

METROPOLITAN BOROUGH OF KNOWSLEY

To: The Mayor and Members of the Council

Meeting: 2 March 2011

Wards Affected: All

Portfolio Area: All

Non-Key Decision

REPORT OF THE CHIEF EXECUTIVE, THE BOROUGH TREASURER AND EXECUTIVE DIRECTORS

CAPITAL PROGRAMME – 2010/11 MONITORING UPDATE AND FUTURE YEARS

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to advise the Council of the level of capital resources available for 2011/12 and future years and to propose a Capital Programme.
- 1.2 The Council's Constitution requires the Cabinet to recommend its annual budget proposals to a full meeting of the Council. This report sets out a number of specific recommendations relating to the overall Capital Programme which the Cabinet considered on 16 February 2011.

2. RECOMMENDATIONS

Members of the Council are recommended to:-

- (a) Note the rephasings and adjustments exceeding £1m requested by Portfolio Holders and totalling £8.725m as set out in paragraphs 4.1.3 and 4.1.4 of this report;
- (b) Endorse the revised phasing of the Capital Programme for 2010/11 of £79.681m as discussed in paragraph 4.1.5 of this report;
- (c) Note the capital expenditure to date of £37.602m and the expected impact on the delivery of the approved 2010/11 Capital Programme as set out in paragraph 4.1.6 of this report;

- (d) Endorse the revised three-year Capital Programme of £119.656m, of which £79.681m is programmed for 2010/11 as noted in section 5.2 and detailed in Appendix A of this report.
- (e) Note the position on capital receipts in 2010/11 as discussed at section 5.4 of this report;
- (f) Note the Cabinet's decisions to add new schemes over £1m and totalling £2.676m to the Council's 2011/12 Capital Programme as set out in paragraph 6.1.3 of this report;
- (g) Agree the proposed approach to the capitalisation of early retirement and voluntary severance costs as set out in section 7.1 of this report; and,
- (h) Agree the revised approach to financing the Stockbridge Village Regeneration scheme as set out in section 7.2 of this report.

3. BACKGROUND

- 3.1 There are a range of capital resources available to fund the Council's Capital Programme. This report identifies those resources and provides details of proposed capital schemes. In addition, proposals for additional schemes arising from the Portfolio capital monitoring process are identified for consideration for funding from available capital resources.
- 3.2 The proposed Capital Programme has been prepared in line with the Council's Capital Strategy, which is designed to ensure that the Council's strategic priorities can be delivered. It outlines the process for the approval of capital projects and demonstrates a robust and transparent approach. It includes the use of a capital investment outline which sets out the details, impact and alignment to priorities of any given capital scheme.
- 3.3 As well as being an integral part of the planning process aimed to deliver high quality services and value for money, the Capital Strategy is also intrinsically linked with the Council's Property and Asset Management Plans, and is designed to support the priorities emerging from this wider view of facilities and assets across the Borough.
- 3.4 The Council's Capital Strategy can be accessed on the Council's intranet site and copies are available on request from the Borough Treasurer.

4. 2010/11 CAPITAL PROGRAMME

4.1 *Rephasings and Adjustments to the 2010/11 Capital Programme*

4.1.1 The approved Capital Programme reflects adjustments arising from the 2010/11 monitoring position as last reported to the Cabinet on 20 October 2010. Any adjustments to the Programme since that time are explained within the body of this report and also summarised in Appendix A.

4.1.2 Expenditure against approved schemes was last reported to Portfolio Holders as at 30 November 2010. Those reports to individual Portfolio Holders confirmed that capital expenditure planned for 2010/11 in a number of Portfolio areas would not be fully achieved by 31 March 2011. In view of this, rephasings and adjustments of £9.305m in total were proposed to the 2010/11 element of the Programme, bringing the revised Programme for the year to £79.681m. Of these, £0.580m have already been approved by Portfolio Holders and three larger adjustments (totalling £8.725m) which individually exceed £1m were agreed by the Cabinet on 16 February 2011. These larger schemes are outlined in paragraphs 4.1.3 and 4.1.4 below. The Council is asked to endorse the revised Capital Programme for 2010/11 of £79.681m.

4.1.3 *Children and Family Services Portfolio –Rephasing of £1.118m*

Scheme	2010/11 Current Approval £m	To be Re-phased to 2011/12 £m	2010/11 Revised Approval £m	Comments
Future Schooling in Knowsley – Primary Capital Programme	28.641	1.118	27.523	The programme phasing for Park Brow Centre has been revised in line with the updated building programme.
Total	28.641	1.118	27.523	

4.1.4 *Stockbridge Village Redevelopment –Rephasing of £7.607m*

Scheme	2010/11 Current Approval £m	To be Re-phased to 2011/12 £m	2010/11 Revised Approval £m	Comments
Building Contract	6.668	3.210	3.458	Elements of the construction work have been rephased due to the recent adverse weather.
Stockbridge Primary Learning Centre	11.080	4.397	6.683	
Total	17.748	7.607	10.141	

- 4.1.5 Expenditure at 30 November 2010 was £37.602m, which represented 47% of the revised Programme. While the balance of the Programme is still forecast to be spent by the end of the year, it is important that Portfolio Holders monitor progress to minimise delays in planned expenditure and to reduce the need for further rephasing of the 2010/11 programme into future years.

5. 2011/12 CAPITAL RESOURCES

- 5.1 The range of capital resources available to the Council in 2011/12 are set out below.

5.2 Existing Capital Programme Resources

This funding reflects the approved rephasing of resources into 2011/12. All of these resources are already allocated to fund existing schemes. Details across Portfolios are shown in Appendix A. The final Capital Programme is phased over three years to provide a clear plan for capital scheme investment.

5.3 Capital Block Allocations 2011/12

- 5.3.1 The Government now provides capital funding to local authorities only through capital grant allocations. Supported borrowing allocations have ceased from 2011/12.

- 5.3.2 Capital grants are provided for specific service purposes and tend to be tightly ringfenced. The capital grant allocations announced to date for 2011/12 total £5.157m for Knowsley and are shown in the table below:-

Government Department	2010/11 Amount £m	2011/12 Amount £m
Department for Education	8.858	2.989
Department for Environment, Food and Rural Affairs	0.096	tbc
Department of Health	0.275	0.521
Department for Transport	2.485	1.647
Department for Communities and Local Government	2.045	tbc
Total	13.759	5.157

- 5.3.3 Clearly, there has been a significant reduction in grant allocations (although final information is still awaited in some instances). The Government has also made no supported borrowing allocation for 2011/12 (i.e. approval to borrow a specified amount of money for which the Government would fund the repayment costs). In 2010/11, the Council received a supported borrowing allocation of £1.896m.

- 5.3.4 During 2011/12, the Council may receive additional specific grant allocations, which have to be used for specific service purposes. These allocations will be reported to Members as part of the capital monitoring and new start approval procedures.

5.4 *Capital Receipts*

- 5.4.1 As part of the Council's Land and Property Plan, it is envisaged that a number of Council-owned assets will be earmarked for disposal. Potential receipts from these sales could be affected by low property prices and reduced market demand from investors such as housing developers. The Asset Management service will therefore consider all of these factors when making proposals for the optimum time to market any assets for sale.

- 5.4.2 The level of capital receipts available in 2010/11 is now forecast at £1.843m, and the estimate for 2011/12 is £1.500m. As part of the 2009/10 budget setting process, £4m of future capital receipts were earmarked for allocation to the Stockbridge Village Regeneration Programme. This effectively allocated all of the forecast available capital receipts in 2009/10 and 2010/11, and a proportion of those expected in 2011/12. To date, £1m has been raised and allocated to the scheme leaving a balance of £3m still to be generated.

5.5 *Local Area Agreement Reward Grant*

- 5.5.1 The Local Area Agreement is an agreement between the Government Office for the North West and the Knowsley Partnership for a three-year period commencing in June 2008. It underpins Knowsley's Sustainable Community Strategy and focuses on 35 National Indicators and further education and local targets.

- 5.5.2 The focus of this Agreement is the performance of Partnership's activities rather than purely Council activities. Audit review of the final outturns has now been completed and the Council has completely achieved eight of the ten targets and 50% of a further target.

- 5.5.3 A claim for £2.565m of Local Area Agreement Reward Grant has been therefore submitted to the Government, and the amount is due to be paid by 31 March 2011 in a 50% capital, 50% revenue split. This means that the Council now expects to receive £1.282m revenue grant and £1.282m capital grant.

5.6 *Local Public Service Agreement Reward Grant*

The Council holds an unallocated balance from its Local Public Sector Agreement (2004-2006) Reward Grant of £0.961m in its capital reserves and this is available for allocation.

5.7 *Other Resources (including Revenue and Reserves)*

The Council can use other resources to contribute towards capital schemes, including reserves set aside for specific purposes, contributions from partners, or contributions from revenue budgets.

5.8 *Prudential Borrowing*

5.8.1 The Prudential Code for Capital Finance in Local Authorities provides freedoms to undertake additional borrowing over and above the resources announced by the Government. The control of capital spending is now centred on the affordability of the revenue consequences of that capital spending, i.e. the financing of debt and depreciation of the asset. Any scope to increase the amount the Council borrows will need to be assessed against the financial constraints currently forecast in the Council's Medium-Term Financial Strategy reported elsewhere on this agenda.

5.8.2 In line with the Council's Capital Strategy, any schemes to be considered for prudential borrowing will be subject to a full appraisal to ensure that specific and adequate funding has been identified for the full repayment period. This can be either through an "invest to save" approach, where the investment will release sufficient revenue funding, or where alternative revenue sources have been identified to repay the borrowing over the life of the asset. Affordability and borrowing requirements should also have regard to the Council's Treasury Management Strategy (discussed in a report elsewhere on this agenda).

6. 2011/12 CAPITAL PROGRAMME

6.1 *New Start Schemes – 2011/12*

6.1.1 New start schemes in 2011/12 totalling £0.313m have been approved by the Cabinet Member with Portfolio for Children and Family Services and will be funded from the capital grant block allocation identified in section 4 above.

6.1.2 On 16 February 2011, the Cabinet also approved two further schemes of £2.676m in total, where total gross expenditure individually exceeds £1m.

6.1.3 The new start schemes in question are shown below. Capital Investment Outlines for each scheme can be accessed on the Council's Intranet and are available in hard copy on request from the Borough Treasurer.

Cabinet approved new Capital Schemes over £1m:-

Scheme	New 2011/12 Allocation £m	Description
Schools and Children's Centre Minor improvement Work	1.335	For minor improvement of buildings and equipment at schools and children's centres.
New Pupil Places	1.341	These funds are to be used to fund new build schemes which may be needed to address additional pupil numbers in schools and decommissioning of school spaces due to new Primary Learning Centre schemes in 2011/12.
Total	2.676	

- 6.1.4 These schemes will also be funded from the 2011/12 capital grant block allocations identified in section 4 above, and result in the full allocation of the Department for Education resources, leaving a balance of £2.168m of remaining block allocations available for allocation to specific capital projects. Proposals for the allocation of these resources will be brought to the Cabinet in the coming months.
- 6.1.5 The new start schemes of £2.989m in total increase the Council's total Capital Programme to £119.656m, with expenditure phased as shown in Appendix A.
- 6.1.6 The proposed expenditure and funding phased for 2011/12 totals £39.610m (as summarised in Appendix A). Detailed programmes have been presented to individual Portfolio Holders, and Capital Investment Outlines for all of the proposed schemes can be accessed on the Council's Intranet or are available in hard copy on request from the Borough Treasurer.
- 6.1.7 There remain a number of other potential capital pressures facing the Council over the coming years, particularly in relation to the regeneration of the Borough's town centres and neighbourhoods. Further details regarding these capital pressures will be brought to the attention of the Cabinet as and when proposals emerge.

7. IMPACT ON CAPITAL PROGRAMME OF 2011/12 ANNUAL BUDGET STRATEGY

7.1 *Capitalisation of Early Retirement and Voluntary Severance Costs*

7.1.1 The Government has given the Council permission to use capital resources to fund part of the one-off costs of the Council's enhanced early retirement and voluntary severance offer. From the overall cost (currently estimated at £9.7m), £2.396m can be funded from capital, of which at least £1.509m must be funded from capital receipts. The remaining £0.837m of the costs which can be capitalised would be funded through prudential borrowing, the costs of which are taken into account in the 2011/12 Revenue Budget report. The proposed approach to funding the remaining revenue costs (currently estimated at £7.338m) is also discussed in the accompanying report on the 2011/12 Revenue Budget.

7.1.2 Subject to finalisation of the actual costs to be capitalised, the Council is asked to agree this approach and that the costs should be added to the Council's 2010/11 Capital Programme when it is reported at the outturn stage.

7.2 *Stockbridge Village Regeneration Programme*

7.2.1 Paragraph 5.4.2 above notes that all capital receipts forecast for 2010/11 and 2011/12 were committed in 2009/10 for allocation to the Stockbridge Village Regeneration Programme. However, in light of the new early retirement and voluntary severance requirements, it is proposed that £1.509m of the available capital receipts in 2010/11 should now be set aside to fund these costs.

7.2.2 It is therefore proposed that the Stockbridge Village Regeneration Programme should instead be funded by the following allocations of resources identified in section 4 above:-

- The capital amount of Local Area Agreement Reward Grant now due to the Council (£1.282m);
- £0.961m relating to unallocated capital Public Service Agreement Reward Grant from 2004-2006; and,
- The balance of £0.757m would be funded as a first call on capital receipts.

7.2.3 The Council is asked to agree this revised approach to funding the Stockbridge Village Regeneration Programme which, if approved, will be reflected as a further adjustment to the Council's 2010/11 Capital Programme when it is reported at the outturn stage.

- 7.2.4 The recommended approach would leave a balance of the forecast capital receipts due in 2011/12 of £1.077m available for allocation. The achievement of this estimate is subject to the market conditions for asset sales. Proposals for the allocation of these resources will be brought to the Cabinet in the coming months when the estimates are more certain.

8. RESOURCE IMPLICATIONS

8.1 Financial

- 8.1.1 The detailed financial implications are set out in the body and Appendix A of this report. Due to relatively low spending against the expected profile, a number of actions have been taken by Portfolio Holders to rephase 2010/11 expenditure into future years.
- 8.1.2 If endorsed, as a result of the rephasing of £8.725m relating to schemes over £1m in 2010/11 and new start schemes of £2.676m in 2011/12, the Council would be setting a revised Capital Programme of £119.656m as summarised below. Full details have been reported to each Portfolio Holder and are available on request:-

Portfolio	2010/11 £m	2011/12 £m	2012/13 £m	TOTAL £m
Children and Family Services	34.369	10.852	0.000	45.221
Finance and Information Technology	0.576	0.000	0.000	0.576
Health and Social Care	1.158	0.279	0.000	1.437
Leader's Portfolio	0.040	0.035	0.035	0.110
Leisure, Community and Culture	13.969	12.843	0.255	27.067
Neighbourhood Delivery	1.071	0.246	0.000	1.317
Regeneration, Economy and Skills	17.156	2.357	0.000	19.513
Community Safety and Social Inclusion	0.050	0.000	0.000	0.050
Stockbridge Village Regeneration Programme	11.292	12.998	0.075	24.365
TOTAL	79.681	39.610	0.365	119.656

- 8.1.3 It is important that Portfolio Holders monitor progress against their individual Capital Programmes to minimise delays in planned expenditure and to reduce the need for further rephasing of the 2010/11 programme into future years. Opportunities to re-prioritise capital funding on a corporate basis should also be actively considered during the monitoring process.

- 8.1.4 After taking into account the new start schemes detailed in this report, there are remaining Government grant block allocations in 2011/12 totalling £2.168m available for allocation to specific capital projects. Proposals for the allocation of these resources will be brought to the Cabinet in the coming months.
- 8.1.5 The report sets out proposals for using capital resources to finance the one-off costs of the Council's enhanced early retirement and voluntary severance offer of £2.396m, of which at least £1.509m must be funded from capital receipts.
- 8.1.6 In light of the new early retirement and voluntary severance requirements, new financing arrangements for the Stockbridge Village Regeneration Programme are also proposed. As a result of these changes, there is a balance of the forecast capital receipts due in 2011/12 of £1.077m available for allocation. Proposals for the allocation of these resources will be brought to the Cabinet in the coming months.

8.2 Human Resources

The human resource implications arising from individual schemes will be considered as part of the ongoing budget monitoring process for each Portfolio.

8.3 Information Technology

The information technology implications arising from individual schemes will be considered as part of the ongoing budget monitoring process for each Portfolio.

8.4 Physical Assets

The majority of capital programme schemes have direct implications for the Council's physical assets, and these will be considered as part of the ongoing budget monitoring process for each Portfolio.

9. RISK ASSESSMENT

- 9.1 It is important to provide forecasts of capital expenditure which are as accurate as possible. Failure to follow such an approach could mean that funding is not invested effectively, as it might be possible to secure a better return on Council resources which are not immediately required to pay for capital projects.
- 9.2 In addition, forecasts which indicate that a scheme will be fully delivered in a given period may lead stakeholders to raise their expectations to a level which cannot actually be met by the Council. These stakeholders should therefore be given a clear understanding of the time to be taken

in delivering each project, and this can also be achieved by effective forecasting.

10. IMPACT ON POPULATION GROUPS

This report has no direct impact on any particular population group. However, the impact of management action to address budget issues needs to be assessed in conjunction with the impact on delivery of services to the public.

11. COMMUNICATIONS ISSUES

The impact of any Cabinet decisions on the treatment of resources will be reported to Portfolio Holders as part of the ongoing monthly budget monitoring updates.

12. CONCLUSIONS

- 12.1 Portfolio Holders have identified rephasings of £12.032m where expenditure is not likely to be fully committed within the current year.
- 12.2 Increases in the Capital Programme totalling £2.066m, additional resource allocations totalling £0.414m, and new start schemes totalling £0.248m are also set out in this report.
- 12.3 Adjusting for these items results in a revised Capital Programme of £119.656m, of which £79.681m is planned to be spent in total in the current year, with a further £39.610m planned for in 2011/12 and £0.365m in 2012/13.
- 12.4 The report sets out proposals for using £2.396m of capital resources to contribute to the one-off costs of the Council's enhanced early retirement and voluntary severance offer, of which at least £1.509m must be funded from capital receipts.
- 12.5 In light of the new early retirement and voluntary severance requirements, new financing arrangements for the Stockbridge Village Regeneration Programme are also proposed.

- 12.6 Proposals for the future allocation of the remaining 2011/12 capital grant allocations of £2.168m and the £1.077m of forecast capital receipts will be brought to Members in due course.

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EXECUTIVE DIRECTORS

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Appendices:-

Appendix A Analysis of Capital Programme

Background Papers:-

Portfolio Capital Monitoring Reports

ANALYSIS OF CAPITAL PROGRAMME															APPENDIX A			
Capital Programme	Approved 3 Year Programme	Phasing 2010/11		Actual spend	Rephasings / Adjustments			Proposed allocation of new resources for existing schemes			Proposed New Schemes			Revised Programme				
	@ 20 Oct 2010			@ 30 Nov 2010	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13	2010/11	2011/12	2012/13	Total	
		Apr - Sep	Oct - Mar		Oct - Mar													
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Children and Family Services	42.176	8.300	27.327	15.504	(1.331)	1.293		0.039	2.989		0.034			34.369	10.852		45.221	
Finance and Information Technology	0.564	0.560	0.004	0.564	0.012									0.576			0.576	
Health and Social Care	1.437	0.220	1.217	0.809	(0.279)	0.279								1.158	0.279		1.437	
Leader's Portfolio	0.110	0.050	0.060	0.026	(0.070)	0.035	0.035							0.040	0.035	0.035	0.110	
Leisure, Community and Culture	27.177	4.523	9.748	7.013	(0.486)	0.180					0.184	0.012		13.969	12.843	0.255	27.067	
Neighbourhood Delivery	0.284	0.054	0.230	1.067	0.787	0.246								1.071	0.246		1.317	
Regeneration, Economy and Skills	17.794	5.652	12.142	8.916	(1.042)	2.357		0.375			0.030			17.156	2.357		19.513	
Community Safety and Social Inclusion				0.047	0.050									0.050			0.050	
Stockbridge Village Regeneration Programme	24.365	2.400	16.499	3.656	(7.607)	7.607								11.292	12.998	0.075	24.365	
TOTAL	113.907	21.760	67.226	37.602	(9.966)	11.997	0.035	0.414	2.989	0.000	0.248	0.012	0.000	79.681	39.610	0.365	119.656	

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