

HAMPSHIRE COUNTY COUNCIL

Decision Report

| | |
|------------------------|--|
| Decision Maker: | Cabinet |
| Date: | 6 February 2015 |
| Decision Maker: | County Council |
| Date: | 19 February 2015 |
| Title: | Capital programme 2015/16 to 2017/18 |
| Reference: | 6338 |
| Report From: | Director of Corporate Resources – Corporate Services |

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1. Executive Summary

- 1.1. This report sets out for approval the proposed capital programme for 2015/16 to 2017/18 of £543 million.
- 1.2. Overall, the proposals in this report are in line with the medium term financial strategy which ensures that we continue to invest wisely in our existing assets and deliver a programme of new ones in line with overall priorities and need.
- 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 £543 million over the three years from 2015/16 to 2017/18. This follows a revised programme of £333 million for 2014/15, providing a total capital programme of £876 million over the four years. This is a very significant investment in the economy and infrastructure of Hampshire. It will provide:
 - £180 million of investment in new and extended school buildings in Hampshire in 2014/15 to 2017/18 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
 - An accelerated and extended Extra-Care Housing programme of 700 new units at a cost of £26 million and £6 million to extend the programme to young adults

- £136 million for structural maintenance of roads and bridges in Hampshire over the four years
- £101 million for major repairs and improvements of school and other County Council buildings over the four years
- An extended superfast broadband programme using approved County Council investment totalling £13.75 million since 2012/13 and total Government and other external funding of £16.5 million, bringing access to super fast broadband to at least 95% of premises in Hampshire
- £9 million for capital grants to support other organisations in Hampshire that bring economic and cultural benefits to the local economy
- Flood repair and mitigation work using reallocated resources within the capital programme totalling £5.8 million.

1.5. The detailed capital programmes are included in Appendix 3. A summary of the programme is shown in the table below.

Table 1 – Proposed capital programme

| | Revised 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | Total £000 |
|-------------------------------------|----------------------------|-----------------|-----------------|-----------------|----------------|
| Adult Services | 19,168 | 14,481 | 481 | 481 | 34,611 |
| Children's Services | 101,137 | 64,679 | 100,935 | 63,954 | 330,705 |
| Economy, Transport & Environment | 95,127 | 67,484 | 82,483 | 48,221 | 293,315 |
| Policy & Resources | 117,880 | 38,304 | 32,022 | 29,380 | 217,586 |
| Total | 333,312 | 184,948 | 215,921 | 142,036 | 876,217 |

542,905

- 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 8 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 2015/16 onwards. The report includes assumptions about the level of grant which will be amended when the Government announces the allocations. However, the

Government has announced allocations for new pupil places (basic need) for 2015/16 and 2016/17.

- 1.9. The Economy, Transport and Environment capital programme has been prepared on the basis of the Government's announcements for Integrated Transport Block (ITB) and highways structural maintenance allocations for the three year period 2015/16 to 2017/18 which total £91million. Indicative allocations for a further three years are subject to review. In addition, in July 2014, the first wave of Local Growth Fund (LGF) allocations was announced to Local Enterprise Partnerships (LEPs). The County Council's success in competing for LGF during 2014 has significantly enhanced the Integrated Transport Programme resulting in the largest programme in 30 years.
- 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 £184 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 2015/16 to 2017/18 have been set at the same level as the current capital programme, including the additions to the capital programme for 2012/13 to 2016/17 that were agreed by the County Council in February 2012 and February 2014.
- 2.2. In July 2014, Cabinet considered a review of the Capital Programme 2014-2017 focusing on priorities, timescales, and funding sources. As a result, proposals re-phasing or re-directing capital investment totalling £70.8 million were subsequently approved by the County Council.
- 2.3. Executive members have now prepared proposals for:
 - a locally resourced capital programme for the three-year period from 2015/16 to 2017/18 within the guidelines set 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 have been developed in accordance with the priorities and timescales identified by the capital review.

3. Expenditure and resources cash flow - summary

- 3.1. Table 2 shows the annual capital expenditure flows from the proposed capital programme, including the recommended additions, compared with the financing resources available.

Table 2 – Capital expenditure and resources

| 2013/14 to 2016/17 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|---------|---------|---------|---------|
| | £000 | £000 | £000 | £000 |
| Expenditure | 264,799 | 236,343 | 167,636 | 159,326 |
| Resources | 257,206 | 197,027 | 160,259 | 166,090 |
| Surplus (-) / Shortfall (+) | 7,593 | 39,316 | 7,377 | -6,764 |
| Planned use of capital reserve | -7,593 | -39,316 | -7,377 | |
| Resources transferred to the capital reserve | - | - | - | 6,764 |
| Capital reserve balance at the end of the year | 121,679 | 82,363 | 74,986 | 81,750 |
| 2017/18 to 2020/21 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
| | £000 | £000 | £000 | £000 |
| Expenditure | 70,769 | 32,075 | 20,245 | 20,014 |
| Resources | 45,755 | 29,570 | 23,209 | 23,209 |
| Surplus (-) / Shortfall (+) | 25,014 | 2,505 | -2,964 | -3,195 |
| Planned use of capital reserve | -25,014 | -2,505 | | |
| Resources transferred to the capital reserve | - | - | 2,964 | 3,195 |
| Capital reserve balance at the end of the year | 56,736 | 54,231 | 57,195 | 60,390 |

- 3.2. Resources set aside by Cabinet to fund the significant additions to the capital programme in February 2012 and February 2014 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 £122 million at 31 March 2015 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 2014/15 and throughout 2015/16 on all capital payments and resources will be closely monitored and reported to the Leader and Cabinet during the year. 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 £184 million, after deducting bridging loans repaid to 31 March 2014. Of this, £132 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. 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 2014 financed from additional revenue contributions, the use of reserves and prudential borrowing.
- 6.3. The guidelines set for each service are shown in Table 3. Subsequent transfers to or from revenue proposed by Executive members and other adjustments are shown in the table.

**Table 3 – Guidelines for locally resourced capital programmes
2015/16 - 2017/18**

| | 2015/16 £'000 | 2016/17 £'000 | 2017/18 £'000 |
|---|------------------|------------------|------------------|
| Adult Services | 481 | 481 | 481 |
| add extra-care housing | 14,000 | - | - |
| Adult Services total | 14,481 | 481 | 481 |
| Children's Services | 190 | 190 | 190 |
| additions agreed February 2012 | 11,085 | - | - |
| Children's Services total | 11,275 | 190 | 190 |
| Economy, Transport and Environment | 11,830 | 11,134 | 10,438 |
| additions agreed February 2013 | 750 | - | - |
| additions agreed February 2014 | 1,000 | - | - |
| add structural maintenance | 10,177 | 10,177 | - |
| less transfer to revenue for winter maintenance | -240 | -240 | -240 |
| Cessation of Members Environment (Highways) Fund | | | -780 |
| less adjustment for prudential borrowing for Operation Resilience | -8956 | -8260 | -7564 |
| ETE total | 14,561 | 12,811 | 1,854 |
| Policy and Resources | 8,566 | 8,566 | 8,566 |
| additions agreed February 2013 | 1,100 | - | - |
| additions agreed February 2014 | 4,680 | 3,000 | - |
| less transfer to revenue for bridge inspections on rights of way | -30 | -30 | -30 |
| Policy and Resources total | 14,316 | 11,536 | 8,536 |
| TOTAL | 54,633 | 25,018 | 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 2015/16 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 2014/15, with the latter excluding Academies.
- 6.6. The Government has announced its capital grant allocations for the Integrated Transport Block (ITB) and Structural Maintenance Block Funding for the three year period 2015/16 to 2017/18. Indicative allocations for a further three years are subject to review. In addition, in July 2014, the first wave of Local Growth Fund (LGF) allocations was announced to Local Enterprise Partnerships (LEPs). Continuing its successful bidding history, the County Council has secured (subject to final approval) over £55 million from the LGF for major transport and sustainable transport improvements.

7. The programmes submitted

- 7.1. The total starts value of the three-year programme submitted by Executive Members is £543 million, as shown in Table 4. It includes £329 million of schemes supported by Government grants.

Table 4 – 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 | |
| 2015/16 | 0 | 77,783 | 107,165 | 184,948 | 184,948 |
| 2016/17 | 38 | 85,353 | 130,530 | 215,883 | 215,921 |
| 2017/18 | 646 | 50,240 | 91,150 | 141,390 | 142,036 |
| Total | 684 | 213,376 | 328,845 | 542,221 | 542,905 |

- 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 Government grant allocations together with locally resourced capital funding including the additional sum added to the capital programme by Cabinet in February 2012.
- 8.2. Current projections continue to show a rise in primary numbers and this is likely to continue until at least 2018/19. It is recognised that there will be a need to expand and build new secondary schools as the primary growth moves through the system into the secondary sector. A detailed exercise is currently being undertaken to review the forecast secondary numbers and high level costings of the potential building solutions and options.
- 8.3. 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. In addition, it is proposed to defer from 2014/15 to 2015/16 a number of schemes with their resources totalling £8.973 million.
- 8.4. The Executive Lead Member for Children's Services has approved a reallocation of resources within the approved capital programme for 2014/15 and also recommends additional resources of £0.700m revenue funding for early education for two year olds from lower income households should be converted to capital and are added to the 2014/15 programme.
- 8.5. There are sufficient resources available to fund all the schemes which need to be started in 2015/16. The position for future years will be dependent on future resources and will be subject to further review, particularly the future provision of secondary school places.

9. Economy, Transport and Environment

- 9.1. Proposals of the Executive Member for Economy, Transport and Environment amount to almost £200 million over the next three years, and include over £101million of new investment in structural maintenance. The Integrated Transport programme, at £96.2 million, is the largest in value for 30 years, and includes 15 Major Transport Schemes at a value of £79.3 million.
- 9.2. Government Grants make up the bulk of the funding, with formula settlements and project specific grants (Local Growth Funding through the Local Enterprise Partnerships) adding up to over £150 million. The remainder is a mix of local resources (£29 million), developer contributions (£16 million) and other local authority contributions (£1.8 million).

- 9.3. The Executive Member proposes two schemes to be carried forward from 2014/15 to 2015/16 as follows:
- £1.8 million relating to Peel Common Roundabout
 - £0.750 million in respect of the Rowner urban renewal scheme.

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, relating to the County Council's built estate, IT infrastructure and wider investment in Hampshire to bring economic and cultural benefits to residents, visitors and businesses.
- 10.2. The programme for 2015/16 includes a provision of £1.840 million to progress major improvements and upgrades in IT infrastructure and equipment. This is being funded by transfers from the IT revenue budget and earmarked reserve. Further rationalisation of office accommodation will enable re-investment of £1.7million.
- 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 2015/16 onwards will be at the same level as in 2014/15. The programme will be amended as necessary when the Government announces its grant allocations.
- 10.4. The Executive Member for Policy and Resources proposes an addition to the 2014/15 programme to increase the provision for strategic land and asset purchase and asset improvements by £2.3 million. This is to be funded from unallocated resources identified in the capital review reported to Cabinet in July 2014.
- 10.5. The County Council has always taken the opportunity to consider longer term strategic land and building purchases, whether this has been to protect farm land, to facilitate land assembly or hold property for longer term strategic gains or development plans.
- 10.6. The Strategic Asset Management Plan approved last year included the objective of developing an acquisition, income and investment strategy, which will be reported to the Executive Member for Policy and Resources later this year.
- 10.7. In the meantime, it is clearly important to be able to respond quickly to any market opportunities that may arise and this report therefore seeks delegated authority for the Director of Culture, Communities and Business Services, in consultation with the Chief Executive, Director of Corporate Resources and the Leader to pursue strategic land and asset purchases from existing reserves, contingencies or prudential borrowing as appropriate, that are in the long term interests of the County Council. No upper financial limit has been set for this delegation in order to allow maximum flexibility in its operation, however any

decisions exercised under this delegation will be formally reported to the Executive Member for Policy and Resources at the earliest opportunity.

11. Adult services

- 11.1. The proposed capital programme for Adult Services includes the continued provision for investment in Extra-Care Housing. As a result of the capital review in 2014, this programme will now provide up to 700 units and accelerated delivery of the original 500 units by 2017. In addition proposals are being developed to extend the programme to young adults and will be reported to the Executive Member for Policy and Resources in January 2015.
- 11.2. Projects are also being developed to improve nursing and residential accommodation using the £1 million funding in the approved 2014/15 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 2015/16 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 2017/18 that:
 - 1 Children's Services capital resources totalling £8.973 million be carried forward from the capital programme for 2014/15 to the programme for 2015/16 (paragraph 8.3)
 - 2 Economy, Transport and Environment resources totalling £2.550 million be carried forward from the capital programme for 2014/15 to the programme for 2015/16 (paragraph 9.3)
 - 3 Authority is delegated to the Director of Culture, Communities and Business Services, in consultation with the Chief Executive, Director of Corporate Resources and the Leader to purchase strategic land and property assets from existing reserves, contingencies or prudential borrowing as appropriate, that are in the long term financial and property interests of the County Council.
 - 4 It be a recommendation by Cabinet to Council that:
 - a) additional resources of £0.700m Two Year Old Trajectory Revenue Funding should be converted to capital and are added to the Children's Services 2014/15 programme
 - b) the Policy and Resources provision for strategic land and asset purchase and asset improvements in 2014/15 is increased by £2.3 million, funded

from unallocated resources identified in the capital review reported to Cabinet in July 2014

- c) the capital programme for 2015/16 and the provisional programmes for 2016/17 and 2017/18 as set out in Appendix 3 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
- d) 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
- e) 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 2015/16 to 2017/18 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 2015/16 to 2017/18 in respect of advance and advantageous land purchases.

13.2. Council is recommended to approve that:

- a) additional resources of £0.700m Two Year Old Trajectory Revenue Funding should be converted to capital and are added to the Children's Services 2014/15 programme
- b) the Policy and Resources provision for strategic land purchase and asset improvements in 2014/15 is increased by £2.3 million, funded from unallocated resources identified in the capital review reported to County Council in September 2014
- c) the capital programme for 2015/16 and the provisional programmes for 2016/17 and 2017/18 as set out in Appendix 3 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
- d) 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

- e) 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 2015/16 to 2017/18 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 2015/16 to 2017/18 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.)

| <u>Document</u> | <u>Location</u> |
|--|-----------------|
| Executive Member for Adult Social Care and Public Health Capital programme for 2015/16 to 2017/18 | Ref 6337 |
| Executive Lead Member for Children's Services and Deputy Leader Capital programme for 2015/16 to 2017/18 | Ref 6174 |
| Executive Member for Economy, Transport and Environment Capital programme for 2015/16 to 2017/18 | Ref 6391 |
| Executive Member for Policy and Resources Capital programme for 2015/16 to 2017/18 | Ref 6356 |

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.

Capital projects will be planned and delivered in accordance with the County Council's Energy Strategy which aims to achieve carbon neutrality by 2050.

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. Any new build or extensions will meet current building regulations standards for thermal performance. Where possible, appropriate sustainable materials will be employed together with the inclusion of passive cooling through building design, rain water and grey water harvesting, drought resistant planting etc 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 2015/16 to 2017/18 proposed by Executive Members

1 Summary of the proposed programmes

- 1.1 The proposed three-year programme of £543 million can be reconciled with the cash limit guidelines, as Table 5 shows.

Table 5 – Capital programme 2015/16 to 2017/18 – funding sources

| | £000 |
|---|---------------------|
| Guideline for the three-year locally resourced programme | 91,492 |
| - subsequent adjustment for closed schemes | -780 |
| | <hr/> |
| Adjusted locally resourced guidelines | 90,712 |
| Use of capital receipts, developers' contributions, reserves, etc | |
| - Children's Services | 79,637 |
| - Economy, Transport and Environment | 18,027 |
| - Policy and Resources | 2,711 |
| | <hr/> |
| Total funding from local resources | 191,087 |
| Resources carried forward from previous years | |
| - Children's Services | 22,973 |
| Government support | |
| - Capital grants | 328,845 |
| | <hr/> |
| Total programme 2015/16 to 2017/18 | <hr/> 542,905 <hr/> |

Capital Expenditure Flows and Financing Resources 2014/15 to 2017/18

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 2014/15 and the following three years will result from works in progress (schemes started in 2014/15 and earlier years) plus those arising from the proposed programme for 2015/16 to 2017/18, as Table 6 below shows.

Table 6 – Capital expenditure flows

| | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|--|----------------|----------------|----------------|----------------|
| | £000 | £000 | £000 | £000 |
| Works in progress at 31 March 2014 and schemes starting in 2014/15 | 264,756 | 110,504 | 41,537 | 16,095 |
| Programmes starting in 2015/16 2016/17 and 2017/18 | | - 124,853 | 126,056 | 141,125 |
| Land acquisition | 43 | 986 | 43 | 2,106 |
| Total expenditure flows | <u>264,799</u> | <u>236,343</u> | <u>167,636</u> | <u>159,326</u> |

- 1.3 In practice, expenditure flows in the years after 2014/15 may vary from those shown in Table 6 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 7 - Resources to fund capital expenditure

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Borrowing | | | | |
| Government allocations | - | - | - | - |
| Prudential borrowing less repayments from capital receipts, developers' contributions, etc | 16,774 | 31,211 | 23,970 | 10,857 |
| Finance lease for street lighting PFI scheme | -6,306 | -5,425 | -11,436 | -12,943 |
| Capital grants | 32,061 | - | - | - |
| Contributions from other bodies including developers | 121,902 | 92,585 | 93,382 | 125,040 |
| Capital receipts | 25,000 | 27,282 | 20,927 | 16,582 |
| Contributions from reserves | 11,363 | 16,443 | 4,550 | 1,695 |
| Revenue contributions to capital | 28,087 | 6,116 | 1,173 | 2,347 |
| | 28,325 | 28,815 | 27,693 | 22,512 |
| New resources in the year | 257,206 | 197,027 | 160,259 | 166,090 |
| Use of the capital reserve: added to the reserve (-), or taken from the reserve (+) | 7,593 | 39,316 | 7,377 | -6,764 |
| Total resources available | 264,799 | 236,343 | 167,636 | 159,326 |

2.3 Most of the capital receipts forecast in Table 7 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 8.

Table 8 – Capital reserve

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Opening balance | 129,272 | 121,679 | 82,363 | 74,986 | 81,750 |
| Used in year | -7,593 | -39,316 | -7,377 | - | -25,014 |
| Added in year | - | - | - | 6,764 | |
| Closing balance | <u>121,679</u> | <u>82,363</u> | <u>74,986</u> | <u>81,750</u> | <u>56,736</u> |

4 Revenue implications

- 4.1 The revenue implications of the new programme are shown in the following table.

Table 9 – Revenue effects

| | Running costs £000 | Capital charges £000 | Total £000 |
|----------------|--------------------------|----------------------------|---------------|
| 2015/16 starts | 365 | 4,920 | 5,285 |
| 2016/17 starts | 631 | 4,970 | 5,601 |
| 2017/18 starts | 315 | 3,481 | 3,796 |
| Total | <u>1,311</u> | <u>13,371</u> | <u>14,682</u> |

- 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 capital adjustment account.
- 4.3 Although the capital charges in Table 9 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 £4.5 million.

5 Debt outstanding

- 5.1 Table 10 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 10 – 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 | 758.6 | 770.7 | 765.5 | 741.4 |
| New borrowings | 53.6 | 19.8 | 35.1 | 24.0 | 10.8 |
| Street lighting PFI liability | 32.0 | 29.4 | - | - | - |
| Repayments from: | | | | | |
| - the revenue account | -30.4 | -30.8 | -34.3 | -35.5 | -36.1 |
| - capital receipts and developers' contributions | -1.7 | -6.3 | -6.0 | -12.6 | -14.1 |
| Debt outstanding at the end of the year | <u>758.6</u> | <u>770.7</u> | <u>765.5</u> | <u>741.4</u> | <u>702.0</u> |

- 5.2 As the table shows, the amount of debt outstanding will increase in 2015/16 mainly resulting from the additions made to the programme last year. Subsequently, outstanding debt is anticipated to reduce.

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 11 – 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 actuals | 18,981 | -1,730 | - | 17,251 |
| 2014/15 estimate | 16,774 | - | -6,306 | 10,468 |
| 2015/16 estimate | 31,211 | - | -5,425 | 25,786 |
| 2016/17 estimate | 23,970 | - | -11,436 | 12,534 |
| 2017/18 estimate | 10,857 | - | -12,943 | -2,086 |
| 2018/19 estimate | 1,346 | - | -925 | 421 |
| Total | 286,782 | -102,335 | -37,035 | 147,412 |
| | 184,447 | | | |

6.4 The schemes funded by these advances are summarised in Table 12.

Table 12 – Summary of outstanding and planned prudential borrowing advances - to be updated

| | £000 |
|--|----------------|
| Financed from savings in the revenue budget | 132,213 |
| 'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions | 36,215 |
| Capital investment to be financed from future charges to services | 16,019 |
| Total | <u>184,447</u> |

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, £132 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 8 of the report on this Agenda on the Revenue Budget.