

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	5 February 2016
<b>Decision Maker:</b>	County Council
<b>Date:</b>	18 February 2016
<b>Title:</b>	Capital programme 2016/17 to 2018/19
<b>Reference:</b>	7227
<b>Report From:</b>	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 2016/17 to 2018/19 of £563.6 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 £563.6 million over the three years from 2016/17 to 2018/19. This follows a revised programme of £250 million for 2015/16, providing a total capital programme of £814 million over the four years. This is a very significant investment in the economy and infrastructure of Hampshire. It will provide:
  - £230 million of investment in new and extended school buildings in Hampshire in 2016/17 to 2018/19 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
  - £129 million for structural maintenance of roads and bridges in Hampshire over the four years

- £123 million for integrated transport schemes including ten new schemes using £61.7 million Local Enterprise Partnership Local Growth Funding
- £182 million for major repairs and improvements of school and other County Council buildings over the four years
- £7 million for capital grants to support other organisations in Hampshire that bring economic and cultural benefits to the local economy.

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 2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Adult Services	33,476	481	481	481	34,919
Children's Services	73,905	72,317	114,153	121,879	382,254
Economy, Transport & Environment	80,349	97,083	60,254	26,044	263,730
Policy & Resources	62,724	26,734	21,871	21,871	133,200
<b>Total</b>	<b>250,454</b>	<b>196,615</b>	<b>196,759</b>	<b>170,275</b>	<b>814,103</b>

563,649

- 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 capital programme is supported by Government grants for schools, highways and transport. The Secretary of State for Education announced details of individual local authority basic need capital allocations on 12 February 2015 for the three years 2015/16 to 2017/18. The Department for Education (DfE) also confirmed that School Condition Allocation (formerly Capital Maintenance) for 2016/17 and 2017/18 would be equal to the 2015/16 allocation. Devolved Formula Capital (DFC) will be allocated for 2016/17 and 2017/18 on the same formula basis as the 2015/16 allocation. On this basis, the programme assumes grant funding for 2018/19.

- 1.9. The Economy, Transport and Environment capital programme has been prepared on the basis of the Government's announcements in 2014 for Integrated Transport Block (ITB) and highways structural maintenance allocations for the two year period 2016/17 to 2017/18 and indicative allocations for a further three years which are subject to review. Funding of £81.5 million is assumed for the three year programme. In addition, the County Council has continued its successful bidding history this year for Economy, Transport and Environment projects by securing an additional £61.7 million from the Local Growth Fund (LGF) for ten new major transport schemes.
- 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 total £171 million by 2019/20. 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.
  - An in principle decision is sought to allow the Director of Corporate Resources in consultation with the Executive Member for Policy and Resources to add Adults extra care schemes to the capital programme to be funded by prudential borrowing, subject to a satisfactory business case being approved.

## **2. Background**

- 2.1. The cash limit guidelines for the new capital programme for 2016/17 to 2018/19 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 for 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 2016/17 to 2018/19 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. Capital Financing**

- 3.1. The size of the capital programme takes account of forecast financing resources and the forecast level of capital expenditure (or 'payment') flows to be financed each year.
- 3.2. 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
  - 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 including those held in the capital reserve.
- 3.3. Appendix 2 includes details of the planned sources of funding to meet the forecast capital payments in each year. This currently indicates a potential deficit of £27.7 million in 2018/19. Further work is being undertaken with potential funders to maximise contributions from sources other than the County Council and any remaining shortfall will be met from prudential borrowing.
- 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 2015/16 and throughout 2016/17 on all capital payments and resources will be closely monitored and reported to the Leader during the year. Executive members will also review progress on their capital programmes at regular intervals during the year.
- 3.6. Appendix 2 also 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 £171 million, after deducting bridging loans repaid to 31 March 2015. Of this, £129 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. The guidelines set for each service are shown in Table 2. Subsequent transfers to or from revenue proposed by Executive Members and other adjustments are shown in the table overleaf.

**Table 2 – Guidelines for locally resourced capital programmes**

	2016/17	2017/18	2018/19
	£'000	£'000	£'000
Adult Services original guideline	481	481	481
<b>Adult Services total</b>	<b>481</b>	<b>481</b>	<b>481</b>
Children's Services original guideline	190	190	190
Transfer to revenue	-90	-90	-90
Developers' and other contributions	34,110	48,631	75,866
Capital receipts	500	3,000	3,570
Carry forward from earlier years	1,119	18,000	19,000
<b>Children's Services total</b>	<b>35,829</b>	<b>69,731</b>	<b>98,536</b>
Economy, Transport and Environment	12,811	1,854	1,854
Developers' and other contributions	10,103	7,828	610
Carry forward from earlier years	2,750	-	-
Coastal conservation from P&R	106	106	106
Addition from July 2014 capital review	2,000	-	-
<b>ETE total</b>	<b>27,770</b>	<b>9,788</b>	<b>2,570</b>
Policy and Resources original guideline	8,053	5,053	5,053
Transfer to revenue	-885	-885	-885
Coastal conservation to ETE	-106	-106	-106
July 2014 capital review	-358	-	-
Revenue contribution	771	-	-
Other contributions	950	-	-
<b>Policy and Resources total</b>	<b>8,425</b>	<b>4,062</b>	<b>4,062</b>
<b>TOTAL</b>	<b>72,505</b>	<b>84,062</b>	<b>105,649</b>

**Government supported programme**

- 6.3. 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 2016/17 onwards.

- 6.4. As mentioned earlier, the Government has announced details of individual local authority allocations for 2016/17 and 2017/18 for School Basic Need, School Condition Allocation (formerly Capital Maintenance) and Schools' Devolved Formula Capital (DFC). The proposed capital programme assumes funding for 2018/19 and is thus based on £157.7 million Government grant for schools over the three years.
- 6.5. The Government announced in 2014 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. Funding of £81.5 million is assumed for the three year programme. In addition, a second round of bidding for Local Growth Fund is complete securing £61.7 million, and the responses to expressions of interest submitted to the third round are expected in the near future.

## 7. The programmes submitted

- 7.1. The total starts value of the three-year programme submitted by Executive Members is £563.6 million, as shown in Table 3. It includes £301 million of schemes supported by Government grants.

**Table 3 – Starts programmes submitted 2016/17 to 2018/19**

	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	
2016/17	38	72,967	123,610	196,077	196,615
2017/18	646	83,416	112,697	196,113	196,759
2018/19	646	105,003	64,626	169,629	170,275
<b>Total</b>	<b>1,330</b>	<b>261,386</b>	<b>300,933</b>	<b>562,319</b>	<b>563,649</b>

- 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.

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. During the period 2013 to 2016 the County Council will have delivered over 6,300 new school places. The proposed Children's Services capital programme for the next three years includes investment of £230 million to provide a further 11,000 primary and secondary school places.
- 8.2. From 2016/17, it is proposed that the total School Condition Allocation (formerly capital maintenance) be added to the Policy and Resources capital programme. However, officers from Children's Services and Property Services will continue to work closely together to identify the highest priority strategic building condition issues along with the need for modernisation improvements.
- 8.3. The proposed programme includes other improvement and modernisation projects relating to access to schools, relocation and replacement of children's homes, adaptations to properties of foster carers and disabled children and schools' devolved formula capital totalling £78 million over three years.
- 8.4. 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.
- 8.5. There are sufficient resources available to fund all the schemes which need to be started in 2016/17. The position for future years will be dependent on the pressure of significant inflation and capacity shortages in the construction market and on future resources. The on-going pressure to provide primary and secondary school places indicates a deficit of resources in 2018/19.
- 8.6. Further work is being undertaken with potential funders, including the Government, Local Planning Authorities, Developers and LEPs to maximise contributions from sources other than the County Council.

## **9. Economy, Transport and Environment**

- 9.1. Proposals of the Executive Member for Economy, Transport and Environment (ETE) amount to £183.4 million over the next three years. It is one of the largest ETE programme for many years and reflects a commitment to safety, accessibility and growth now, and for the future. The programme includes £87.7million of new investment in structural maintenance and £94.6 million in the Integrated Transport programme.
- 9.2. Government Grants make up a large part of the funding at £81.5 million. In addition, the County Council continues to be successful in bidding for Local Growth Funding through the Local Enterprise Partnerships with £61.7 million supporting the programme; the outcome of further expressions of interest is awaited. The remainder of funding is a mix of local resources (£21.6 million), developer contributions (£16.6 million) and other local authority contributions (£2 million).
- 9.3. Within the Integrated Transport Programme, the funding for the Whitehill Bordon Relief Road scheme includes £2 million originally included in the £7 million Strategic Infrastructure Investment allocation approved by Cabinet in February 2014 to provide for contributions to infrastructure requirements at

strategic developments such as Whitehill Bordon and Welborne. The Capital Programme Review approved by Cabinet in July 2014 reviewed existing capital funding against new and existing priorities and resulted in changes to departmental capital allocations. However the £2 million was not formally re-assigned to the ETE capital programme at that stage. Formal approval is therefore now sought from Cabinet to approve the allocation of this £2M funding to the 2016/17 ETE Capital Programme.

- 9.4. The Executive Member for Economy, Environment and Transport has been monitoring the 2014/15 major scheme at Queens Roundabout in Farnborough which has experienced some significant delays as a result of impediments relating to diversion of underground services, many of which were uncharted. The constrained nature of the site coupled with the need to maintain significant traffic flows through the junction has made the project challenging. A full review of the financial implications, residual risks and latest forecast has been undertaken, revising the total scheme estimate from £5.725 million (Project Appraisal November 2013) to £7.4 million.
- 9.5. The Queens Roundabout project still represents value for money in terms of the capacity benefits it will provide. Funding to cover this additional expenditure has been identified entirely from within existing Transport Programme resources, namely; £0.809 million extra developer contributions and £0.866 million LTP from contingencies within the Transport Programme. It is therefore recommended that the 2014/15 budget for this scheme be amended to £7.4 million.

## **10. Policy and Resources**

- 10.1. The proposed capital programme for Policy and Resources totalling £70 million, 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. Changes within the programme reflect the following transfers:
- a number of maintenance programmes have been moved to the Policy and Resources revenue budget, as agreed by Cabinet in December 2015 following a review of the capital programme in the light of tighter definitions of what constitutes capital expenditure. The original source of funding for these schemes was revenue and so they can be realigned with the revenue repairs and maintenance budgets
  - Similarly, it is proposed to move the feasibility budget to revenue since these costs rarely meet the accounting definition of capital
  - The coastal conservation capital budget has been transferred to the Economy, Transport and Environment programme in order to better align with the Executive functions of that portfolio regarding flood and coastal erosion risk management
  - The School Condition Allocation (formerly Capital Maintenance) was previously split between the Children's Services and Policy and Resources

programmes to reflect a split between suitability and condition work. It is proposed that the full grant is added to the Policy and Resources programme to allow the funding to be managed flexibly between condition and suitability works. Priorities will continue to be jointly agreed with Children's Services.

- 10.2. The Executive Member for Policy and Resources proposes to supplement the 2016/17 locally resourced guideline set by Cabinet to incorporate investment of £0.77 million in major improvements and upgrades in IT infrastructure and equipment will be funded by transfers from earmarked IT reserves which have been built up for this purpose. Further rationalisation of office accommodation as part of the Workstyle programme will enable re-investment of £0.95 million.
- 10.3. Over the last few years additional funding has been provided to enable organisations to bid for funding awards for major improvements to community buildings. This has been a successful scheme and has seen extended and improved community use of existing assets as a result. In order to continue this programme, a recommendation is included in the revenue budget report elsewhere on this agenda to add a £0.5 million to the capital programme in 2016/17 and this is reflected in Appendix 3 of this report.

## **11. Adult services**

- 11.1. Following investment of £32 million in Extra-Care Housing as part of the capital review in 2014, the proposed programme for Adults Services now returns to a level of £0.481 million per year. This will be used for priority works on residential and nursing care premises to meet the needs of residents and service users and satisfy the requirements of regulators including the Care Quality Commission, The Fire Service and the Health and Safety Executive.
- 11.2. As part of the department's transformation to 2017 programme, further opportunities are being explored to expand adult extra-care housing. Subject to satisfactory business cases being approved, an in principle decision is sought to allow the Director of Corporate Resources in consultation with the Executive Member for Policy and Resources to add Adult extra care schemes to the capital programme up to a limit of £35 million, to be funded from prudential borrowing.
- 11.3. In addition, a revised business case for the Adult Learning Disability Service transformation was approved by the Executive Member for Policy and Resources on 10 December 2015. The financial position has evolved since the original business case in October 2011 largely as a result of the value likely to be secured by selling surplus property and the consequent impact on prudential borrowing. The business case improved with the use of the Community Grant funding of up to £3.4 million. It is envisaged that the transformation will be completed by the end of June 2018.
- 11.4. Two Government grants were received in 2015/16:
  - The Social Care capital grant of £2.647million
  - The Disabled Facilities grant of £5.296 million

- 11.5. For 2016/17, the Government has announced that the Social Care capital grant will not continue in 2016/17 and the value of that grant should be more than covered by the expansion of the Disabled Facilities Grant which can be used for changes to a person's home in line with the grant conditions. At the time of writing, grant allocations have not yet been received.

## **12. Conclusions**

- 12.1. Executive Members have proposed capital programmes for the next three years in line with the Corporate Strategy and County Council priorities. The locally resourced guidelines set by Cabinet in December 2015 have been adjusted by transfers to revenue, transfers between portfolios and between programme years and supplemented by Government grants of £301 million, giving a total programme for the next three years of £563.6 million.
- 12.2. Regular monitoring will take place during the year on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2016/17 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 2016/17 to 2018/19 that:
- 1 Funding of £2 million included in the Strategic Infrastructure Investment allocation approved in February 2014 be allocated to the 2016/17 Economy, Transport and Environment capital programme to support the delivery of the Whitehill Bordon Relief Road (paragraph 9.3)
  - 2 The Economy, Transport and Environment capital budget for the 2014/15 Programme scheme at Queens Roundabout in Farnborough be amended to £7.4 million, and the increase of £1.675 million be funded by £0.809 million developer contributions and £0.866 million Local Transport Plan Grant (paragraph 9.4 and 9.5)
  - 3 It be a recommendation by Cabinet to Council that:
    - a) the capital programme for 2016/17 and the provisional programmes for 2017/18 and 2018/19 as set out in Appendix 3 be approved
    - b) an in principle decision is sought to allow the Director of Corporate Resources in consultation with the Executive Member for Policy and Resources to add Adults extra care schemes to the capital programme up to a limit of £35 million to be funded by prudential borrowing, subject to a satisfactory business case being approved.

13.2. Council is recommended to:

- a) approve the capital programme for 2016/17 and the provisional programmes for 2017/18 and 2018/19 as set out in Appendix 3
- b) allow the Director of Corporate Resources in consultation with the Executive Member for Policy and Resources to add Adults extra care schemes to the capital programme up to a limit of £35 million to be funded by prudential borrowing, subject to a satisfactory business case being approved.

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

<b>Hampshire safer and more secure for all:</b>	yes
Corporate Business plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes
Corporate Business plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	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 Capital programme for 2016/17 to 2018/19	Ref 7150
Executive Lead Member for Children's Services and Deputy Leader Capital programme for 2016/17 to 2018/19	Ref 6697
Executive Member for Economy, Transport and Environment Capital programme for 2016/17 to 2018/19	Ref 7228
Executive Member for Policy and Resources Capital programme for 2016/17 to 2018/19	Ref 7103

## **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 £563 million can be reconciled with the cash limit guidelines, as Table 5 shows.

**Table 4 – Capital programme 2016/17 to 2018/19 – funding sources**

	£000
Guideline for the three-year locally resourced programme	36,691
subsequent adjustments:	
- transfers to revenue	-2,925
- net movement from capital review	1,642
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Adjusted locally resourced guidelines	35,408
Use of capital receipts, developers' contributions, reserves, etc	
- Children's Services	137,958
- Economy, Transport and Environment	18,541
- Policy and Resources	2,221
- funding to be identified	27,719
	<hr/>
Total funding from local resources	221,847
Resources carried forward from previous years	
- Children's Services	38,119
- Economy, Transport and Environment	2,750
Government support	
- Capital grants	300,933
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Total programme 2015/16 to 2017/18	<hr/> 563,649 <hr/>

## Capital Expenditure Flows and Financing Resources 2015/16 to 2018/19

### 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 2015/16 and the following three years will result from works in progress (schemes started in 2015/16 and earlier years) plus those arising from the proposed programme for 2016/17 to 2018/19, as Table 6 below shows.

**Table 5 – Capital expenditure flows**

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Works in progress at 31 March 2015 and schemes starting in 2015/16	242,247	113,421	53,043	12,396
Programmes starting in 2016/17 2017/18 and 2018/19	0	123,893	163,716	142,645
Land acquisition	986	43	2,752	646
Total expenditure flows	<u>243,233</u>	<u>237,357</u>	<u>219,511</u>	<u>155,687</u>

- 1.3 In practice, expenditure flows in the years after 2015/16 may vary from those shown in Table 5 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 following table shows the latest estimate of the resources available to finance capital expenditure.

**Table 6 - Resources to fund capital expenditure**

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Prudential borrowing	16,952	21,835	19,195	3,211
less repayments from capital	-5,128	-8,673	-4,965	-2,307
Finance lease for street lighting PFI scheme	5,060	0	0	0
Capital grants	99,230	152,383	116,904	90,879
Contributions from other bodies including developers	34,580	42,804	59,208	57,237
Capital receipts	13,024	5,787	8,871	4,250
Contributions from reserves	6,338	1,994	4,257	1,760
Revenue contributions to capital	11,343	12,510	7,333	7,333
<b>New resources in the year</b>	<b>181,399</b>	<b>228,640</b>	<b>210,803</b>	<b>162,363</b>
Use of the capital reserve: added to the reserve (-), or taken from the reserve (+)	61,834	8,717	8,708	-6,676
<b>Total resources available</b>	<b>243,233</b>	<b>237,357</b>	<b>219,511</b>	<b>155,687</b>

2.2 Most of the capital receipts forecast in Table 6 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 7.

**Table 7 – Capital reserve**

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Opening balance	133,926	72,092	63,375	54,667	61,343
Used in year	-61,834	-8,717	-8,708		-59,988
Added in year				6,676	
<b>Closing balance</b>	<b>72,092</b>	<b>63,375</b>	<b>54,667</b>	<b>61,343</b>	<b>1,355</b>

## 4 Revenue implications

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

**Table 8 – Revenue effects**

	Running costs £000	Capital charges £000	Total £000
2016/17 starts	806	4,792	5,598
2017/18 starts	482	4,642	5,124
2018/19 starts	35	4,019	4,054
Total	1,323	13,453	14,776

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 8 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 £1.8 million.

## 5 Debt outstanding

5.1 Table 9 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 9 – Debt outstanding**

	2014/15 £m	2015/16 £m	2016/17 £m	2018/18 £m	2018/19 £m
Debt outstanding at the beginning of the year	758.6	761.6	752.6	738.6	724.4
New borrowings	14.1	16.9	21.8	19.2	3.2
Street lighting PFI liability	27.1	5.0	0	0	0
Repayments from:					
- the revenue account	-33.1	-25.8	-27.1	-28.5	-29.6
- capital receipts and developers' contributions	-5.1	-5.1	-8.7	-4.9	-2.3
Debt outstanding at the end of the year	761.6	752.6	738.6	724.4	695.7

5.2 As the table shows, the amount of debt outstanding will decrease each year.

## 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 10 – 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

**Table 10 – Prudential borrowing**

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
2012/13 actuals	13,078	-35,548	-	-22,470
2013/14 actuals	18,981	-1,730	-	17,251
2014/15 actuals	14,124	-5,147		8,977
2015/16 estimate	16,952	-	-5,128	11,824
2016/17 estimate	21,835	-	-8,673	13,162
2017/18 estimate	19,195	-	-4,965	14,230
2018/19 estimate	3,211	-	-2,307	904
2019/20 estimate	1,075		2,800	1,725
Total	279,016	-107,482	-23,873	147,661
	171,534			

6.4 The schemes funded by these advances are summarised in Table 11.

**Table 11 – Summary of outstanding and planned prudential borrowing advances**

	£000
Financed from savings in the revenue budget	128,813
‘Bridging’ loans on specific projects to be repaid from capital receipts and developer contributions	24,939
Capital investment to be financed from future charges to services	17,782
Total	<u>171,534</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, £128.8 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.