011/12 – 2014/15) and overall capital expenditure by local authorities is expected to fall by 30% during the same period.
- 6.2 Any reduction in capital grants inevitably puts additional pressure on council resources as it will likely result in less funding being available for the delivery of local capital priorities.
- 6.3 In addition to the announcement that capital grants are to be reduced, the Coalition Government also announced that the cost of borrowing from the Public Works Loans Board (PWLB), the main body responsible for lending to local authorities for capital investment, will be increased by approximately 20%. This will impact on the revenue cost of funding capital priorities and making borrowing from the PWLB a lot less attractive.
- 6.4 Taken together, the above measures coupled with revenue funding reductions announced by the Chancellor as part of the SR will significantly limit the scope for capital investment over the next four years. But the full impact of these announcements will not be known until further announcements later in the year.
- 6.5 Any further funding announcements made by Government will be reported to the Cabinet in due course.

7. BUDGET AND POLICY FRAMEWORK

7.1 Proposals agreed by Cabinet in January were considered by Overview and Scrutiny Committee last night. The outcome of the Overview & Scrutiny Committee's considerations will be reported at the Cabinet meeting, and the Cabinet is asked to approve a final recommended Capital Programme for consideration by full Budget Council.

8. THE MAINSTREAM PROGRAMME

8.1 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.

8.2 The Council's projected mainstream funding for 2010-11 to 2013-14 and how this is allocated to schemes is set out in **Appendix 1**.

8.3 The Government's and other contributions to the funding of this investment are derived from four main sources:

8.3.1 Supported Capital Expenditure (Revenue)

- 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.
- The Government supports the expenditure by partially reimbursing councils for the annual debt charges associated with this borrowing through the Formula Grant settlement.
- It should be noted that because the authority is at the Formula Grant floor the Council does not receive any additional support to fund the debt charges it incurs in relation to its allocation of Supported Capital Expenditure (SCE). In any case, the coalition government has not approved any new SCE (Revenue) for this spending period.

8.3.2 Supported Capital Expenditure (Capital Grants)

- 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 bodies, notably Transport for London. Therefore, all SCE projects are usually approved subject to confirmation and receipt of grant funding.

8.3.3 Building Schools for the Future (BSF)

- Tower Hamlets' BSF programme plans to invest up to £300 million (including ICT investment) in secondary schools to provide world class facilities that will transform the educational outcomes of young people, bring schools closer to the community and provide local people with increased opportunities for learning and development.
- Although, the coalition government revisited funding allocation to BSF programmes, the planned programme for Tower Hamlets appears to have

survived the scale back announced earlier in the year by the Secretary of State for Education.

- There have been revisions to the original BSF programme. The funding requirement for a number of BSF projects, including Bow Boys Secondary School, Beatrice Tate have been revised – new figures are stated in the additions summary in table 5.
- All BSF projects are approved subject to allocated BSF grant funding from central government materialising.

8.3.4. Developer Contributions

Another major source of mainstream funds is developer contributions to capital schemes which are agreed as part of the planning process. The use to which these can be put is restricted by the agreement, so they are normally treated as mainstream rather than local priority funding.

- 8.4. 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, when available, services be allocated resources at a level that corresponds to their respective Supported Capital Expenditure (Revenue) and capital grant allocations. Although, Members may want to review this approach given that resources are much tighter now than they have been for some years.
- 8.5. Some government departments are yet to announce their capital allocations, so further capital funding may be made available to the Council when these announcements are made. Any new projects arising as a result of additional funding allocation to the Council will be reported to Cabinet for formal inclusion in the Capital Programme and proper authorisation sought in line with Financial Regulations. Where necessary, directorates will report individually during the year to seek approval for the allocation of funds to individual schemes within their overall allocations.
- 8.6. The revised mainstream capital programme is summarised in the table 2 below and detailed programme is attached at **Appendix 1**. The figures for 2011/12 are fully funded from mainstream allocations available but figures for later years are indicative at this stage.

Table 2

DIRECTORATE	Revised Budget 2010/11	Budget 2011/12	Budget 2012/13	Budget 2013/14	Total Budget 2010/11-2013/14
MAINSTREAM PROGRAMME	£'000	£'000	£'000	£'000	£'000
Adults, Health and Wellbeing	0.735	0.060	0.000	0.000	0.795
Children , Schools and Families	31.860	23.491	14.102	13.028	82.481

Building Schools for the Future	73.584	90.501	56.581	32.100	252.766
Communities, Localities and Culture	14.304	7.821	4.307	2.157	28.589
Development & Renewal (Excl HRA)	9.089	4.673	4.010	3.930	21.702
HRA	35.906	13.000	2.619	0.000	51.525
Total (Mainstream) Budget	165.477	139.546	81.619	51.215	437.858

9. LOCAL PRIORITIES CAPITAL PROGRAMME

- 9.1. The Local Priorities Capital Programme refers to those schemes that are wholly or partially funded from resources generated locally. It includes, for example, match funded schemes where part of the funding is provided by grants or developer contributions supplemented by local resources.
- 9.2. Locally generated resources potentially come from three sources;

9.2.1 Capital Receipts

The sale of surplus assets is an important source of funding for local capital investment. In recent years, and during the recession, capital receipts have substantially reduced. At the time of writing this report a sum of £0.561m in capital receipts is in hand for allocation to the local priorities programme, after allowing for the proposals set out in this report.

In addition £2.34m in Right to Buy receipts is also available. This funding is subject to a 75% top slice by the Government unless it is reinvested in housing and regeneration schemes, so in view of the Council's priorities, officers recommend that this sum should be redirected so as to maximise the benefit to the local area.

9.2.2 Prudential Borrowing and Direct Revenue Contributions

Revenue funding can be used to finance capital schemes. However, as set out in detail on the General Fund and HRA reports elsewhere on this agenda, revenue resources are under extreme pressure in the light of Government cuts and until the position is clear moving forward, officers advice is that revenue funding is not available to support the capital programme except where it can be justified in terms of an Invest to Save proposal.

9.2.3. Contributions from Reserves

The Chief Finance Officer's general advice on reserves is set out in the General Fund revenue report elsewhere on this agenda, and confirms that much of the balance of reserves currently available is required to fund projects to reduce Council expenditure or to manage risks arising from the need to manage Government spending cuts.

- 9.3. There are two additional unavoidable pressures on LPP capital spending in 2011/12 as follows;

Table 3

Scheme Description	2011/12 £'000	2012/13 £'000	2013/14 £'000
Priority Service Remediation Capacity/Backup Expansion	0.220	0.000	0.000
Mandatory Disabled Facilities Grants	0.270	0.000	0.000

Total	0.490	0.000	0.000
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9.4. Since the January report to Cabinet, two further issues have arisen which affect the amount of funding available to the Council:

- The Capital Ambition programme, which was an improvement and efficiency initiative run by London Councils, has come to an end and £0.100m in capital funding has been allocated to the Council from funding unallocated by the programme.
- It has emerged that £0.768m in capital receipts which it was thought would be available to the authority from the sale of the Bishop Challoner school site will not after all be available.

After allowing for these two amounts, £0.561m in addition to £2.340m right to buy receipts, means a total of £2.901m will be available to fund additional capital schemes later in the year. This may be supplemented in due course by other capital receipts, and the Cabinet agreed at its last meeting to dispose of a number of properties which should generate additional income. It is important, however, that this funding is not anticipated.

9.5. **Appendix 2** sets out the revised Local Priorities Capital Programme which includes schemes approved and funded in previous years and the unavoidable schemes listed at 9.3. The Local Priorities Programme can be summarised as follows;

Table 4

DIRECTORATE	Revised Budget 2010/11	Budget 2011/12	Budget 2012/13	Budget 2013/14	Total Budget 2010/11-2013/14
LPP PROGRAMME	£'000	£'000	£'000	£'000	£'000
Adults, Health and Wellbeing	0.432	0.000	0.000	0.000	0.432
Children , Schools and Families	2.631	1.332	0.000	0.000	3.963
Building Schools for the Future	1.100	1.100	1.100	0.000	3.300
Communities, Localities and Culture	1.562	3.138	1.745	0.000	6.445
Chief Executive & Resources	5.416	0.220	0.000	0.000	5.636
Development & Renewal (Excl HRA)	9.787	0.920	0.000	0.000	10.707
HRA	7.506	3.500	3.000	3.000	17.006
Total LPP Budget	28.435	10.210	5.845	3.000	47.490

9.6. The Mayor has a number of priorities for capital spending, including further investment in Bancroft Library, Poplar Baths and Haileybury Centre, which the Cabinet will wish to ensure are among the first items to be considered for funding as resources become available.

10 TOTAL CAPITAL PROGRAMME

10.1 The total proposed capital programme (Mainstream & Local Priorities), which includes proposed additions to the Programme totals £485.348m as set out in the following table

Table 5

DIRECTORATE	Revised Budget 2010/11	Budget 2011/12	Budget 2012/13	Budget 2013/14	Total Budget 2010/11-2013/14
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Chief Executive & Resources	5.416	0.220	0.000	0.000	5.636
Development & Renewal (Excl HRA)	9.787	0.920	0.000	0.000	10.707
HRA	7.506	3.500	3.000	3.000	17.006
Total LPP Budget	28.435	10.210	5.845	3.000	47.490
Total Capital Programme	193.912	149.756	87.464	54.215	485.348

10.2 The following changes have been made to the proposed programme from the report that was submitted to Cabinet in January:

- TfL have confirmed reduced funding for the Local Implementation Plan of £11.2m
- Additional grant funding of £4.3m have been confirmed for various D&R projects
- Reduction in grant funding of approximately £42m previously anticipated for delivering decent homes standard is now reflected in the proposed programme.
- Other grants increases net of other HRA capital grants that are now no longer expected – approximately £5.1m.

All changes relate to the mainstream element of the proposed programme.

11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

11.1 The comments of the Corporate Director Resources have been incorporated into the report.

12. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

12.1 The proposed capital program set out in the report is expected to be presented to Full Council for approval as part of the overall budget setting process. The capital program does not form part of the determination of the budget requirement for the

purposes of section 32 of the Local Government Finance Act 1992, but is nevertheless a closely related matter and it is appropriate for it to be put forward by Cabinet as proposed.

- 12.2 There is no legal impediment to approval of the program, as the proposed projects are 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. Any capital finance connected with the capital program will need to be carried out in accordance with the requirements of Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.
- 12.3 In compliance with section 151 of the Local Government Act 1972, the Council has in place Financial Regulations and Financial Procedures. The Financial Regulations set a threshold of £250,000, above which Cabinet approval is required for a capital estimate. The Financial Procedures supplement this requirement. In accordance with Financial Procedure FP 3.3, senior managers are required to proceed with projects only when there is a capital estimate adopted and adequate capital resources have been identified. Where the estimate is over £250,000 the approval of the adoption of that capital estimate must be sought from the Cabinet.
- 12.4 Officers will have to ensure that the Council complies with its duty as a best value authority within the meaning of the Local Government Act 1999 to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 12.5 Procurement for the various projects will need to be carried out in accordance with the Council's Procurement Procedures and, where relevant, the Public Contract Regulations 2006.

13. ONE TOWER HAMLETS CONSIDERATIONS

- 13.1 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 2010/11 which detail the themes and priorities of ONE TOWER HAMLETS.
- 13.2 One Tower Hamlets comments in relation to the General Fund report elsewhere on this agenda also apply to this report.

14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

15. RISK MANAGEMENT IMPLICATIONS

- 15.1 The report recognises that there is a degree of risk inherent in the programming process.
- 15.2 The greatest risk, in view of the constraints now existing, relates to the availability of grant funding from central government. To mitigate this, it is essential that spending commitments are not made until funding has been identified and is available to spend.
- 15.3 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.

- 15.4 Officers will continue to monitor the capital programme closely, both in terms of expenditure and income, to ensure that these risks are minimised.

16 **CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 16.1 There are no crime and disorder reduction implications arising from this report.

17. **EFFICIENCY STATEMENT**

- 17.1 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.
- 17.2 The Council may use of prudential borrowing for invest to save schemes. 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.
- 17.3 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.

18. **APPENDICES**

Appendix 1 – Proposed Mainstream Programme

Appendix 2 – Proposed Local Priorities Programme

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Name and telephone number of holder

And address where open to inspection

None

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