

**Executive**

**16<sup>th</sup> January 2007**

Report of the Director of Resources

## **Capital Programme Budget 2007/08 to 2010/11**

### **Purpose**

1. The purpose of this report is to
  - a) set out the position for the proposed capital budget for the period 2007/08 to 2010/11;
  - b) highlight the capital bids from departments that have been through the revised Capital Resource Allocation Model (CRAM) process;
  - c) estimate the capital resources position for 2007/08 with predictions for a further three years;
  - d) provide options to allow the Council to achieve a balanced four year capital programme.

### **Summary**

2. The current approved capital programme runs from 2006/07 until 2008/09, although there has been slippage pushing some programme expenditure in to 2009/10. At the end of this current programme it is envisaged that there will be a capital receipts surplus of £1.1m. It is proposed that the 2007/08 budget process will set a capital programme that will run over 4 years, reflecting best practice and enabling it to be brought in to line with the Council's political cycle.
3. The proposed 4 year capital programme represents a 2 year extension on the current programme and presents challenges to the Council in respect of the capital receipts required to fund this extension.
4. The Council spends approximately £2m a year on rolling programme schemes, funded directly from capital resources, if the rolling programme schemes are to continue in line with current levels, this extension to the programme will result in an underlying funding shortfall of £1.6m.
5. Proposals have been put forward to enable a balanced budget and if all of the recommendations in this report are approved, the Council will have a capital programme for 2007/08 to 2010/11 of £139.123m. The main areas of spend are:
  - a) Children's Services £26.3m, including
    - £12.5m investment in the new York High School, allowing a substantial extension and refurbishment of the existing building, increasing its

capacity to 1050 pupils aged 11-16 with state of the art classrooms, laboratories, ICT facilities, learning rooms and social spaces.

- £3.5m contribution to a £17.5m new build for Manor CE Secondary school, allowing an additional 261 pupils from the West side of the city to be taught in an up to date 900 pupil building with enhanced, modern facilities
- £2.8m of devolved formula capital to be handed directly to all York schools, with a standard primary school receiving £35k, Secondary school receiving £115k and Special Schools £45k. This will allow funding to be passed directly to Head Teachers and Governors to target directly at priority areas within the buildings.
- £3.6m on school modernisation projects at 24 schools
- £2.1m on developing a new skills centre offering vocational training for disadvantaged and vulnerable young people
- £2m on developing 8 Integrated Childrens Centres with Sure Start across the city, building on the already successful development at Westfield and the £7.5m Hob Moor and £2.5m Clifton Green integrated children's centres which opened this year.
- £0.6m on the completion of the Huntington school extension to provide specialist Performing Arts facilities, 9 new classrooms, youth club/community spaces as well as various offices and meeting rooms.
- £271,000 making improvements to accessibility in 11 schools

b) City Strategy £31m, including

- £10.8m on resurfacing and reconstructing over 30km of carriageway and 40km of footway across the city and undertaking maintenance to bridges,
- £2.75m on providing a new roundabout on the outer ring road at Moor Lane,
- £12.7m on other Integrated Transport schemes including bus priorities, new cycle tracks and safety improvements,
- £3.5m on a new Visitor Information Centre for the region in the town centre, to provide a boost to business and tourism in the city, to be entirely self funded from Government Grant and Prudential Borrowing,
- £430k on City Walls Maintenance.

c) Housing £27.1m, including

- £0.5m of the modernisation of Council Houses, including the installation of 154 communal entry security doors, 189 burglar alarms and the demolition of 183 sheds and garages,
- £8.5m on refurbishment projects including the reroofing of 596 homes, replacement heating systems for 1,947 homes, insulation at 248 homes, and projects to improve communal areas,
- £1.4m to enable older and disabled people to live independently,
- £5.7m of housing grants to improve homes across the city,

- £19.3m on Major Replaces Allowance schemes which makes improvements at 2,350 Council houses across the city, of which 1,578 are through the tenants choice scheme.
- d) Leisure and Culture £12m
- Subject to final approval £5.2m on a new 25 metre public pool with training pool integrated with the recently refurbished sports centre on the York High School site,
  - £2m contribution to the proposed state of the art competition standard pool on the University of York Heslington East campus,
  - £1.8m match funding towards the £9m scheme to develop the Yorkshire Museum, gardens and Art Gallery turning that part of the City in to the new cultural quarter and enabling the York Museums Trust to strengthen its business model further to maintain its position as a key supplier of cultural services within the region,
  - £0.8m redevelopment of the Acomb Library, transforming it in to a modern Community Learning Centre.
- e) Resources £34.7m including,
- £33.9m on the Administrative Accommodation project to make long term savings by rationalising the Council's 17 main office buildings to four, centred around the main build on the Hungate redevelopment site. The project will reprovod a new homeless hostel at the cost of £1.4m and fund the refurbishment of the three buildings that will be retained, including the Guildhall.

### **Background to the Current Approved Capital Programme**

6. The Council is legally required to set a 3 year capital budget, however, it is proposed that the 2007/08 budget process considers a 4 year capital programme, running from 1<sup>st</sup> April 2007 until 31<sup>st</sup> March 2011. This will align the programme with the 4 year political cycle which runs from May 2007 until May 2011.
7. The 2007/08 capital budget process adopts the revised Capital Resource Allocation Model (CRAM) to aid the Executive in setting the capital programme<sup>1</sup>.
8. The 2006/07 to 2008/09 capital programme was approved by Council on 1<sup>st</sup> March 2006. The process built in a capital receipts surplus of £1.3m (4% of the capital receipts requirement) to reflect the risks associated with realising capital receipts. Following the in year monitoring reports, the revised capital receipts surplus is projected at £1.1m. Table 1 summarises the current funding position on the capital programme, as updated by Monitor 2. Annex 1 shows the full current approved capital programme.

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<sup>1</sup> The revised CRAM process was formally adopted by the Executive on the 12th September 2006

	Approved programme				Total £m
	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	
Gross Capital Programme	52.2	41.4	43.2	16.9	153.7
Total External Funding	36.7	31.5	25.4	13.0	106.6
Funding Financed from Capital Receipts	15.5	9.9	17.8	4.0	47.1
Expected Capital Receipts	28.2	11.4	14.4	2.5	56.5
Receipts b/fwd (surplus)/deficit	8.2	-4.5	-6.0	-2.6	
Receipts c/fwd (surplus)/deficit	-4.5	-6.0	-2.6	-1.1	

**Table 1 – Current Capital Programme Funding Position**

9. In recent years it has become increasingly difficult to secure capital receipts without the rationalisation and integration of assets, because the majority of large, easy sales have now been made. The Council's capital strategy reflects this position.

### Base Position

10. The current capital programme contains a number of rolling programme schemes that represent recurring capital investment in the Council's asset base. In order to arrive at a base position for capital funding requirements it is assumed that these schemes are rolled over until 2010/11 at current projected levels. The extension of these rolling programmes will add a further £2.7m (£1.5m in 2009/10 and £1.2m in 2010/11) to the capital programme, this is summarised in Table 2. This would result in the current £1.1m receipts surplus turning in to a £1.6m deficit before any CRAM bids are considered as part of the 2007/08 process.

	Approved		Projected		Total £000
	2007/08	2008/09	2009/10	2010/11	
	£000	£000	£000	£000	
Highway Resurfacing & Reconstruction <sup>2</sup>	1,250	1,000	750	500	3,500
City Walls – Repairs & Renewals	67	67	67	67	268
City Walls – Health & Safety	20	20	20	20	80
City Walls – Robin Hood Tower	85	0	0	0	85
Ward Committees - Improvement Schemes	202	202	202	202	808
Preserving Property Assets	250	250	250	250	1,000
Joint Equipment Store	105	105	105	105	420
Disabled Support Grant	100	100	100	100	400
<b>Total</b>	<b>2,079</b>	<b>1,744</b>	<b>1,494</b>	<b>1,244</b>	<b>6,561</b>

**Table 2 Rolling Programme Schemes**

### Consultation

11. The CRAM process invited bids from the departments asking them to put forward their main capital priorities as identified by their asset management plans. A total of 55 bids were received. Of these bids 36 are fully funded from external sources (Annex 2), 11 are rolling programme bids (Annex 3), with the remaining 8 bids

<sup>2</sup> Assumes a £250k p.a. revenue growth from 2007/08 as per the Medium Term Financial Forecast (MTFF)

seeking discretionary resources (Annex 4). If all bids were accepted an additional £9.7m of capital funding would be required. This is summarised in Table 3.

Description	Annex	Gross Funding £m	External Funding £m	CYC Funding £m
Schemes already started	1	60.2	42.0	18.2
Fully funded schemes from external resources	2	53.4	53.4	0.0
Rolling Programmes	3	10.6	0.0	10.6
Bids for Discretionary Funding	4	32.5	19.2	13.4
<b>Total Programme</b>		<b>156.7</b>	<b>114.6</b>	<b>42.1</b>
Existing Funding in Budget		82.6	51.3	31.3
Capital Receipts Surplus				1.1
<b>Additional Funding Required</b>		<b>74.1</b>	<b>63.3</b>	<b>9.7</b>

**Table 3 Summary of Capital Bids and Funding Gap**

### Summary of Bids

12. The base position of the capital programme was highlighted in paragraph 10 where the existing capital programme bids, which end in 2008/09 in the current programme, have been continued until 2010/11. As a result of this, the base funding position in the capital programme is £1.6m in deficit. If approved the additional bids, both on the rolling programme schemes and other discretionary schemes, would increase this deficit by a further £8.1m, to £9.7m. Annex 5 illustrates the changes to the rolling programme schemes from the base position.

### Capital Receipts Position

13. CAPMOG and officers from Property Services have reviewed the assets that are surplus to requirements and these are attached at Confidential Annex 6. The current capital receipts target is the largest faced by the Council, both in terms of number of sales and value of sales. The existing receipts schedule has identified 48 asset sales which are anticipated to raise over £55.8m over the next 4 years. From these sales only 13 are for more than £1m which raise in total £44.6m (80% of the receipts target). To maintain a viable capital programme it is essential that appropriate resources are deployed to maximise the yield from these disposals.

### Additional Council Funding for 2007/08 to 2010/11

14. A recent review of surplus assets has been conducted by Property Services. Their professional advice is that at this stage they are unable to identify and deliver any additional large receipts with any certainty over the next 4 years. A few minor additional sales have been identified, but are only estimated to contribute an additional £200k. Work will continue through the asset management planning process to identify surplus assets that can be delivered over this period, but given the potential difficulties identified at paragraph 13 the Head of Property Services is currently unable to provide assurance that any additional sales can definitely be delivered within the four year timescale of the proposed capital programme. It is expected that a number of minor miscellaneous sales of around £50k per annum will be realised throughout the year, if these were to continue an extra £200k could

be achieved in addition to the £200k above. The complete capital receipts register, including the proposed sales is highlighted in Confidential Annex 5.

15. In addition to capital receipts, the Department of Communities and Local Government (DCLG) continue to operate the single capital pot (SCP), whereby a small level of general capital funding is granted to the Council by Government and can be prioritised accordingly. The size of the SCP has been greatly reduced in recent years but there continues to be around £100k per annum. allocated for general use within the Council. The level of the SCP for 2008/09 onwards will be determined by the Governments Comprehensive Spending Review due to be published in June 2007. It is anticipated that the level of SCP funding will remain at current levels with the government continuing to commit to capital investment. Therefore an additional £400k will also be available to the programme over the next 4 years.
16. The Revenue Budget report and Medium Term Financial Forecast assumes an annual revenue investment increase in the Ward Committee budgets of £70k per annum from 2008/09. This revenue funding will replace the capital funding allocated to ward committees thereby improving the accountability and flexibility of choice for ward committees, which to date have been restricted in what they can do by capital accounting regulations. By phasing out the ward committee capital budgets the capital programme will benefit by £420k over the proposed programme. The overall level of resources available to ward committees will not change.
17. The additional funding highlighted above totals £1.2m, reducing the £1.6m underlying deficit to £400k.

### **Capital Budget Proposals**

18. The Council has had considerable successful over the past few years in attracting significant external investment into the city. Fully funded schemes put forward as part of this years process amount to over £53m and it is intended that all these schemes are included within the 2007/08 to 2010/11 capital programme.
19. The rolling programme schemes are important for the Council to ensure that continued investment is made in the infrastructure of the city and approval is sought to maintain investment in these schemes at current assumed levels over the 4 years of the new programme, as illustrated in Table 2. This investment will cost the Council an additional £2.7m over the next 4 years.
20. Discretionary schemes are highlighted in Annex 4. These include resubmitted schemes, already in the current approved programme, such as the York Pools Programme and York Museums Trust Lottery Bid. These two schemes are a priority for the Council and approval is sought for them to continue in their current form with the funding that has already been allocated to them.
21. It is not intended to award any funding for the other discretionary bids highlighted in Annex 4 due to the funding restrictions that the Council is facing. Should any

additional resources become available in the future these bids could be reconsidered and included within future programmes.

### Proposals to close the funding gap

#### Proposal 1 – Reduce Property Investment Budget by £50k per annum

22. The rolling programme scheme to preserve property assets is currently costing £250k per annum. It is proposed that there is a phased £50k a year reduction from 2008/09 prior to the move to the new administrative accommodation. This reduction will be reviewed in light of the benefits from the new accommodation arrangements and the reductions in the repairs backlog gained from disposing of some of the Council's office accommodation. This proposal would reduce the deficit by £150k.

#### Proposal 2 – Borrow to fund the shortfall

23. If proposal 1 is accepted the funding shortfall would reduce to £0.25m over the 4 year programme and it is proposed to utilise prudential borrowing in 2010/11 to fund this residual gap. The full year cost of borrowing £0.25m is £22k per annum. The level of borrowing required may fluctuate depending on the level of receipts received and the level of capital expenditure actually incurred. It is proposed that any additional surplus receipts identified over the period would be earmarked to reduce the level of prudential borrowing.

### Analysis and Summary of Proposals

24. The options outlined above allow the underlying deficit of £1.6m to be funded. The revenue implications of the proposals are £70k per annum in 2008/09 and 2009/10 and £90k in 2010/11. This is summarised in Table 4.

Para Ref	Description	Capital Resources £000	Annual Revenue Growth			
			2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
10	Base funding gap	-1,600				
14	Additional Capital Receipts	400				
15	Supported Borrowing	400				
16	Transfer Ward Committee Exp to Revenue	400		70	70	70
22	Reduce Property Investment Budget	150				
23	Prudential Borrowing	250				20
	<b>Funding Gap</b>	<b>0</b>	<b>0</b>	<b>70</b>	<b>70</b>	<b>90</b>

Table 4 Summary of Proposals to Address Funding Shortfall

25. If all the proposals made in this report are approved the gross capital programme is illustrated in table 5. Annex 7 illustrates the scheme by scheme breakdown

Gross Expenditure by Department	2007/08	2008/09	2009/10	2010/11	Total Capital Programme

	£000	£000	£000	£000	£000
Children's Services	16,485	9,550	250	0	26,285
City Strategy (P&T)	8,931	6,852	5,969	5,522	27,274
City Strategy (Econ Dev't)	150	3,500	0	0	3,650
Housing	9,089	8,705	8,887	9,303	35,984
Leisure & Heritage	4,477	5,774	1,763	0	12,014
Neighbourhood Services	405	202	0	0	607
Resources	4,007	13,226	15,099	2,353	34,685
Social Services	205	205	205	205	820
<b>Total by Department</b>	<b>43,749</b>	<b>48,014</b>	<b>32,173</b>	<b>17,383</b>	<b>141,319</b>

Table 5 Proposed capital programme 2007/08 – 2010/11

### Future Events

26. The Council has been selected as one of 25 Pathfinder authorities to be invited to build a new secondary school under the Building Schools for the Future (BSF) programme. Joseph Rowntree school has been nominated as York's pathfinder and a detailed proposal has been submitted to the DfES.
27. The funding which will be provided for the new school will be in accordance with a cost model supplied by the DfES based on pupil numbers and SEN provision, and will be in the form of capital grant. There are no indications at present of the exact level of funding, but it is expected to be in the region of £20m. In line with accounting best practice it is proposed that the scheme is not included in the capital programme until the amount of funding available is known for certain.
28. This represents significant additional funding for the Council and would increase the number of secondary schools to be replaced over the next 4 years to 3. This is in addition to significant extensions and refurbishments to Fulford and Huntington Secondary Schools over the past few years.

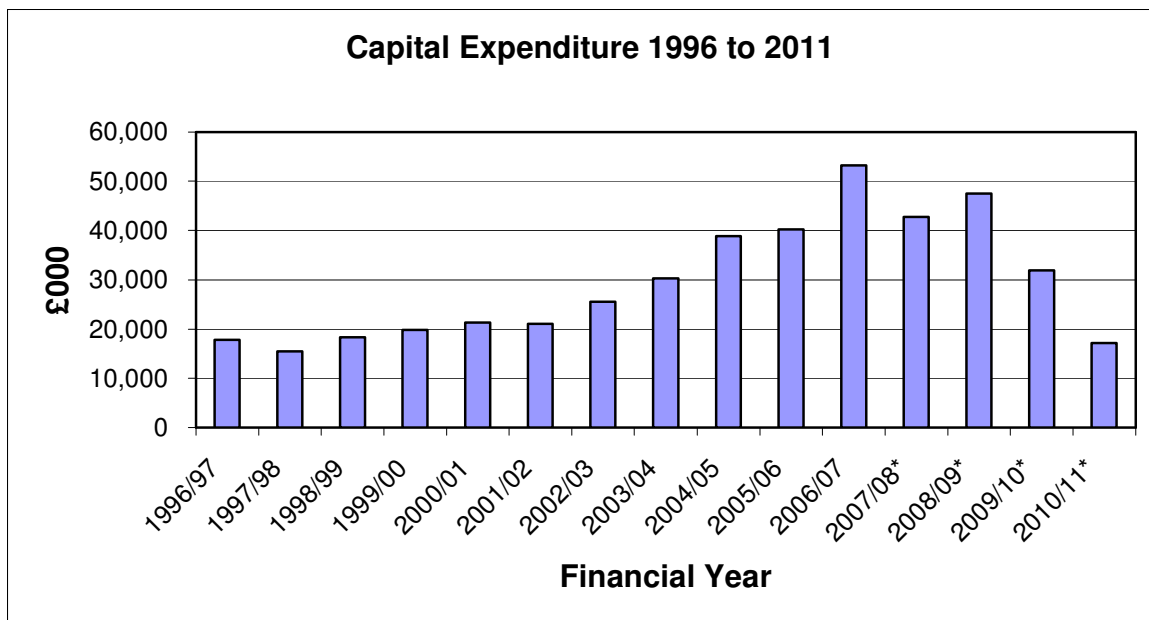
### Robustness of the Budget

29. The Local Government Act 2003 places responsibilities upon the Council's Chief Finance Officer to advise the Council on the robustness of the budget proposals. I consider that the estimates in the capital budget are sound and that the proposals to produce a balanced capital programme are achievable. The overall package is a realistic approach in dealing with the financial pressures facing the capital programme next year. The programme is fully funded and relies on unsupported borrowing of only £250k to arrive at a balanced budget, or 0.18% of the gross budget. Over the next four years there are potential financial problems and the situation will be monitored throughout next year so remedial action can be taken where necessary.
30. It should be noted that in agreeing the capital expenditure proposals the Council is committing itself to dispose of all the assets listed in Annex 5 to fund the expenditure plans. The Council will need to closely monitor the position on capital receipts to ensure they meet the expectations in terms of size of receipt and timing. This is essential to ensure the successful delivery of the expenditure plans within this report. In addition members and officers should note that there is no scope for additional capital expenditure above that included in the four year programme.



New schemes will only be considered if it is fully funded by external resources or a scheme with the current programme is removed to release resources.

31. The Council remains reliant on a small number of high value capital receipts. The majority of these are expected by the end of the 2006/07 financial year, however, the public enquiry decision on the development at Osbaldwick is not due until 12<sup>th</sup> April 2007. If planning permission is not granted, the Council will be required to review its capital programme as the Osbaldwick receipt forms an important element of the capital funding assumptions.
32. The council faces real challenges if it is to continue to deliver the proposed capital programme. The growth in the size of the capital programme has increased from just over £15m in 1997/98 to over £52m in 2006/07. The approved programme shows a reduction from this peak based in current known funding. However these figures do not include expenditure such as Joseph Rowntree or funding expected to be announced as part of the Comprehensive spending review 2007 when the government is expected to announce funding for 2008-2011. It is therefore expected that the programme will remain at or around the 2006/07 levels for the foreseeable future. The Council faces pressure on its capital resources and has put in place controls, such as the Capital Strategy, the Capital Resource Allocation Model and is proactively transferring capital rolling programmes in to revenue, to deliver a very challenging capital programme. The increase in capital expenditure over the last 10 years is illustrated in Figure 1 along with the known funding for 2007/08 to 2010/11.



**Figure 1 – Capital Expenditure 1996 to 2011**  
\*capital expenditure based on current known funding

**Corporate Priorities**

33. The CRAM process ensures that all bids received for capital funding addresses at least one of the Council's 13 priorities. The capital schemes are derived from the

service and area asset management plans which look at the capital needs and requirements of the service. The annexes indicate which priorities the schemes meet.

#### **34. Implications**

- **Financial** - Included within the body of the report
- **Human Resources (HR)** - None
- **Equalities** - None
- **Legal** – The Council is legally required to set a balanced 3 year capital programme
- **Crime and Disorder** – None
- **Information Technology (IT)** - None
- **Property** – Included within the body of the report
- **Other** - None

## **Risk Management**

35. The Director of Resources has highlighted the challenge presented by the proposed capital programme, which includes significant Council driven schemes, such as the new Administrative Accommodation. There is a significant reliance on a small number of high value capital receipts, without which the programme could not be delivered. In addition the recent increase in the size of the programme has meant the Council has to ensure that the key skills are in place to allow the programme to be successfully delivered.
36. To mitigate the risks the capital programme is regularly monitored as part of the corporate monitoring process. In addition to this the Corporate Capital Monitoring Group (CAPMOG) meets regularly to plan monitor and review major capital schemes to ensure that all capital risks to the Council are minimised. The development of the revised CRAM process and capital strategy has put in place gate keeping controls to ensure that only projects that can be delivered are put forward for approval by the Council.

## **Recommendations**

37. The Executive is recommended to approve the four year capital programme proposals as summarised in this report, in particular:
  - a) The inclusion in the capital programme of all existing approved schemes as detailed in Annex 1 and paragraph 8
  - b) The inclusion in the capital programme of all fully funded schemes as detailed in Annex 3 and discussed in paragraph 18;
  - c) The continuation of the York Pools Scheme and Museums Lottery Scheme as detailed in paragraph 20
  - d) The extension of existing rolling programme schemes as illustrated in table 2, except for the
    - Ward Committees Scheme, which will be reduced by £70k per annum from 2008/09 as outlined in paragraph 16
    - Property Investment Scheme which will be reduced by £50k p.a. from 2008/09 as outlined in paragraph 23
  - e) Agree the use of £250k of prudential borrowing in 2010/11 as per paragraph 23.
  - f) Agree the asset sales shown in confidential Annex 6;

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Peter Steed  
Head of Finance

**Report  
Approved**

**Date** 18/09/06

Simon Wiles  
Director of Resources

**Report  
Approved**

**Date**

**Specialist Implications Officer(s)**

N/a

**Wards Affected:**

All

**For further information please contact the author of the report**

**Background Papers:**

2006/07 – 2008/09 Capital Monitoring Reports  
Department EMAP Capital Budget Reports  
2007/08 CRAM Bids

Annexes

Annex 1 – Current Approved Capital Programme 2006/07 to 2009/10  
Annex 2 – Externally Funded CRAM Bids 2007/08  
Annex 3 – Rolling Programme CRAM Bids  
Annex 4 – Discretionary CRAM Bids  
Annex 5 – Rolling Programme Scheme changes from the base position  
Confidential Annex 6 – Capital Receipts Forecast 2006/07 – 2010/11  
Annex 7 – Proposed Capital Programme 2007/08 –2010/11