

<b>CABINET</b>	<b>Paper No.  8</b>
<b>Meeting date: 6 January 2009</b>	
<b>From: Corporate Director - Resources</b>	

## **CAPITAL PROGRAMME: BUDGET CONSULTATION**

### **1.0 EXECUTIVE SUMMARY**

**1.1 This report provides Cabinet with a guide to the formulation of the capital programme for the period 2009/10 to 2013/14.**

**1.2 Over recent years the capital programme has expanded, exceeding £70 million a year. Major investment in academies and schools reorganisation is likely to see further growth. Plans for Children's Services were reported to Cabinet in December 2008 and this paper includes detailed proposals for the Transport Programme (Appendix D), together with other possible new capital projects (Appendix C). The capital programme has to be set against a background of limited Government financial support for borrowing, poor short term prospects for capital receipts, and the revenue impact of the costs of borrowing.**

**1.3 The report asks Cabinet to agree to consult upon the formulation of the capital programme as part of the 2009/10 budget preparations.**

### **2.0 POLICY POSITION, BUDGETARY AND EQUALITY IMPLICATIONS AND LINKS TO COUNCIL PLAN**

**2.1 There are no automatic policy implications. It is possible, however, that decisions taken about some of the funding issues raised in the report will have policy implications. The budgetary implications are as set out throughout the report.**

**2.2 There are no equality implications arising directly from this report.**

**2.3 The capital programme will contribute to the development of the Council Plan.**

### **3.0 RECOMMENDATION**

**3.1 The Cabinet is invited to:**

- a) *Note the guidance in respect of the formulation of the capital programme;*
- b) *Agree the capital plan/proposals for consultation;*
- c) *Note those Priority Transport Improvement Schemes as set out in Appendix D:2*

## 4.0 BACKGROUND

4.1 The Council is required to review its capital spending plans each year and set a Capital Programme. A key consideration when setting the Programme is the projected level of available capital resources (such as capital receipts and capital grants) together with the extent to which the Authority can afford to support capital investment through borrowing.

4.2 The overall 2008/09 Capital Programme approved in February 2008 was as follows:

	£000
ASC/EPCS	10,005
Children's Services	39,987
Reclamation Programme	3,439
Transport	25,224
<b>Total</b>	<b>78,655</b>

4.3 The capital budget monitoring position to September 2008 was reported to the December 2008 Cabinet. Previous slippage in the programme indicates that the programme for 2008/9 totals in excess of £90 million.

4.4 This report outlines the background to the development of the Capital Programme for 2009/10 – 2013/14. It covers:

- The capital planning process in relation to the Council's policy framework
- Potential funding sources:
  - Capital Grants
  - Borrowing, both supported and prudential borrowing
  - Other capital funding including capital receipts and direct revenue funding
- Analysis of the pressures on the Council's capital resources and formulation of the capital programme (including capital bids).

### **Overall Policy Context**

4.5 The development of the Capital Programme for 2009/10 to 2013/14 needs to be undertaken within the context of the Council's key plans and strategies

including the existing Medium Term Financial Plan, and Corporate Plan and Cumbria Community Strategy as well as taking appropriate account of the Capital Strategy, Asset Management Plans and Service Plans. Whilst a soundly formulated capital programme must be driven by the desire to provide high quality, value for money services, it must nonetheless be developed within the context of the financial resource constraints faced by the Council.

- 4.6 Implementing the Capital Programme should be viewed as a 3 to 5 year process as most schemes are progressed over a number of years; therefore moderate spend variations between years is not generally a significant issue. In planning the 2009/10 programme it has been assumed that where schemes have slipped in 2008/09, the slippage will be carried forward to next year, and where schemes have started that the resources in subsequent years are effectively committed.

### **Funding to support the Capital Programme**

- 4.7 There are three main funding sources available to support the Authority's Capital Programme: capital grants; borrowing; and other funding, including capital receipts/use of reserves and revenue contributions.
- 4.8 **Capital Grants** – These are issued by Government departments and agencies to fund capital investment, usually for specified purposes. Many of these require local authorities to make a financial commitment to the running costs of the schemes. In recent years the Government has increasingly redirected its support for local authority capital investment through this method in order to achieve policy aims. A significant proportion of the Council's Capital Programme is supported by grant, and specifically Children's Services where nearly all the programme is supported in this way.
- 4.9 Children's Services – The allocation of capital grants for schools and other Children's Services varies. Some are allocated on a three year basis in line the CSR07 whilst others are allocated in line with bidding processes and project plans.
- 4.10 The overall position is as follows:

	2009/10 £000's	2010/11 £000's	2011/12 £000's	2012/13 £000's
<u>Grants &amp; Contributions</u>				
Devolved Formula Capital	12,179	12,179	12,179	12,179
Primary Capital Programme	4,994	7,372		
Modernisation	2,861	6,281		
Extended Schools	927	479	450	450
14-19 Diplomas/SEN	2,000	6,000		
Harnessing Technology Grant	3,281	3,026		
LCVAP	3,539	3,539		
Other	32,146	15,201	20,059	27,559
<b>Total</b>	<b>58,388</b>	<b>54,077</b>	<b>32,688</b>	<b>40,188</b>

- 4.11 Transport – Capital Grants for transport are allocated on a three year basis in line the CSR07. The following grants have been allocated for 2009/10 and 2010/11:

	2009/10 £000's	2010/11 £000's
Integrated Transport	1,738	1,727
Road Safety	216	213
Primary Route Bridges	250	330
<b>Total</b>	<b>2,204</b>	<b>2,270</b>

- 4.12 The announcement in respect of the grant for de-trunked roads is expected imminently.
- 4.13 Reclamation – All funding for the Land Reclamation Programme is received from external sources, largely grant from the NWDA to the Council, and since expenditure will balance with funding, there are no decisions to take at this point. An initial estimate of expenditure for 2009/10 totals £1.339m. However, the funding allocation for 2009/10 has not been confirmed by NWDA. The current reclamation programme is anticipated to be completed by 2010/11.
- 4.14 A further five year programme of land reclamation activity is currently being examined (Cumbria Sub Regional Employment Sites Programme). It is anticipated that this new £10 million five year programme will commence in 2008/09. Forecast Figures for this new programme are not yet available.
- 4.15 **Borrowing:** An important factor when determining the existing and future levels of debt is the level of financial support that is being provided by Government.
- 4.16 Some support is provided via Formula Grant based upon the notional borrowing levels identified in the sub groups of the single capital pot. Full revenue support for borrowing costs is, however, not provided due to a scaling back of the Formula Grant to help pay for the minimum guarantee funding for those authorities below the funding floor. Based on a notional capital allocation that has been included in the grant settlement (referred to as Supported Capital Expenditure), 30% at most is supported via revenue grant funding over the next two years. The Council's grant settlement is not affected by its actual spend on capital: the grant would be paid even if the notional supported element of the capital programme were not utilised (although there may well be an impact on future grant settlements).
- 4.17 In theory, the Authority has freedom to apply supported borrowing as it wishes. In practice, however, endorsement by the Department for Communities and Local Government (DCLG) and Department for Children Schools and Families (DCSF) of the Education Asset Management Plan, relies on confirmation that, as a minimum, all "Education" funds are being spent on Education. The transport allocations are based upon the County's local transport plan submission, and not meeting the plan objectives may lead to reductions in subsequent years.
- 4.18 Members have, therefore, as part of the budget deliberations, to consider the extent to which borrowing is undertaken in line with the notional borrowing allocations. Last year Members agreed that the County would borrow up to the notional allocation.
- 4.19 The notional borrowing allocations are provided to the end of the CSR 2007 and are as follows:

	2009/10 £000's	2010/11 £000's
Children's Services	6,847	3,427
Transport	23,868	25,532
Total	30,715	28,959

- 4.20 Under the Prudential system the Council has the ability to borrow in excess of the amount being supported by Government to fund further capital investment. However, such borrowing must be affordable, sustainable and prudent. It will also be necessary for the Council to meet the whole of the capital financing costs associated with this level of extra borrowing (referred to as Prudential Borrowing) via either compensating savings or by an increase in the level of Council Tax. A fundamental principle when determining affordability of capital spending is that all borrowing undertaken by the Council is secured on its future revenue income.
- 4.21 The Prudential system therefore offers greater flexibility to fund capital investment expenditure such as "spend to save" schemes or schemes that are self financing. In order for Members to be able to make an informed decision on capital spending plans various mandatory indicators and limits (referred to as Prudential Indicators) need to be taken into account and set at the start of each financial year. The Prudential Indicators for 2008/09 to 2009/10, which had been set as part of last year's budget process, following the budget consultation, will be used to inform the setting of the proposed Capital Programme and also the Treasury Management and Investment Strategy. The Indicators, which are required to be set by full Council prior to the start of the new financial year, will be presented to Council on 19<sup>th</sup> February following consideration by Cabinet on 3<sup>rd</sup> February 2009.
- 4.22 The current levels of Prudential borrowing in the 2008/09 agreed programme and Capital Plan and their impact are set out below:

	Actual Cost 01/04/04 – 31/3/08	2008/09 £000's Revised	2009/10 £000's Budget	2010/11 £000's	2011/12 £000's	2012/13 £000's
Recycling centres	618	1,200	3,184			
CNDR land purchase		3,000				
Junction 44	2,807					
Fire Service Vehicles	1,720	1,305	758	689	705	656
EPCS Other	2,916	3,843	2,500	2,500	916	241
<b>Total approved per medium term financial plan</b>	<b>8,016</b>	<b>9,348</b>	<b>6,442</b>	<b>3,189</b>	<b>1,621</b>	<b>897</b>
Recycling centres – land purchase		2,005				
CNDR land purchase		560	200	200		
Children's Services – charged against DSG			1,600	5,400		
<b>Additional Recommended</b>	<b>-</b>	<b>2,565</b>	<b>1,800</b>	<b>5,600</b>	<b>-</b>	<b>-</b>
Revenue Cost – General Fund	1,012	1,337	2,171	2,621	2,853	2,980
£ in council tax	5.80	7.58	12.24	14.71	15.94	16.65

(band D)						
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- 4.23 The table above shows additional borrowing for land purchases in respect of waste management and the recent Cabinet proposals supporting additional borrowing for CNDR land purchases and additional support for Children's Services major capital projects. The Council is exploring whether the Dedicated Schools Grant can be used to fund the Children's Services projects and expects to discuss the position with the Schools Forum in the new year.
- 4.24 **Other funding sources** include capital receipts and use of reserves, direct funding from revenue and the County Council's accountable body role where third parties are in receipt of significant capital grants. The following paragraphs set out the limited opportunities in these areas.
- 4.25 **Capital Receipts/Reserves** – These arise from the sale of assets such as surplus land. The current market conditions for capital receipts remain difficult. At the end of 2007/08 £5.18 million of the targeted receipts of £5.76 million were achieved. The 2008/09 programme assumes receipts of £2.90 million (including the £579,000 shortfall from 2007/8). Receipts for 2009/10 are projected to be £2m reducing to £1.5m in subsequent years. This is a reduction from the current plan. Where capital receipts are not generated in accordance with its plans either additional borrowing would be required or reductions in the Capital Plan may need to be considered.
- 4.26 Another source of funding potentially available to support the 2008/09 programme is the annual receipt of £340k from the Amey partnership, to March 2012.
- 4.27 **Revenue Funding/Balances** – As in previous years, it is open to Members to use revenue funds to support the capital programme. Clearly any revenue contributions need to be considered alongside other revenue budget issues. In the light of the current budgetary situation however, no contribution has been assumed. Given the current level of revenue balances it is not recommended that these be used to support the capital programme.
- 4.28 It should also be noted that external grants to the Council are being used to support projects. These amounts are not currently included in the detailed programme presented at Appendix B. The projects being supported are as follows:
- New Archives Office for Carlisle - £5,000,000 (Heritage Lottery Fund)
  - Customer Access Centres - £400,000 (West Lakes Renaissance)
  - Land Reclamation Programme - £2,600,000

#### **Advice to Cabinet on the formulation of the capital programme**

- 4.29 Decisions in relation to the capital programme centre on three issues:
- The extent to which the existing programme is committed and can be changed
  - The revenue implications of borrowing and the extent to which borrowing is utilised

- The formulation of the capital programme for 2009/10 – 2013/14

4.30 There are some very difficult issues to be considered as the capital funding is rationed. It would be prudent to confirm which projects are to be given priority using known resources and to rank other projects for consideration later should further capital funding be forthcoming. The report proposes consultation on the overall size of the programme and its affordability.

### **Current Commitments**

4.31 There is an opportunity to review the current capital plan and change items within this plan. Appendix B highlights those items that are funded from borrowing and capital receipts that are committed (shown in bold) and those which are not. Grants have been considered to be committed. In considering this option Members need to be mindful of the extent to which expectations may have been raised by the inclusion of these items in the current capital plan. Further work will be undertaken in January to confirm the figures in Appendix B in developing the capital programme.

### **Revenue implications of the capital programme and whole life costing**

4.32 The ongoing costs and affordability of the Council's capital spending proposals need to be considered, as required under the Prudential Code.

4.33 The revenue commitments (excluding capital financing costs) that may flow from capital expenditure need to be incorporated in Service Area revenue options and budgets. Revenue provision will also need to include the impact of whole life costing commitments such as repairs, maintenance and periodic replacement.

4.34 When borrowing is undertaken to fund the Capital Programme it generates ongoing costs in the form of interest and principal repayment costs. These are currently estimated, per £m borrowed, as follows:

	Repayment Period	MRP/ Principal	Interest	Annual Total
"Prudential"	25 years	£40k	£50k	£90k
	15 years	£67k	£50k	£117k
"Supported"	60 years+ Average	£16.7k	£50k	£76.7k

4.35 The variance in the cost of principal repayable (Minimum Revenue Provision, MRP) in respect of the Prudential borrowing and the principal repayable in respect of Supported borrowing is due to the different repayment periods and also the different method of calculating the repayment. As a rule of thumb, every £1 million of additional borrowing costs on average £100,000 a year.

4.36 The MRP calculation for both "Supported" and "Prudential" borrowing was, until 31 March 2008, determined under Statutory Regulation. The Government has now replaced this with guidance, to enable a more flexible approach to determining a "prudent" amount of MRP to set aside each year for new borrowing. The change is intended to encourage a gradual move for debt repayment to be matched to the life of the asset provided that this is prudent to do so.

- 4.37 The guidance also requires County Council to approve an annual MRP Policy Statement, before the start of the financial year. This will be included as an Appendix to the Treasury Management Annual Strategy Statement for the February Cabinet, along with a more detailed discussion of the options above.

### **Programme Formulation**

- 4.38 The current 5 year programme is set out in Appendix B with possible options for new projects set out in Appendix C. Programme development will need to incorporate land purchases for waste management and the decisions taken by Cabinet and Council in December and January respectively, in respect of Children's Services and the CNDR land purchase.
- 4.39 Specific aspects for individual programmes are set out in the following paragraphs.

#### Children's Services Programme

- 4.40 The major decision to be taken in relation to the Children's Services Programme, is whether or not to set the programme at the level of the notional capital allocations. To do so has revenue budget implications. Given commitments that have been entered into in relation to a wide range of school review projects it would, however as set out in paragraph 4.17, be difficult to significantly change the programme. Details of the Children's Services programme were presented to Cabinet in December 2008.

#### Transport Programme

- 4.41 A suggested Transport Programme and commentary is included at Appendices D1 to D10. The programme has been drafted to take account of the full allocation of supported borrowing. The major issue to be considered in relation to the Transport Programme, is whether or not to set the programme at the levels of the notional capital allocations. To do so has revenue budget implications

#### Reclamation Programme

- 4.42 No decisions are, at this point, required in relation to the reclamation programme.
- 4.43 A number of Capital Bids have been received for 2009/10 and beyond (Appendix C).
- 4.44 Even with the prudential borrowing assumed above, the bids for 2009/10 projects exceed the likely available resources by £6.5 million and £37.0 million over the 5 year programme. It is consequently necessary to make some difficult decisions in order to produce a programme that can be accommodated in the resources that can be made available.
- 4.45 Given the uncertainty around the long term funding of the capital programme beyond CSR07 it is recommended that only projects that are of immediate priority for 2009/10 are considered.

## **5.0 OPTIONS**

- 5.1 The options are considered throughout the report and are determined by the Council's policy priorities and by the level of borrowing the County Council is prepared to accept and can prudently afford to sustain through Council Tax and capital receipts that it can generate.
- 5.2 Or the Cabinet may amend or approve the items for consultation as set out in this report.

## **6.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS**

- 6.1 The report sets out the issues to be considered in the formulation of the capital programme. There are no additional resource or value for money implications.

## **7.0 LEGAL IMPLICATIONS**

- 7.1 Borrowing proposals are in accordance with regulations and guidance. There are no legal implications.

## **8.0 CONCLUSIONS**

- 8.1 Over recent years, the Council has developed its capital programme and delivered significant investment in schools, highways and other areas. The capital programme is expected to grow in light of investment in academies and schools reorganisation. For the rest of the programme, resources are limited and there is a revenue cost for all borrowings. All capital investment has revenue implications. The report identifies capital projects for consideration for inclusion in the future capital programme. Members will need to decide the scale of the capital programme and what is affordable.

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**Corporate Director Resources**

**Kate McLaughlin-Flynn**  
**Chief Finance Officer**  
21 December 2008

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## **APPENDICES**

- Appendix A – Summary Current Capital Plan 2009/10 – 2012/13  
Appendix B – Current Capital Plan 2009/10 – 2012/13  
Appendix C – Options presented by officers of Capital Pressures  
Appendix D – Transport – Suggested 2009/10 - detail
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|---------------|--|
| Appendix D:1  | Major Schemes                          |
| Appendix D:2  | Priority Transport Improvement Schemes |
| Appendix D:3  | Annual Package of Measures             |
| Appendix D:4  | Speed Limit Review Implementation      |
| Appendix D:5  | Road Safety                            |
| Appendix D:6  | Community Mini Buses                   |
| Appendix D:7  | Principal Road Maintenance             |
| Appendix D:8  | Non-Principal Road Maintenance         |
| Appendix D:9  | Bridges and Structures                 |
| Appendix D:10 | De-Trunked Roads                       |

## **IMPLICATIONS**

Staffing: None  
Financial: As set out throughout the covering report and the Appendices.  
Electoral Division(s): All

Executive Decision	<input type="button" value="Yes"/>
Key Decision	<input type="button" value="No"/>
If a Key Decision, is the proposal published in the current Forward Plan?	<input type="button" value="N/A"/>
Is the decision exempt from call-in on grounds of urgency?	<input type="button" value="N/A"/>
If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?	<input type="button" value="N/A"/>
Has this matter been considered by Overview and Scrutiny? If so, give details below.	<input type="button" value="No*"/>
Has an environmental or sustainability impact assessment been undertaken?	<input type="button" value="N/A*"/>
Has an equality impact assessment been undertaken?	<input type="button" value="N/A*"/>

## **PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS**

Capital Investment for Education in Cumbria – Cabinet 9 December 2008

## **CONSIDERATION BY OVERVIEW AND SCRUTINY**

*Not considered by Overview and Scrutiny.*

## **BACKGROUND PAPERS**

Capital Monitoring September 2008 Cabinet 9 December 2008

## **RESPONSIBLE CABINET MEMBER**

Stewart Young, Leader of the Council

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