



Belfast City Council

Report to:	Strategic Policy and Resources Committee
Subject:	Capital Programme Workshop
Date:	4 June 2010
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Relevant Background Information

Members will be aware that the capital programme operated by BCC for many years was based on fairly regular beneficial rates settlements which allowed schemes to be financed largely from within existing budgets without the need to resort to debt financing. This also allowed Members to include a large number of schemes in the programme and prioritisation was mainly based on the availability of finances at a point in time.

The current economic climate and the decline in the growth in the rate base now mean that loans finance is the main way of paying for the council's capital expenditure. This also means that the financial commitment is made for a longer time period as loans are typically repaid over a 5 to 20 year time period. The more schemes added to the capital programme the greater impact annually on the rate.

In short, one of the key tasks of the Director of Finance and Resources and the Director of Property and Projects is to develop a capital financing strategy aligned with a capital programme of schemes that relate to Council priorities and overall objectives.

In addition besides the initial capital expenditure there is a growing maintenance backlog for existing assets and also a need to consider replacement funding for new fixed life assets such as (MUGAs) Multi Use Games Areas. We now need to think through a whole life capital funding package.

Key Issues

Current Position

Capital Programme – Built Assets

The capital programme as it stands consists of schemes already committed which are either in procurement, on site or in post completion final account phase. Paying for these schemes makes up one part of a capital financing strategy and allowance to cover this was included in the 2010/11 rate setting process. Table 1 sets out existing commitments in monetary terms together with financing arrangements. Scheme details are in appendix 1.

SUMMARY OF EXISTING COMMITMENTS

	10/11	11/12	12/13	13/14	14/15
TOTAL	15,545,000	10,750,000	2,800,000	2,800,000	2,800,000

Estimated Increase in Rate	10/11	11/12	12/13	13/14	14/15
TOTAL		562,230	280,930	639,130	-119,220

SUMMARY OF EXISTING UNCOMMITTED/EMERGING PROPOSALS

In addition to existing commitments there are a range of pending and or emerging commitments resulting in a list of schemes. Some of these are long standing, others are new or have yet to clear a committee but there is little in the way of coherence to a strategy, method of financing, nor in some cases available land or grant aid. Rather than continue with this unrealistic list and the unsustainable financing as outlined below Members are urged to revisit the future programmes.

	10/11	11/12	12/13	13/14	14/15
TOTAL	4,165,000	19,015,000	32,578,000	25,450,000	7,600,000

Potential Increase in Debt Charges	10/11	11/12	12/13	13/14	14/15
TOTAL	416,500	1,901,500	3,257,800	2,545,000	760,000

Increased borrowing would have to be funded from existing budgets or increased rates.

In regard to proposed schemes committee agreed to set aside 1% of the rate to finance these in 2010/11, pending agreement on scheme priorities.

To date four schemes have been prioritised ie:

- Dunville Park
- Woodvale Park
- Alley Gates
- Heat Recovery Pipe

Of these Dunville and Woodvale are unlikely to proceed until 2011/2012 due to hurdles connected with DSD's grant process whilst the Alley Gates and Heat Recovery Pipe will proceed in the current financial year. However financing will have to be made in future years for the Dunville/Woodvale commitments.

Going Forward

Capital Programme

In order to move the process forward the committee needs to review the capital programme, in the context of prioritising projects in line with the Council's medium term objectives and priorities. This will be limited by the available financing but will also allow the Director of Finance and Resources to align the future financing requirements by developing a medium term Capital Financing Strategy to meet the requirements of the capital programme agreed by Members.

Table 2 below sets out a more strategic approach to developing a realistic programme that can then be implemented in line with affordability.

It would be proposed that the new Capital Programme be developed to cover the period for the 2010/11 to 2014/15 financial years.

	10/11	11/12	12/13	13/14	14/15
New Cemetery/ Crematorium	?	?	?	?	?
Mary Peters Track	?	?	?	?	?
Parks (Playgrounds, MUGAs, Open Spaces)	?	?	?	?	?
Pitches Strategy	?	?	?	?	?
Leisure Strategy	?	?	?	?	?
Safety (Alley Gates)	?	?	?	?	?
Environment (Waste Management, PCs)	?	?	?	?	?
Economy (Gasworks/ NFS/ BVCB/ Conference Centre)	?	?	?	?	?
Accommodation	?	?	?	?	?
Low Cost/ High Impact Schemes	?	?	?	?	?

Projects will progress to the Capital Programme on a strict priority basis agreed by the Members which will ensure that these are consistent with the medium term priorities of the Council.

Projects will also be subject to 'Gates Reviews' which will provide assurance that only those projects which align with the strategic priorities of the Council and that are financially viable will be considered under a prioritisation process endorsed by Members.

Capital Programme - Vehicles

Historically vehicles replacement has been funded from a budgeted Revenue Contribution and this has continued in the current financial year where £1.5m has been set aside for this purpose.

The Director of Finance and Resources will determine if this will continue as part of the Capital Financing Strategy going forward.

An assessment will also be carried out to determine whether it is more financially beneficial to the Council to lease or purchase vehicles in the future.

However to really address costs in regard to vehicle purchase and maintenance will require a review of operation involving vehicles to see where efficiencies can be gained.

Capital Programme - ICT Equipment

There are a number of ICT related projects which are committed in the Capital Programme and these are currently earmarked to be funded via loan financing. These projects are currently forecast to be completed by the end of 2011/2012.

There are currently no ICT projects proposed to be added to the Capital Programme from the existing list of priorities.

Maintenance

Capital assets need long term maintenance if they are to retain their usefulness and value. Although maintenance spend is revenue based it is important Members are reminded of this during capital programme considerations.

The maintenance of the Council's assets is now the responsibility of the Director of Property and Projects. It would be the intention of the Director of Property and Projects to review the provision of maintenance in the context of an overall asset strategy which will have a significant impact on the capital programme.

The maintenance programme will be broken down into three key components;

- **Planned Maintenance**

This will entail scheduling across years essential elements of maintenance such as painting and low level replacements and repairs which if not carried out on such a basis give rise, over the longer term, to major maintenance and replacement issues and the associated additional cost. The level of maintenance to be determined by an objective condition survey of the property not by the facility operator.

The process ensures that that maintenance of assets is properly budgeted for by aligning the budgets to reflect the works that will be identified in advance.

- **Response Maintenance**

Response maintenance covers the unavoidable areas of maintenance with regard to breakdowns and faults which may arise in all classes of asset.

Best Practice and Value for Money initiatives emphasise the role that planned maintenance plays in reducing the need for both response maintenance and major items of disrepair and consequently the reduction in the overall cost of any maintenance programme.

- **Compliance Maintenance**

Compliance maintenance will cover areas where the Council has a statutory obligation or where external standards have been set, such as electrical testing or legionella.

Maintenance budgets are held departmentally and to move to a more cost effective planned regime will require centralisation of at least 75% of that budget in the first year with 25% remaining with departments for wear and tear response and balances will be required to insure property. Departments will also have been reassured of a competent customer focused maintenance response.

Replacement & Renewal of Assets

The council has a growing number of assets which have a defined short useful life such as 3G pitches. Replacement of this type of asset is both inevitable and unavoidable and can therefore be planned for well in advance. It therefore also makes sense that the council starts to explore ways to plan for how the replacement of these assets can be financed.

Another looming issue is the large number of public art pieces the Council has commissioned over the years for which little or no maintenance/replacement allowance have been made.

Committee has already approved consideration of council sites for advertising as a source of income for a replacement sinking fund but other options include ring fencing from MUGA income which at the moment is treated as general income.

Whole Life Costing

The Property and Projects Department now assess all capital projects on the basis of their Whole Life costs. This process assesses not only the initial capital outlay for any new projects but also their likely ongoing cost to the Council. This allows us to reduce future maintenance costs of assets by ensuring that they are designed to include features which will reduce maintenance requirements and provide better value for money in use.

The process will also facilitate the Council's longer term budgeting process by providing not only the impact of the capital financing cost of an asset but also the future revenue running costs that will be borne by the rate.

This will also better inform members in making decisions to proceed with capital schemes by allowing them to assess the full implication of any decisions on the rate.

Resource Implications

Recommendations

Members are asked to consider:

- a an agreed prioritisation matrix and reprioritising of the future capital programme via Party Groups or NSEW Briefings in the context of the new corporate plan
- b to agree a capital financing strategy via the agreed briefings
- c to agree officers explore new arrangement for financing maintenance and replacement

Decision Tracking**Key to Abbreviations**

None

Documents Attached

Appendix 1 – Scheme Details