

Capital spending and financing 2010/11

1 Introduction

1.1 This Appendix reports that:

- capital schemes costing £162.3m were started during 2010/11 from the approved capital programme for the year of £212.6m
- this left £50.3m for schemes not started by 31 March 2011 and unallocated cash limit which will be carried forward to 2011/12, subject to Cabinet's approval
- capital payments of £196.3m were incurred in 2010/11 and this can be financed within available resources
- this includes capital payments of £14.7m on the street lighting private finance initiative scheme which will be financed by means of a finance lease funded from Government grant
- it is proposed that, under the Prudential Code for Capital Finance, new prudential borrowing of £4.7m is used in 2010/11 to fund previously approved schemes. Government grant support will not be available to finance this borrowing
- revenue contributions of £17.6m which it had been planned to use to fund capital expenditure in 2010/11 will be transferred instead to the Capital Reserve to provide additional flexibility for the County Council's financial strategy for 2011/12. These revenue contributions will be replaced in 2010/11 with prudential borrowing of £17.6m in 2010/11
- repayments of prudential borrowing from capital receipts and other sources of £7.9m in 2010/11 will more than offset the new prudential borrowing for capital schemes of £4.7m (excluding the effect of the additional prudential borrowing to replace revenue contributions to capital)
- capital receipts of £13.0m were achieved from the sale of assets in 2010/11.

2 Capital programme for 2010/11

2.1 Table 1 below shows that 76% of the capital programme for 2010/11 of £212.6m was started in the year.

Table 1 - Capital schemes committed in 2010/11	£000	%
Approved value of the capital programme for 2010/11	212,644	100.0%
Schemes committed in 2010/11	162,334	76.3%

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Balance of cash limit at 31 March 2011	50,310	23.7%
Schemes for which approval to carry forward to 2011/12 is now requested	29,148	13.7%
Schemes previously approved for carry forward	20,482	9.7%
Balance of cash limit remaining	680	0.3%
Total cash limit to be carried forward to 2011/12	50,310	23.7%

2.2 The majority of the capital programme is controlled on a 'starts' basis whereby the full estimated cost of the scheme is charged against the service's capital cash limit for the year in which the scheme is started. Some schemes, such as lump sum provisions and block votes, are controlled on an 'expenditure' basis. In those cases, the amount actually spent in the year is charged against the cash limit. The total of £212.6m shown in Table 1 for the schemes committed in 2010/11 is an aggregate for both 'starts' and 'expenditure' schemes.

2.3 An analysis by service of the figures in Table 1 is provided in Annex 1.

3 Carry forward of schemes not committed by 31 March 2011

3.1 The Executive Member for Policy and Resources agreed in April 2011 that capital schemes that were planned to start by 31 March 2011 but which were not committed (ie, started) by then should be carried forward to 2011/12. This agreement in principle was subject to the cost of such schemes being accommodated within services' approved capital programme cash limits. Each service has sufficient resources within their capital programme cash limits to allow all the proposed schemes to be carried forward.

3.2 The total value of schemes and cash limit to be carried forward is £50.3m. This includes £20.5m of Children's Services schemes for which approval to carry forward to 2011/12 has previously been given during 2010/11.

3.3 As Table 2 shows, the proportion of the 2010/11 programme that has been committed in the year, at 76.3%, is similar to the level achieved in 2009/10.

Table 2 – Percentage of capital programme committed

	2009/10 £m	2010/11 £m
Value of projects		
- committed	207.5	162.3
- carried forward	65.6	50.3
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Total programme	273.1	212.6
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Percentage committed	76.0%	76.3%

3.4 Individually, most of the schemes and provisions to be carried forward are relatively small amounts. There are two schemes which exceed £1m:

- structural maintenance of roads and bridges (£4.1m in total)
- capital repairs schemes funded from local resources and Government grant (£7.3m).

4 Capital expenditure and financing 2010/11

4.1 Total expenditure actually incurred in 2010/11, arising from the capital programme for 2010/11 and earlier years, was £196.3m. This is £1.5m or 0.8% lower than the revised estimate for 2010/11. This a very close result, as the timing of capital expenditure flows between financial years is often difficult to predict. The delays in committing a significant proportion of the capital programme for 2010/11, as shown in Table 2, will have reduced the level of payments in the year, including the impact of the poor weather during the winter.

4.2 An analysis of the expenditure of £196.3m by service and type is included in Annex 2.

4.3 The proposed method of financing this expenditure is set out in Table 3 below:

Table 3 – Capital financing 2010/11

	Adjusted revised estimate £000	Actuals £000	Variation £000	Actual funding %
Government supported borrowing	35,582	35,308	-274	18.0%
Finance lease for street lighting PFI	14,741	14,741	-	7.5%
Prudential borrowing				
- for capital schemes	8,673	4,648	-4,025	2.4%
- to replace revenue contributions	17,643	17,643	-	9.0%
- repayments	-8,292	-7,862	+430	-4.0%
Government capital grants	89,942	90,080	+138	45.9%
Contributions from developers and outside agencies	12,621	12,637	+16	6.4%
Capital receipts	13,148	13,030	-118	6.6%
Revenue reserves, including trading units	3,130	5,471	+2,341	2.8%
Revenue contributions				
- general corporate provision	-	-	-	-
- funded by Dedicated Schools Grant for capital repairs in schools	10,636	10,636	-	5.4%
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	197,824	196,332	-1,492	100.0%
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4.4 Where possible and in line with the estimates, available Government capital grant has been used to finance expenditure with the use of Government supported borrowing deferred until future years.

5 Borrowing

5.1 Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from the Government, provided their actions meet the requirements of the Prudential Code for Capital Finance introduced by the Local Government Act 2003. This is known as 'prudential borrowing'. It does not attract any support from the Government towards the repayment and interest costs, which fall wholly on the County Council's own resources.

5.2 Cabinet agreed criteria for the use of prudential borrowing in November 2003, with revisions in February 2006. Since then, its use has been agreed for a number of capital schemes, primarily on an invest-to-save basis. It is proposed that a total of £4.7m is borrowed in 2010/11 for these schemes, in accordance with the approved criteria.

- 5.3 Prudential borrowing of £7.9m has been repaid in 2010/11 including the use of capital receipts from the sale of sites at Kings Copse Primary School in Hedge End and Glen Road, Swanwick.
- 5.4 In addition, prudential borrowing replaced revenue contributions of £17.6m which it had been planned to use to fund capital expenditure in 2010/11. These revenue contributions will be transferred instead to the Capital Reserve to provide additional flexibility for the County Council's financial strategy for 2011/12.
- 5.5 The Prudential Code includes a number of indicators intended to illustrate whether local authorities are acting prudently. The County Council's latest position on these prudential indicators following the 2010/11 outturn is summarised in Appendix 3. It shows that the County Council continues to be in full compliance with the requirements of the Code.
- 5.6 In addition to the prudential borrowing, it is proposed that £35.3m of loans are raised in 2010/11 on the basis of the Government borrowing allocations.
- 5.7 Capital grants from the Government of £90.1m have also been used to finance capital expenditure in 2010/11.

6 Capital receipts

- 6.1 Capital receipts from the sale of land and property in 2010/11 were £13.0m in total. This is more than the £5.8m that was received in 2009/10 but it still reflects the continued impact of the global financial crisis on the property market and, in particular, the demand for land for housing and other development.
- 6.2 Services' proposed shares of capital receipts in 2010/11 are summarised in Annex 3. The County Council's policy allows services to retain 25% of capital receipts from the sale of their assets, with up to 100% for approved in/out schemes. Receipts from development account and county farm sales are retained for corporate use unless, in the case of county farm sales, alternative proposals are specifically approved. In accordance with this policy, services are entitled to £10.8m of the £13.0m received in 2010/11. Cabinet has previously approved the addition of £10.0m to services' capital programmes. This leaves a total of £0.74m for which approval is now required for allocation to services, as set out in Annex 3.

Analysis of capital programme 2010/11 and requests by services to carry forward capital schemes to 2011/12

	(1) Approved value of programme	(2) Schemes committed in 2010/11	(3) Schemes for which approval to carry forward is now requested	(4) Schemes already approved for carry forward	(5) Unallocated cash limit available for carry forward to 2011/12	(6) Total cash limit carried forward to 2011/12 (columns 3+4+5)
	£000	£000	£000	£000	£000	£000
Adult Services	7,980	2,272	5,708	-	-	5,708
Children's Services	82,224	55,936	5,633	20,482	173	26,288
Environment	56,695	51,681	4,507	-	507	5,014
Policy and Resources	65,745	52,445	13,300	-	-	13,300
Total	212,644	162,334	29,148	20,482	680	50,310
	100.0%	76.3%	13.7%	9.7%	0.3%	23.7%

Summary of capital expenditure in 2010/11

Analysis by service

	£000	%
Adult Services	3,077	1.6
Children's Services	94,571	48.2
Environment	76,795	39.1
Policy and Resources	21,889	11.1
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	196,332	100.0
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Analysis by type of expenditure

	£000	%
Land	527	0.3
Construction work	161,368	82.2
Fees and salaries	21,080	10.7
Furniture, equipment and vehicles	13,357	6.8
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	196,332	100.0
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Annex 3

Analysis of capital receipts 2010/11

	(1) Net capital receipts £000	(2) Shares from in/out and other schemes previously added to programme £000	(3) now available to be added to programme £000	(4) 25% share of qualifying receipts now due to services £000
Adult Services	1,565	1,565	-	-
Children's Services	8,435	7,572	195	-
Environment	538	-	-	129
Policy and Resources	2,492	885	40	376
	----- 13,030 -----	----- 10,022 -----	----- 235 -----	----- 505 -----
Total now to be added to services' programmes			740 -----	

The capital receipts used to repay prudential borrowing, totalling £6.8m, are included column (2) in the table above.