

HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|------------------------|--|
| Decision Maker: | Cabinet |
| Date: | 7 February 2014 |
| Decision Maker: | County Council |
| Date: | 20 February 2014 |
| Title: | Capital programme 2014/15 to 2016/17 |
| Reference: | 5478 |
| Report From: | Director of Corporate Resources – Corporate Services |

Contact name: Carolyn Williamson

Tel: 01962 847400

Email: carolyn.williamson@hants.gov.uk

1. Executive Summary

- 1.1. This report sets out for approval the proposed capital programme for 2014/15 to 2016/17 of £554 million.
- 1.2. Overall, the proposals in this report are in line with the medium term financial strategy which is focussed upon two particular aspects to support increased capital investment:
 - using one-off resources resulting from the early delivery of efficiencies
 - using additional efficiency savings which are recurring to repay prudential borrowing.
- 1.3. The report collates the service capital programmes prepared by Executive Members based on the existing cash limit guidelines for the locally resourced programme, together with schemes funded by Government grants and other external sources.
- 1.4. The programme delivers schemes totalling £554 million over the three years from 2014/15 to 2016/17. This follows a programme of £212 million for 2013/14, providing a total capital programme of £765 million over the four years. This is a very significant investment in the economy and infrastructure of Hampshire. It will provide:
 - £149 million of investment in school buildings in Hampshire in 2014/15 to 2016/17 to ensure there is a school place for every child in Hampshire, providing a big boost for the local economy through jobs and construction materials

- £45 million for Extra-Care Housing places to provide 500 new units
 - £139 million for structural maintenance of roads and bridges in Hampshire over the four years
 - £105 million for major repairs and improvements of school and other County Council buildings over the four years
 - £18.5 million for the Rural Broadband programme, bringing access to super fast broadband to 95% of premises in Hampshire. This takes the County Council's total investment to £20 million since 2012/13
 - £9 million for capital grants to support other organisations in Hampshire that bring economic and cultural benefits to the local economy
 - £5.7 million to transform and renew Hampshire's Country Parks.
- 1.5. The detailed capital programmes are included in Appendix 3. A summary of the programme including the new schemes added in paragraph 2.6 of this report is shown in the table below.

Table 1 – Proposed capital programme

| | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | Total £000 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|----------------|
| Adult Services | 10,952 | 7,081 | 14,481 | 481 | 32,995 |
| Children's Services | 76,114 | 84,731 | 78,244 | 74,662 | 313,751 |
| Economy, Transport & Environment | 60,986 | 66,822 | 50,799 | 44,602 | 223,209 |
| Policy & Resources | 63,620 | 63,804 | 35,382 | 32,602 | 195,408 |
| Total | 211,672 | 222,438 | 178,906 | 152,347 | 765,363 |
| | | 553,691 | | | |

- 1.6. The report shows that the projected payments arising from the capital programme can be financed within the resources available to the County Council including the planned use of prudential borrowing.
- 1.7. The proposals take account of the County Council's capital strategy and the Prudential Code for Capital Finance in Local Authorities including the capital financing position, the level of debt outstanding and the consequences for the revenue budget and council tax. The prudential indicators are included in Appendix 12 of the report on this Agenda on the Revenue Budget.
- 1.8. The Government has not yet announced details of its grant allocations for Schools Capital Maintenance and Devolved Formula Capital for 2014/15 onwards. The report includes assumptions about the level of grant which will be amended when the Government announces the allocations.

- 1.9. The Economy, Transport and Environment capital programme has been prepared on the basis of the Government's Local Transport Plan allocations for 2014/15 which were confirmed in December 2013. In announcing its allocations for 2014/15, the Government did not provide information about the grant allocations for 2015/16 and 2016/17. It is anticipated that the Government will redirect funds to the Single Capital Growth Pot to be allocated to Local Enterprise Partnerships. As a result, the capital programmes for 2015/16 and 2016/17 included in this report assume a 50% reduction in the level of grant funding for the Integrated Transport programme.
- 1.10. The other main points of this report are:
- the capital programmes proposed by Executive Members are in line with the guidelines for the locally resourced capital programme
 - prudential borrowing will rise to £192 million by 2017/18. The repayment of the 'bridging loans' included in this total will depend in part on the continued recovery of the property market. The current assumptions are that the bridging loans will be fully repaid by 2017/18
 - the prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance
 - the capital receipts assumed for this report are primarily for the sale of sites already earmarked to rationalisation schemes or to repay previously approved prudential borrowing.

2. Background

- 2.1. The cash limit guidelines for the new capital programme for 2014/15 to 2016/17 have been set at the same level as the current capital programme, including the additions to the capital programme for 2012/13 to 2015/16 that were agreed by the County Council in February 2012.
- 2.2. The County Council agreed in February 2013 to provide a further £25.6 million for the capital programme, subject to the Leader agreeing the business case for the individual proposals at his Decision Days. Schemes valued at £16.4 million have so far been added to the programme. A further £3.9 million is being added as part of this report and the Leader will review the remaining balance later this year.
- 2.3. Executive members have now prepared proposals for:
- a locally resourced capital programme for the three-year period from 2014/15 to 2016/17 within these guidelines and other resources available to services
 - a programme of schemes supported by Government capital grants.
- 2.4. 'Locally resourced' schemes are those financed from the County Council's own resources such as capital receipts, contributions from the revenue budget, prudential borrowing, reserves and other funds. They do not include schemes supported by capital grant from the Government.

- 2.5. In general, the programmes proposed by Executive Members are similar to those in the current capital programme, in terms of priorities and policies.
- 2.6. The Leader is recommending that new investment of £33.1 million is added to the three-year capital programme for the following schemes.

Table 2 – Additional proposals

| | £000 |
|---|--------|
| Country Parks (subject to securing external funding) | 5,700 |
| ETE Major Project Bidding Resources (over two years) | 2,000 |
| P&R Provision for Feasibility Work (over two years) | 860 |
| Investing in Hampshire (over three years) | 9,000 |
| Strategic purchase of farm land | 1,994 |
| Improvements to nursing and residential accommodation | 1,000 |
| IT equipment – Public Service Network compliance | 3,000 |
| Corporate Estate – Planned Repairs and Refurbishment | 2,500 |
| Strategic Infrastructure Investment | 7,000 |
| | ----- |
| Total | 33,054 |
| | ----- |
| Funding sources: | |
| Capital Reserve – unallocated resources | 7,308 |
| P&R Other Reserves | 1,750 |
| Existing P&R capital programme resources | 2,472 |
| Capital receipts | 5,374 |
| Revenue underspending in 2013/14 | 16,150 |
| | ----- |
| Total | 33,054 |
| | ----- |

- 2.7. Further details of these proposals are included in the report to this meeting on the Revenue Budget.
- 2.8. It is proposed that the provision for the strategic purchase of farm land is added to the Policy and Resources capital programme for 2013/14 as the opportunity to acquire the land will arise in this financial year. The addition of £1.994 million includes provision for capital investment to bring the asset up to modern standards.
- 2.9. In addition to these proposals, it is recommended that the provision for structural maintenance of highways in Economy, Transport and Environment's locally resourced capital programme is increased to £12 million per annum from 2014/15. Further details are included in section 9.
- 2.10. All these proposals have been incorporated in the detailed programme included in Appendix 3.

3. Expenditure and resources cashflow - summary

- 3.1. Table 3 shows the annual capital expenditure flows from the proposed capital programme, including the recommended additions, compared with the financing resources available.

Table 3 – Capital expenditure and resources

| 2013/14 to 2016/17 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 |
|--|-----------------|-----------------|-----------------|-----------------|
| Expenditure | 222,106 | 284,126 | 218,463 | 166,147 |
| Resources | 213,792 | 242,643 | 199,978 | 164,870 |
| Surplus (-) / Shortfall (+) | 8,314 | 41,483 | 18,485 | 1,277 |
| Planned use of capital reserve | -8,314 | -41,483 | -18,485 | -1,277 |
| Resources transferred to the capital reserve | - | - | - | - |
| Capital reserve balance at the end of the year | 80,722 | 39,239 | 20,754 | 19,477 |
| 2017/18 to 2020/21 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 |
| Expenditure | 92,502 | 35,479 | 21,399 | 20,049 |
| Resources | 85,900 | 37,007 | 24,147 | 22,997 |
| Surplus (-) / Shortfall (+) | 6,602 | -1,528 | -2,748 | -2,948 |
| Planned use of capital reserve | -6,602 | - | - | - |
| Resources transferred to the capital reserve | - | -1,528 | -2,748 | -2,948 |
| Capital reserve balance at the end of the year | 12,875 | 14,403 | 17,151 | 20,099 |

- 3.2. Resources set aside by Cabinet to fund the significant additions to the capital programme in February 2012 have been held in the Capital Reserve until they are required to finance the resultant capital payments. As a result, the Capital Reserve is forecast to reach £81 million at 31 March 2014 but will reduce in subsequent years as the additional capital schemes are completed.

Capital payments and resources

- 3.3. The forecast capital payments in each year can be financed in full from the available capital resources, demonstrating that the stable financing position for the capital programme has been maintained.
- 3.4. The forecasts are likely to change as schemes within the programme progress and the position will be reassessed at the next review of the capital programme.
- 3.5. Progress during the remainder of 2013/14 and throughout 2014/15 on all capital payments and resources will be closely monitored and reported to the Leader and Cabinet during the year. The Chief Executive proposes that a formal review of the whole programme and its implementation is planned for July 2014. Executive members will also review progress on their capital programmes at regular intervals during the year.
- 3.6. Appendix 2 includes details of the longer term implications of the proposed programmes for the revenue budget from increased running costs and capital charges.

4. Prudential borrowing

- 4.1. Prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance.
- 4.2. The planned prudential borrowing will total £188 million, after deducting bridging loans repaid to 31 March 2013. Of this, £153 million is being repaid from savings in the revenue budget, including the schemes from earlier years for the Enhance nursing care homes project, waste management infrastructure and the structural maintenance of highways, together with the prudential borrowing necessary to support the additions to the capital programme from 2012/13 onwards agreed in February 2012.
- 4.3. Further details of the current level of prudential borrowing are included in Appendix 2.

5. Capital programmes proposed by Executive Members

- 5.1. The following sections of the report deal with the proposals from Executive Members for the capital programme, in line with the guideline cash limits and allocations of capital grant announced by the Government.

6. Guideline cash limits for the capital programme

- 6.1. The guidelines for the locally resourced programme used to prepare this programme have been maintained at existing levels. They had been reduced by one-third in February 2009 in response to the lower forecasts of capital receipts likely to be available to support the capital programme. This followed the sharp decline in the demand for development land as a result of the financial crisis in 2008. That reduced level has been maintained, with no uplift for inflation, as there is no certainty that the level

of future capital receipts will provide a sustained increase in available resources for the capital programme. This leaves revenue contributions as the primary source of funding for the locally resourced programme.

- 6.2. In addition, services' programmes have been increased by the additions to the programme agreed by County Council in February 2012 and February 2013 financed from additional revenue contributions, the use of reserves and prudential borrowing.
- 6.3. The guidelines set for each service are shown in Table 4. Subsequent virements to or from revenue proposed by Executive members and other adjustments are shown in the table.

**Table 4 – Guidelines for locally resourced capital programmes
2014/15 to 2016/17**

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 |
|---|-----------------|-----------------|-----------------|
| Adult Services | 481 | 481 | 481 |
| add Extra-Care Housing | 5,600 | 14,000 | - |
| | ----- | ----- | ----- |
| Adult Services total | 6,081 | 14,481 | 481 |
| Children's Services | 190 | 190 | 190 |
| additions agreed February 2012 | 7,807 | 11,085 | - |
| | ----- | ----- | ----- |
| Children's Services total | 7,997 | 11,275 | 190 |
| Economy, Transport and Environment | 12,526 | 11,830 | 11,134 |
| additions agreed February 2013 | 750 | 750 | - |
| less transferred to revenue for winter maintenance | -240 | -240 | -240 |
| less virement to revenue for prudential borrowing for Operation Resilience | -9,652 | -8,956 | -8,260 |
| | ----- | ----- | ----- |
| Economy, Transport and Environment total | 3,384 | 3,384 | 2,634 |
| Policy and Resources | 8,566 | 8,566 | 8,566 |
| add additions agreed February 2012 | 9,250 | - | - |
| add additions agreed February 2013 | 500 | 1,100 | - |
| less virement to revenue for bridge inspections on rights of way | -30 | -30 | -30 |
| | ----- | ----- | ----- |
| Policy & Resources total | 18,286 | 9,636 | 8,536 |
| | ----- | ----- | ----- |
| Total | 35,748 | 38,776 | 11,841 |
| | ----- | ----- | ----- |

Government supported programme

- 6.4. The present Government has so far issued all its support for local authorities' capital expenditure in the form of capital grants and not as borrowing allocations. It is expected to continue that arrangement for 2014/15 onwards.
- 6.5. As mentioned earlier, the Government has not yet announced some of its capital grant allocations for Children's Services. The Children's Services capital programme included in this report assumes that the capital grant allocations for Capital Maintenance and Devolved Formula Capital continue at the same level as 2013/14.
- 6.6. The Government has announced its capital grant allocation for Local Transport for 2014/15, but has not issued figures for later years. The proposed capital programme for Economy, Transport and the Environment assumes that the allocation for Integrated Transport will reduce by 50% from 2015/16, to reflect the expected transfer of resources to Local Enterprise Partnerships.

7. The programmes submitted

- 7.1. The total starts value of the three-year programme submitted by Executive Members is £554 million, as shown in Table 5. It includes £311 million of schemes supported by Government grants.

Table 5 – Starts programmes submitted 2014/15 to 2016/17

| | Land £000 | Works, Fees, Furniture and Equipment | | | Total programme including Land £000 |
|---------|--------------|--|--|-------------------------------------|---|
| | | Locally resourced programmes £000 | Schemes supported by Government allocations £000 | Total Works, Fees etc £000 | |
| 2014/15 | 646 | 110,080 | 111,712 | 221,792 | 222,438 |
| 2015/16 | 646 | 77,394 | 100,866 | 178,260 | 178,906 |
| 2016/17 | 646 | 53,703 | 97,998 | 151,701 | 152,347 |
| Total | 1,938 | 241,177 | 310,576 | 551,753 | 553,691 |

- 7.2. The proposed programmes are in line with the cash limit guidelines for the capital programme. A reconciliation between the guidelines and the proposed programme is included in Appendix 1.
- 7.3. The capital expenditure flows from these programmes and from the works currently in progress are summarised in Appendix 2, together with the resources available to finance those expenditure flows. The programmes themselves are set out in detail in Appendix 3.

8. Children's Services

- 8.1. The proposed Children's Services programme provides additional school places to meet the demand arising from the significant rise in births over the last 10 years, housing developments and in-migration to the county. Part of the cost will be met by significant levels of developers' contributions although the introduction of the Community Infrastructure Levy will increase the uncertainty over this funding source. The remaining costs can be met from the assumed level of Government grant allocations together with the additional sums added to the capital programme by Cabinet in February 2012.
- 8.2. To manage the demand for schemes and the resources available, the Executive Lead Member for Children's Services proposes to carry forward resources between the years of the capital programme. This includes carrying forward £11.515 million from 2013/14 to 2014/15.
- 8.3. The need for additional school places remains and, with the amount of new housing planned currently and likely to continue after 2015, there will continue to be significant pressure on the programme for at least the next five years to provide primary school places.
- 8.4. The Executive Lead Member for Children's Services has recommended that the following additions are made to the capital programme for 2013/14:
 - Westgate School, Winchester – an increase of £1.2 million in the cost of the scheme to provide new primary and nursery provision at Westgate School, to be funded from within Children's Services capital programme for 2013/14
 - Stubbington Study Centre improvements – an addition of £0.475 million to the cost of the scheme from the Study Centre's own resources
 - Children's Services' IT programme, known as Transformation IT for Children in Hampshire (TITCH) – added to the programme at £1.070 million, to be funded by £0.570 million from the Cost of Change Reserve and £0.5 million from within Children's Services capital programme for 2013/14.
- 8.5. There are sufficient resources available to fund all the schemes which need to be started in 2014/15. The position for future years will be dependent on future resources and will be subject to further review.

9. Economy, Transport and Environment

- 9.1. As in previous years, the Executive Member for Environment and Transport has proposed adjusting the starts programmes for each year to make sure that the resultant expenditure flows fully use the resources available from Government grants. These adjustments are summarised in Table 6.

Table 6 – Proposed capital programme

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | Total £000 |
|--|-----------------|-----------------|-----------------|---------------|
| Resources available | 69,722 | 49,890 | 45,260 | 164,872 |
| Phasing of starts programmes to match funding available | -2,900 | +909 | -658 | -2,649 |
| Proposed programme | 66,822 | 50,799 | 44,602 | 162,223 |

- 9.2. The programme will be managed to ensure that the expenditure flows in each year do not exceed the resources available.

Structural maintenance

- 9.3. Since 2011/12, efficiency funded prudential borrowing has provided an additional £10 million per annum to fund the Operation Resilience programme. Investment in the durability of the highways network would reduce the call on the maintenance budget in subsequent years, and it was considered affordable to vire an amount to revenue from the locally resourced capital programme to cover the borrowing costs while retaining a similar standard of highway maintenance.
- 9.4. The programme has been very successful but in the last 18 months the combination of very wet weather followed by freezing conditions has significantly impaired the condition of the highways network. This has undermined the original rationale for reducing the locally resourced capital programme and leading to a reconsideration of this approach.
- 9.5. It is proposed that the provision in the locally resourced capital programme for structural maintenance should be established at £12 million per annum from 2014/15. This can be financed using the existing locally resourced programme and the New Homes Bonus through a combination of an annual cash amount topped up by prudential borrowing. This increase in the provision for structural maintenance has been included in the proposed capital programme in Appendix 3.

10. Policy and Resources

- 10.1. The proposed capital programme for Policy and Resources is largely based on the priorities for capital investment established in previous years, including the additions agreed in the last two years for supporting the Rural Broadband programme.
- 10.2. The programme for 2014/15 includes a provision of £2.972 million to progress major improvements and upgrades in IT infrastructure and equipment. This is being funded by a transfer of £2 million from the revenue budget and a one-off transfer of £0.972 million from IT reserves.

- 10.3. The provision for Schools Condition Funding supports major repairs and improvements in schools. It is funded by Government grant and, as mentioned in paragraph 6.5, the Government has not yet announced details of its grant allocations for Schools Capital Maintenance. As a result, the proposed programme assumes that the level of grant for Schools Condition Funding in 2014/15 onwards will be at the same level as in 2013/14. The programme will be amended as necessary when the Government announces its grant allocations.
- 10.4. The following additions to the Policy and Resources capital programme for 2013/14 are proposed:
- £1.7 million for IT Services, to be funded by virement from IT Services' revenue budget
 - £1.032 million to upgrade the Hampshire Public Services Network (HPSN2), to be funded by prudential borrowing repayable from revenue savings
 - as mentioned in paragraph 2.8, £1.994 million for a strategic purchase of farm land and further investment to bring the asset up to modern standards, to be funded from the Capital Reserve
 - £0.186 million for refurbishment of the shower facilities at Calshot Activities Centre, to be funded by virement from the revenue budget.

11. Adult services

- 11.1. The proposed capital programme for Adult Services includes the continued provision for investment in Extra-Care Housing to provide 500 new units. A review is currently being undertaken to examine the potential acceleration of the programme and the delivery of greater numbers of units within the original cash envelope.
- 11.2. In addition, it is proposed to request the Director of Corporate Resources and the Director of Adult Services to explore how funding could be identified to progress Extra-Care Housing for young adults and to bring forward a business case with a defined capital investment programme.

12. Conclusions

- 12.1. Regular reports will be made during the year on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2014/15 and the progress on obtaining the capital receipts necessary to finance the capital programme.

13. Recommendations

- 13.1. The following decisions are sought, based on the recommendations of the Leader and Cabinet to the County Council, for the capital programme for 2014/15 to 2016/17 that:
- 1 Children's Services capital resources totalling £11.515 million be carried forward from the capital programme for 2013/14 to the programme for 2014/15 (paragraph 8.2)
 - 2 The Director of Corporate Resources and the Director of Adult Services be requested to explore how funding could be identified to progress Extra-Care Housing for young adults and to bring forward a business case with a defined capital investment programme (paragraph 11.2)
 - 3 It be a recommendation by Cabinet to Council that:
 - a) the provision in the Children's Services capital programme for 2013/14 for new primary and nursery provision at Westgate School, Winchester be increased by £1.2 million, to be funded from within Children's Services capital programme for 2013/14
 - b) the provision in the Children's Services capital programme for 2013/14 for improvements at Stubbington Study Centre be increased by £0.475 million, to be funded from contributions from the Study Centre's own resources
 - c) provision of £1.070 million be added to the Children's Services capital programme for 2013/14 for Children's Services' IT programme, known as Transformation IT for Children in Hampshire (TITCH), to be funded by £0.570 million from the Cost of Change Reserve and £0.5 million from within Children's Services capital
 - d) provision of £1.7 million be added to the Policy and Resources capital programme for 2013/14 for IT Services, to be funded by virement from IT Services' revenue budget
 - e) provision of £1.032 million be added to the Policy and Resources capital programme for 2013/14 to upgrade the Hampshire Public Services Network (HPSN2), to be funded by prudential borrowing repayable from revenue savings
 - f) provision of £1.994 million be added to the Policy and Resources capital programme for 2013/14 for a strategic purchase of farm land and further investment to bring the asset up to modern standards, to be funded from the Capital Reserve
 - g) provision of £0.186 million be added to the Policy and Resources capital programme for 2013/14 for refurbishment of the shower facilities at Calshot Activities Centre, to be funded by virement from the revenue budget

- h) the capital programme for 2014/15 and the provisional programmes for 2015/16 and 2016/17 as set out in Appendix 3 of the accompanying report be approved, subject to the conditions set out in section B.3 of the County Council's Financial Procedures on the responsibilities for managing the capital programme and, where appropriate, to the approval of the Executive Member for Policy and Resources to proposals by Executive Members to retain more than a 25% share of capital receipts
- i) expenditure on preliminary design and planning work for major transport schemes be permitted when they have achieved a place in the County Council's Local Transport Plan, subject to the cost being met within existing Government allocations
- j) authority be given to incur expenditure on land purchases as follows:
 - (1) up to the sum specified in respect of sites still required for the schemes included in the capital programme for the period 2014/15 to 2016/17 provided that the relevant scheme has been the subject of a feasibility or design project appraisal approved by the relevant Executive Member
 - (2) up to the amount included in the programmes for 2014/15 to 2016/17 in respect of advance and advantageous land purchases.

13.2. Council is recommended to approve that:

- a) the provision in the Children's Services capital programme for 2013/14 for new primary and nursery provision at Westgate School, Winchester be increased by £1.2 million, to be funded from within Children's Services capital programme for 2013/14
- b) the provision in the Children's Services capital programme for 2013/14 for improvements at Stubbington Study Centre be increased by £0.475 million, to be funded from contributions from the Study Centre's own resources
- c) provision of £1.070 million be added to the capital programme for 2013/14 for Children's Services' IT programme, known as Transformation IT for Children in Hampshire (TITCH), to be funded by £0.570 million from the Cost of Change Reserve and £0.5 million from within Children's Services capital
- d) provision of £1.7 million be added to the Policy and Resources capital programme for 2013/14 for IT Services, to be funded by virement from IT Services' revenue budget
- e) provision of £1.032 million be added to the Policy and Resources capital programme for 2013/14 to upgrade the Hampshire Public

Services Network (HPSN2), to be funded by prudential borrowing repayable from revenue savings

- f) provision of £1.994 million be added to the Policy and Resources capital programme for 2013/14 for a strategic purchase of farm land and further investment to bring the asset up to modern standards, to be funded from the Capital Reserve
- g) provision of £0.186 million be added to the Policy and Resources capital programme for 2013/14 for refurbishment of the shower facilities at Calshot Activities Centre, to be funded by virement from the revenue budget
- h) the capital programme for 2014/15 and the provisional programmes for 2015/16 and 2016/17 as set out in Appendix 3 of the accompanying report be approved, subject to the conditions set out in section B.3 of the County Council's Financial Procedures on the responsibilities for managing the capital programme and, where appropriate, to the approval of the Executive Member for Policy and Resources to proposals by Executive Members to retain more than a 25% share of capital receipts
- i) expenditure on preliminary design and planning work for major transport schemes be permitted when they have achieved a place in the County Council's Local Transport Plan, subject to the cost being met within existing Government allocations
- j) authority be given to incur expenditure on land purchases as follows:
 - (1) up to the sum specified in respect of sites still required for the schemes included in the capital programme for the period 2014/15 to 2016/17 provided that the relevant scheme has been the subject of a feasibility or design project appraisal approved by the relevant Executive Member
 - (2) up to the amount included in the programmes for 2014/15 to 2016/17 in respect of advance and advantageous land purchases.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

| | |
|---|-----|
| Hampshire safer and more secure for all: | yes |
| Corporate Business plan link number (if appropriate): | |
| Maximising well-being: | yes |
| Corporate Business plan link number (if appropriate): | |
| Enhancing our quality of place: | yes |
| Corporate Business plan link number (if appropriate): | |

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. The proposals in this report have been developed with due regard to the requirements of the Equality Act 2010, including the Public Sector Equality Duty and the Council's equality objectives. Equalities Impact Assessments outcomes will be carried out on the schemes within the capital programme in order to comply with the requirements of the Act.

2. Impact on Crime and Disorder:

- 2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1988 to consider the impact of all decisions it makes on the prevention of crime. Crime prevention issues will be considered when individual project appraisals are developed.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

When the County Council invests in new build, replacement or refurbishment works, an assessment of reductions in energy consumption (carbon use) is made in the design. In all new buildings and in the majority of refurbishment type investments, the latest technologies and materials are specified in order to maximise the impact on reducing carbon consumption. Many projects are also able to employ passive design approaches including natural ventilation and improved insulation to actively reduce consumption in summer and winter conditions.

The County Council has, as part of its Energy Strategy, an on-going programme of projects which will reduce energy costs and thereby the carbon footprint. Progress is on track towards the overall target of a 20% reduction from 2010 levels by 2015. The Energy Performance Programme proposed in this report will contribute positively towards this and over 800 tonnes of carbon will be saved together with energy savings in the order of £5 million over the lifetime of the measures (25 years). This is also a sound financial investment as the potential rate of return is anticipated to be around 15% on the capital.

The Council's climate change programme is delivered through working in partnership and building relationships between the public, private and voluntary sectors.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Where appropriate, capital schemes are planned with adaptation to climate change in mind, such as the inclusion of passive cooling through building design, rain water and grey water harvesting, drought resistant planting etc.

The proposals in the capital programme seek to provide compact and energy-efficient building envelopes. Any new build or extensions will meet current building regulations standards for thermal performance. Where possible, appropriate sustainable materials will be employed to reduce the environmental impact of the proposals.

The programme includes schemes for flood risk and coastal defence management, and adaptation of the County Council's coastal sites to future sea level rise.

Capital Programmes 2014/15 to 2016/17 proposed by Executive Members

1 Summary of the proposed programmes

- 1.1 The proposed three-year programme of £554 million can be reconciled with the cash limit guidelines, as Table 7 shows.

Table 7 – Capital programme 2014/15 to 2016/17 – funding sources

| | £000 |
|---|---------|
| Guideline for the three-year locally resourced programme | 114,043 |
| - subsequent virements to revenue | -810 |
| - structural maintenance of highways – additional provision | 3,663 |
| | ----- |
| Adjusted locally resourced guidelines | 116,896 |
| Use of capital receipts, developers' contributions, reserves, etc | |
| - Children's Services | 62,877 |
| - Economy, Transport and Environment | 17,455 |
| - Policy and Resources | 4,072 |
| Additional resources to fund the proposed increases in the capital programme listed in Table 2 of the main report | 31,060 |
| | ----- |
| Total funding from local resources | 232,360 |
| Resources carried forward from previous years | |
| - Children's Services | 27,460 |
| Government support | |
| - Capital grants | 293,871 |
| | ----- |
| Total programme 2014/15 to 2016/17 | 553,691 |
| | ----- |

Capital Expenditure Flows and Financing Resources 2013/14 to 2016/17

1 Capital expenditure flows

- 1.1 The level of capital expenditure (or 'payment') flows is one of the factors taken into account in determining the size of the capital starts programme, together with forecasts of financing resources.
- 1.2 Expenditure flows in 2013/14 and the following three years will result from works in progress (schemes started in 2013/14 and earlier years) plus those arising from the proposed programme for 2014/15 to 2016/17, as Table 8 below shows. These figures include the proposed additions to the capital programme in order to demonstrate that the additions can be fully funded.

Table 8 – Capital expenditure flows

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|--|---------|-----------|---------|---------|
| | £000 | £000 | £000 | £000 |
| Works in progress at 31 March 2013 and schemes starting in 2013/14 | 221,349 | 133,726 | 55,701 | 16,511 |
| Programmes starting in 2014/15 2015/16 and 2016/17 | | - 148,133 | 161,471 | 148,740 |
| Land and buildings acquisition | 757 | 2,267 | 1,291 | 896 |
| Total expenditure flows | 222,106 | 284,126 | 218,463 | 166,147 |

- 1.3 In practice, expenditure flows in the years after 2014/15 may vary from those shown in Table 8 if further developer and other external contributions become available to fund additional capital schemes, or if the levels of Government support differ from those currently assumed.

2 Resources available for capital financing

- 2.1 The sources of finance to support the capital programme are:
- Government capital grants – the Government has issued all of its support for local authorities' capital expenditure from 2011/12 onwards in the form of capital grants and not as borrowing allocations
 - Government borrowing allocations for 2010/11 and from earlier years which had not been used before 2013/14
 - prudential borrowing – loans that the County Council may decide to raise in the knowledge that it will have to meet the principal repayment and interest charges from its own resources without any additional support from the Government. The County Council would need to

consider the impact of such loans on the revenue budget and prudential indicators

- contributions from other bodies, which can include developers, the health service, other local authorities and the national lottery
- capital receipts from the sale of land, buildings and other assets
- contributions from the revenue budget.

2.2 The following table shows the latest estimate of the resources available to finance capital expenditure.

Table 9 - Resources to fund capital expenditure

| | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Borrowing | | | | |
| Government allocations | 29,988 | 4,332 | 355 | - |
| Prudential borrowing less repayments from capital receipts, developers' contributions, etc | 22,521 | 15,319 | 28,981 | 22,465 |
| Finance lease for street lighting PFI scheme | -1,837 | -6,006 | -2,955 | -9,491 |
| Capital grants | 35,670 | 28,428 | - | - |
| Contributions from other bodies including developers | 63,036 | 114,130 | 95,639 | 92,081 |
| Capital receipts | 17,946 | 31,357 | 31,277 | 21,104 |
| Contributions from reserves | 14,108 | 7,770 | 13,870 | 6,360 |
| Revenue contributions to capital | 6,140 | 18,579 | 4,208 | 4,870 |
| | 26,220 | 28,734 | 28,603 | 27,481 |
| | ----- | ----- | ----- | ----- |
| New resources in the year | 213,792 | 242,643 | 199,978 | 164,870 |
| Use of the capital reserve: added to the reserve (-), or taken from the reserve (+) | 8,314 | 41,483 | 18,485 | 1,277 |
| | ----- | ----- | ----- | ----- |
| Total resources available | 222,106 | 284,126 | 218,463 | 166,147 |
| | ----- | ----- | ----- | ----- |

2.3 Most of the capital receipts forecast in Table 9 are required to repay prudential borrowing for school and other rationalisation schemes started in advance of the site disposals.

3 Capital reserve

3.1 Resources previously identified in 2012/13 to fund the additions to the capital programme agreed in February 2012 have been added to the Capital Reserve until they are required to fund capital payments in 2013/14 onwards, as shown in Table 10.

Table 10 – Capital reserve

| | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Opening balance | 89,036 | 80,722 | 39,239 | 20,754 | 19,477 |
| Used in year | -8,314 | -41,483 | -18,485 | -1,277 | -6,602 |
| Added in year | - | - | - | - | - |
| Closing balance | 80,722 | 39,239 | 20,754 | 19,477 | 12,875 |

4 Revenue implications

- 4.1 The revenue implications of the new programme are shown in the following table. This table excludes the impact of the proposed additions to the capital programme.

Table 11 – Revenue effects

| | Running costs £000 | Capital charges £000 | Total £000 |
|----------------|--------------------------|----------------------------|---------------|
| 2014/15 starts | 524 | 7,509 | 8,033 |
| 2015/16 starts | 561 | 4,448 | 5,009 |
| 2016/17 starts | 264 | 3,772 | 4,036 |
| Total | 1,349 | 15,729 | 17,078 |

- 4.2 The capital charges represent depreciation over the estimated life of the asset for most schemes. The capital charges do not affect the County Council's overall expenditure as the charges to services will be counter-balanced by a corresponding credit to the centrally managed asset account.
- 4.3 Although the capital charges in Table 11 do not affect the County Council's overall expenditure, it will be increased by the capital financing costs on the loans raised to finance the programme. The full year revenue impact of the additional prudential borrowing over the proposed three-year programme will be £3.4 million.

5 Debt outstanding

- 5.1 Table 12 below shows the estimated debt to be financed by the County Council including the new borrowings necessary to finance the proposed three-year programme.

Table 12 – Debt outstanding

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|---------|---------|---------|---------|---------|
| | £m | £m | £m | £m | £m |
| Debt outstanding at the beginning of the year | 705.1 | 760.6 | 769.2 | 761.4 | 739.1 |
| New borrowings | 52.5 | 19.6 | 29.3 | 22.5 | 16.1 |
| Street lighting PFI liability | 33.8 | 25.8 | - | - | - |
| Repayments from: | | | | | |
| - the revenue account | -29.0 | -30.8 | -34.2 | -35.3 | -35.5 |
| - capital receipts and developers' contributions | -1.8 | -6.0 | -2.9 | -9.5 | -2.1 |
| | ----- | ----- | ----- | ----- | ----- |
| Debt outstanding at the end of the year | 760.6 | 769.2 | 761.4 | 739.1 | 717.6 |
| | ----- | ----- | ----- | ----- | ----- |

- 5.2 As the table shows, the amount of debt outstanding will increase over the period of the forthcoming programme as prudential borrowing is used to finance the proposed additions to the programme.

6 Prudential borrowing

- 6.1 In November 2003, Cabinet agreed a framework for the use of prudential borrowing from 2004/05 onwards under the Prudential Code for Capital Finance introduced by the Local Government Act 2003. 'Prudential borrowing' does not attract Government revenue grants towards the loan charges. Instead, the loan repayments and interest charges have to be financed by the County Council from its own resources. Because of the potential impact on the County Council's overall financial position, it is important that the use of prudential borrowing is very closely controlled and monitored.
- 6.2 The framework, as updated by Cabinet in February 2006, includes:
- borrowing for which loan charges are financed by virement from the Executive member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income
 - 'bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred
 - capital investment by business units
 - temporary borrowing to accommodate shortfalls in general capital resources.
- 6.3 The overall level of the County Council's prudential borrowing since 2004/05, including the proposals in this report, is summarised in the following table.

Table 13 – Prudential borrowing

| | Borrowing £000 | Repaid to date £000 | Future repayments £000 | Net total £000 |
|------------------|-------------------|---------------------------|------------------------------|-------------------|
| 2004/05 actuals | 20,372 | - | - | 20,372 |
| 2005/06 actuals | 14,754 | - | - | 14,754 |
| 2006/07 actuals | 22,864 | -5,716 | - | 17,148 |
| 2007/08 actuals | 21,686 | -14,939 | - | 6,747 |
| 2008/09 actuals | 47,282 | -2,450 | - | 44,832 |
| 2009/10 actuals | 5,685 | -6,543 | - | -858 |
| 2010/11 actuals | 22,294 | -7,851 | - | 14,443 |
| 2011/12 actuals | 15,628 | -27,558 | - | -11,930 |
| 2012/13 actuals | 13,078 | -35,548 | - | -22,470 |
| 2013/14 estimate | 22,521 | - | -1,837 | 20,684 |
| 2014/15 estimate | 15,319 | - | -6,006 | 9,313 |
| 2015/16 estimate | 28,981 | - | -2,955 | 26,026 |
| 2016/17 estimate | 22,465 | - | -9,491 | 12,974 |
| 2017/18 estimate | 16,100 | - | -2,090 | 14,010 |
| 2018/19 estimate | - | - | - | - |
| Total | 289,029 | -100,605 | -22,379 | 166,045 |
| | 188,424 | | | |

6.4 The schemes funded by these advances are summarised in Table 14.

Table 14 – Summary of outstanding and planned prudential borrowing advances

| | £000 |
|--|---------|
| Financed from savings in the revenue budget | 153,498 |
| 'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions | 18,318 |
| Capital investment to be financed from future charges to services | 16,608 |
| Total | 188,424 |

6.5 The 'bridging loans' in advance of capital receipts or developers' contributions are expected to be fully repaid by 2017/18. In addition to these lump sum repayments, £153 million of the prudential borrowing will be repaid from savings in the revenue budget, including the Enhance

nursing care homes, waste management infrastructure and structural maintenance of highways.

- 6.6 The prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance. The prudential indicators used as part of the process of assessing compliance are included in Appendix 12 of the report on this Agenda on the Revenue Budget.