

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	11 February 2011
Title:	Capital programme 2011/12 to 2014/15
Reference:	2550
Report From:	County Treasurer

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 2011/12 to 2014/15, based on the guidelines agreed by Cabinet on 22 December 2010 including support for capital schemes from the Government.
- 1.2. The report collates the service capital programmes prepared by Executive members. It shows that the projected payments arising from the capital programme can be financed within existing resources, without resorting to the use of temporary prudential borrowing.
- 1.3. 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 5 of the report on this Agenda on the Revenue Budget.
- 1.4. The main points of the report are:
 - the proposed capital programmes are in line with the guidelines set by Cabinet in December 2010 for the locally resourced programme, together with schemes supported by Government capital grants
 - the coalition Government has issued all its support for local authorities' capital investment in the form of capital grants from 2011/12 onwards, with no use of supported borrowing allocations
 - the level of capital receipts is forecast to recover to an extent over the next few years but initially this will primarily allow the sale of sites already earmarked to rationalisation schemes or to fund previously approved prudential borrowing

- the Executive Lead Member for Children's Services has proposed using additional prudential borrowing totalling £7.2m between 2010/11 and 2014/15 to finance school schemes in development areas in Andover, Waterlooville and Aldershot in advance of contributions from developers. This borrowing is expected to be repaid by 2014/15 but could be more than the current forecast of £7.2m and be outstanding for longer if the developer contributions are delayed
- the proposed programme includes £10m per annum for Project Resilience for the structural maintenance of highways, to be funded by efficiency savings which will cover prudential borrowing costs, as agreed by Cabinet in May 2010
- also included is a £1m per annum programme for Hampshire Transport Management vehicles and £1.56m for IT Services Hosted Schools Solution project. Both will be funded by prudential borrowing, with the loans repaid from charges to the business units' customers
- for the County Council in total, loans outstanding for prudential borrowing will rise to £112m by 2014/15. The repayment of the 'bridging loans' included in this total will depend on the continued recovery of the property market. The current assumptions are that they will be fully repaid by 2014/15
- the total value of the proposed capital programme over the four-year period from 2011/12 to 2014/15 is £492m
- as agreed by Cabinet in December 2010, a medium term review of the capital programme will be undertaken over the next few months, for future consideration by the Leader and Cabinet in June/July 2011, as part of the Medium Term Financial Strategy for 2012/13 and beyond.

2. Background

- 2.1. At its meeting on 22 December 2010, Cabinet set guidelines for the new capital programme for 2011/12 to 2014/15 at the same reduced level as the current capital programme. This reflected the continued uncertainty about the level of capital receipts likely to be available to finance the locally resourced capital programme.
- 2.2. Executive members have now prepared proposals for:
 - a locally resourced capital programme for the four-year period from 2011/12 to 2014/15 within these guidelines and other resources available to services
 - a programme of schemes supported by Government capital grants.

3. Expenditure and resources cashflow - summary

- 3.1. Table 1 shows the annual capital expenditure flows from the proposed capital programme, compared with the financing resources available.

Table 1 – Capital expenditure and resources

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Expenditure	185,332	189,040	177,907	136,632
Resources	185,852	189,067	177,982	136,694
Shortfall (+) / Surplus (-)	-520	-27	-75	-62
Planned use of capital reserve	400	-	-	-
Surplus of resources to be transferred to the capital reserve	-120	-27	-75	-62
Capital reserve balance at the end of the year	-120	-147	-222	-284

	2014/15 £000	2015/16 £000
Expenditure	124,842	74,067
Resources	124,863	74,137
Shortfall (+) / Surplus (-)	-21	-70
Planned use of capital reserve	-	-
Surplus of resources to be transferred to the capital reserve	-21	-70
Capital reserve balance at the end of the year	-305	-375

- 3.2. The small surpluses of capital resources in each year demonstrates that the stable financing position for the capital programme has been maintained. No temporary prudential borrowing is currently required to balance payments and resources during the period.
- 3.3. 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.

- 3.4. Progress during 2011/12 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.
- 3.5. 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 existing framework for the use of prudential borrowing under the Prudential Code for Capital Finance.
- 4.2. New proposals for prudential borrowing include:
 - £7.2m to finance part of the cost of school schemes in advance of developers' contributions
 - £10.0m per annum to finance Project Resilience for structural maintenance of highways, as previously agreed by Cabinet in May 2010
 - £1.0m per annum to finance the Hampshire Transport Management vehicle purchase programme
 - £1.56m to finance the IT Hosted Schools Solution project.
- 4.3. With these new proposals, the prudential borrowing outstanding after deducting bridging loans repaid to 31 March 2010 will be £198m. Of this, £127m will be repaid from savings in the revenue budget, including the Enhance nursing care homes project, waste management infrastructure and the structural maintenance of highways.
- 4.4. The County Council's existing framework for the use of prudential borrowing will be considered as part of the mid term review of the capital programme later this year.
- 4.5. Further details of the current level of prudential borrowing is included in Appendix 2.

5. Guideline cash limits for the capital programme

- 5.1. 'Locally resourced' schemes are those financed from the County Council's own resources such as capital receipts, contributions from the revenue budget, reserves and other funds. They do not include schemes supported by capital grant from the Government.
- 5.2. The guidelines for the locally resourced programme were confirmed by Cabinet in December 2010 at the levels previously set for the programme. 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 uncertainty remains about future capital receipts.

- 5.3. Overall, the reduction in guidelines is £8.4m per annum which means that, with the impact of the global financial crisis, the capital programme is £50m lower over the six years from 2009/10 to 2014/15.
- 5.4. The guidelines set by Cabinet for each service are shown in Table 2.

**Table 2 – Guidelines for locally resourced capital programmes
2011/12 to 2014/15**

	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000
Adult Services	598	481	481	481
Children's Services	90	90	90	90
Culture, Communities and Rural Affairs	417	448	448	448
Environment	6,008	5,847	5,847	5,847
Policy and Resources	6,509	6,494	6,494	6,494
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Total	13,622	13,360	13,360	13,360
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- 5.5. Subsequent virements to or from revenue proposed by Executive members and other adjustments are listed in the sections below on each service's proposed capital programme.

Government supported programme

- 5.6. The Government announced in its Spending Review in October 2010 that all its support for local authorities capital expenditure from 2011/12 will be issued in the form of capital grants and not as borrowing allocations. This can be welcomed as it overcomes the disadvantage for the County Council that it did not receive full revenue grant support towards loan charges arising from the so-called Government supported borrowing allocations.
- 5.7. Although the Government's Spending Review covered the four years from 2011/12 to 2014/15, the Government has not announced its capital grant allocations for the full year period, as summarised in Table 3.

Table 3 – Government capital grant announcements

Adult Services	2011/12 and 2012/13 only
Children's Services	2011/12 only, pending the outcome of the James review of school investment
Environment	2011/12 and 2012/13, with indicative allocations for 2013/14 and 2014/15
Policy and Resources	as Children's Services

- 5.8. In each case, services have assumed that Government grants will continue at similar levels in the later years of their four-year capital programmes. The proposed programmes will need to be reconsidered when the Government has announced the levels of its support for these later years.

6. The programmes submitted

- 6.1. The total starts value of the four-year programme submitted by Executive members is £492m, as shown in Table 4. It includes £365m of schemes supported by Government grants.

Table 4 – Starts programmes submitted 2011/12 to 2014/15

	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	
2011/12	747	25,228	98,150	123,378	124,125
2012/13	746	38,094	100,373	138,467	139,213
2013/14	746	37,747	80,149	117,896	118,642
2014/15	746	22,449	86,413	108,862	109,608
Total	2,985	123,518	365,085	488,603	491,588

- 6.2. The proposed programmes are in line with the guidelines set in December 2010. A reconciliation between the guidelines and the proposed programme is included in Appendix 1.
- 6.3. 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 the yellow pages in Appendix 3.
- 6.4. The following sections summarise the programmes prepared by Executive members and highlight the issues arising.

7. Adult Services

- 7.1. The proposed programme for Adult Services in Appendix 3 is in line with the guidelines for the locally resourced programme.
- 7.2. Prior to 2011/12, the Government issued a capital grant for adult social care of £0.731m per annum. This grant was retained corporately to fund, in part, the locally resourced capital programme including the capital repairs programme that covers Adult Services' properties. In addition, the

Government previously allocated a number of separate capital grants for Adult social care.

- 7.3. From 2011/12, the Government has consolidated all these capital grants into a single unringfenced grant for capital investment in community capacity. The Government has announced the amount of this grant at £2.417m for 2011/12 and £2.483m for 2012/13.
- 7.4. At this stage, these grants have been retained corporately. The use of the grants will be considered as part of the proposed mid term review of the County Council's overall capital strategy.

8. Children's Services

- 8.1. The proposed programme for Children's Services of £175m over the next four years is supported primarily by the Government with capital grant allocations, as Table 5 shows.

Table 5 – Children's Services capital programme – resources available

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Total £000
Resources carried forward					
- from 2010/11					
- previously agreed	833	-	-	-	833
- additional	20,482	-	-	-	20,482
- from 2011/12	-16,835	16,835	-	-	-
- from 2013/14	-	-	-3,945	3,945	-
Government's capital grants:					
- Basic Need - new pupil places	11,606	11,606	11,606	11,606	46,424
- Capital Maintenance	11,709	11,709	11,709	11,709	46,836
- Schools' Devolved Capital	4,069	4,069	4,069	4,069	16,276
- Havant Academy	8,678	-	-	-	8,678
Local resources:					
- guideline	90	90	90	90	360
- capital receipt anticipated	-916	4,572	2,065	-	5,721
- developer funded schemes (see paragraph 8.13 below)	1,214	11,570	14,576	2,039	29,399
- provision for land	100	100	100	100	400
Total	41,030	60,551	40,270	33,558	175,409

- 8.2. Prudential borrowing totalling £7.220m will be necessary to finance schemes in advance of the receipt of developers' contributions, based on

current forecasts of the timing of capital payments and contributions. This is considered in more detail in paragraph 8.13 below.

- 8.3. The Executive Lead Member for Children's Services proposes carrying forward capital resources of £20.482m from the programmes for 2010/11 and earlier years to 2011/12, in addition to the £0.833m previously agreed. These resources have been added to the proposed programme for 2011/12 in this report. The deferred schemes are listed in Table 6.

Table 6 – Children's Services schemes to be deferred from 2010/11 to 2011/12

	Project cost £000	Resources to be carried forward £000
Building Schools for the Future (BSF)	2,500	2,500
Secondary – non BSF	2,030	2,030
Primary Capital Programme	6,055	5,855
Education and inclusion service general	342	342
Specialist facilities improvements	300	228
Primary inclusion project	1,250	1,250
New pupil places primary	1,800	1,800
Fareham and Gosport inclusion project	4,000	4,000
Special school improvements	2,000	1,604
Purchase of temporary classrooms	500	223
Stubbington Study Centre	500	500
Other equipment	150	150

Total project cost	21,427	

Total resources carried forward		20,482

Government capital grants

- 8.4. The coalition Government has consolidated its support for schools capital from 2011/12 onwards into three main capital grants for basic need (new pupil places), capital maintenance and schools' devolved capital.
- 8.5. The previous Government's allocations for the Primary Capital Programme, Sure Start, extended schools, youth capital fund, the targeted capital fund and the disabled children grant (Aiming High) have been terminated.
- 8.6. All the Government's support will be in the form of capital grants, with no borrowing allocations in future.

Capital Maintenance funding

- 8.7. The Government has replaced its funding for Modernisation and Condition work (formerly known as New Deal for Schools or NDS) with a capital grant

for Capital Maintenance. With the agreement of the Executive Members, this has been divided between the Children's Services and Policy and Resources capital programmes using the 46% : 54% proportions agreed for the NDS allocations in July 2003.

- 8.8. The total grant available for Capital Maintenance is shown in Table 7. The Government has so far only announced its allocations for 2011/12. For the purposes of preparing the capital programme, it has been assumed that this level of capital grant will continue for 2012/13 to 2014/15.

Table 7 – Capital Maintenance

		2011/12	Later years
		£000	£000
Children's Services	46%	11,709	11,709
Policy and Resources	54%	13,745	13,745
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Total	100%	25,454	25,454
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The Government's total capital support for the Children's Services

- 8.9. The Government has provided grants of £61.5m in support for capital investment in Children's Services in Hampshire for 2011/12, as Table 8 shows. This is a reduction from the £87.2m allocated by the previous Government for 2010/11, in the form of capital grants and borrowing allocations. The total of £87.2m for 2010/11 is before adjusting for amounts advanced to 2009/10 and the coalition Government's in-year reductions for 2010/11.

Table 8 – Government support for capital spending on Children's Services

	2010/11	2011/12
	£000	£000
New pupil places	6,231	11,606
Schools' devolved capital	21,049	4,069
Capital Maintenance (formerly NDS)	16,034	25,454
DSG funded capital repairs	11,719	11,719
Havant Academy	-	8,678
Children's social care	144	-
Schools access initiative	2,447	-
Sure Start grant	7,787	-
Sure Start grant – condition	477	-
Youth capital fund grant	514	-
Primary capital programme	11,825	-

Table 8 – Government support for capital spending on Children’s Services

	2010/11 £000	2011/12 £000
Extended schools grant	1,049	-
Targeted capital fund	6,300	-
Disabled children grant	1,588	-
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Total Government support	87,164	61,526
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Havant Academy

- 8.10. The Executive Lead Member for Children’s Services approved in November 2010 the inclusion in the 2011/12 capital programme of a major refurbishment project at Havant Academy. The estimated value of the project, to be met in full from Government grant, was £10.085m. The Department for Education (DfE) has subsequently reviewed the resources available for this and other academy projects nationally and has imposed a funding reduction of £0.504m, leaving a total project cost, including ICT provision, of £9.582m. ICT funding of £0.904m will be made available directly to the Academy by the DfE and will not, therefore, form part of the Children’s Services capital programme. The revised value of the building project is £8.678m, including fees and the project is expected to start on site in early summer 2011. This scheme has been included in the proposed programme for 2011/12.

Park Community School, Havant

- 8.11. Major structural issues have been identified at Park Community School in Havant where the majority of the buildings are constructed in a pre-cast concrete system and are nearing the end of their useful life. Temporary measures have been in place for some time to mitigate the effects. The buildings are now ranked as the highest condition and capital replacement priority of all secondary schools in the County.
- 8.12. A costed feasibility study is being prepared to replace the buildings and provision of £10m has been included in the Children Services capital programme for 2012/13, funded from the Government’s Capital Maintenance grant. It is anticipated that Policy and Resources will make a matching funding contribution from its allocation for strategic maintenance of schools. This will be a welcome improvement for school buildings estate in Havant.

Prudential borrowing for the Children’s Services capital programme

- 8.13. A number of school schemes have been included in the proposed capital programme for 2011/12 to 2014/15 which will be partly funded from developers’ contributions. They include new primary schools in Fleet, Andover, Waterlooville and Aldershot, together with work in Winchester

and Romsey. Developers are expected to provide £29.4m towards the £34.2m cost of these schemes, with the balance to be met from the Government's capital grant allocations.

- 8.14. These schemes are mainly required to meet the growth in pupil numbers arising from localised development pressures. On the basis of current forecasts of capital payment flows, it is likely that some prudential borrowing will be required to bridge the timing gap before some of the developers' contributions are received. It is currently expected that £7.220m will need to be borrowed as bridging loans, as summarised in Table 9.
- 8.15. Most of this prudential borrowing is forecast to be required in 2011/12 and 2012/13, and it is expected to be fully repaid by 2014/15. The position will need to be kept under review, including the availability and timing of both developers' contributions and Government support, when the capital programme is considered again next year.

Table 9 – Prudential borrowing for schemes funded by developers' contributions

	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Total £000
Borrowing	300	3,981	2,420	519	-	7,220
Repayments	-	-	-3,074	-2,107	-2,039	-7,220
Loans outstanding (cumulative)	300	4,281	3,627	2,039	-	-

Pressures on the Children's Services capital programme

- 8.16. The Executive Lead Member for Children's Services reports that there are sufficient resources to fund all schemes which need to be started in 2011/12. The position for 2012/13 and following years will be managed by moving the available resources to meet the pattern of demand for investment.

9. Culture, Communities and Rural Affairs

- 9.1. The proposed capital programme for Culture, Communities and Rural Affairs is in line with the guidelines set by Cabinet for the locally resourced capital programme, with the addition of provision in 2011/12 (£0.339m) and 2012/13 (£0.150m) for the second and third years of the programme of works at the Basingstoke Canal agreed by the Executive Member for Policy and Resources in April 2010.

10. Environment

10.1. The resources available to fund the Environment capital programme are summarised in Table 10.

Table 10 – Environment capital programme – resources available

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Total £000
Government support:					
Local transport plan grant	30,815	30,214	29,036	30,591	120,656
Local resources:					
Prudential borrowing for Project Resilience	10,000	10,000	10,000	10,000	40,000
Guideline programme	6,008	5,847	5,847	5,847	23,549
less virements to revenue					
- winter maintenance	-648	-648	-648	-648	-2,592
- to fund the financing costs of prudential borrowing for Project Resilience	-348	-1,044	-1,740	-2,436	-5,568
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Total local resources	15,012	14,155	13,459	12,763	55,389
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Total resources	45,827	44,369	42,495	43,354	176,045
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10.2. The Executive Member for Environment proposes adjusting the starts programmes for each year to make sure that the resultant expenditure flows fully use the resources available. These adjustments are summarised in Table 11 and the proposed programmes listed in full in Appendix 3.

Table 11 – Environment's proposed capital programme

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	Total £000
Resources available (as Table 10)	45,827	44,369	42,495	43,354	176,045
Phasing of starts programmes to match funding available	-681	+476	+2,210	-971	+1,034
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Proposed programme	45,146	44,845	44,705	42,383	177,079
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- 10.3. The programme includes £10m per annum for Project Resilience for the structural maintenance of highways, to be funded by efficiency savings which will cover prudential borrowing costs, as agreed by Cabinet in May 2010.
- 10.4. The proposed four-year programme also includes schemes wholly or partly funded by developers' or other contributions totalling £24.7m, including £8.6m in 2011/12. Schemes have only been named where there is reasonable confidence in the security of funding and programme dates.

Major transport schemes

- 10.5. There are no new major transport schemes proposed in the 2011/12 to 2014/15 programme.

Household waste recycling centres

- 10.6. The Environment capital programme includes provision in the 2012/13 programme for the relocation of the Waterlooville Household Waste Recycling Centre at a cost of £0.9m.

11. Policy and Resources

- 11.1. The allocation of the proposed Policy and Resources capital programme between schemes is largely based on the priorities in the existing programme. The main corporate priority continues to be the maintenance of the core buildings in the County Council's built estate, through the capital repairs programme. It supports the delivery of services countywide and specifically aims to address the priorities identified in the Corporate Risk Assessment. This ensures that key structural, health and safety and sustainability issues are addressed.

Business units

- 11.2. An annual allocation of £1.0m has been included in the proposed capital programme to purchase vehicles for Hampshire Transport Management. HTM began purchasing new vehicles, instead of leasing them, in 2009/10. This generates a saving of around 4% annually and benefits customers through reduced hire charges. The capital cost will be met initially by prudential borrowing which will be repaid from HTM's charges to customers.
- 11.3. The proposed programme for 2011/12 includes £1.56m for the IT Hosted Schools Solution project. This involves the design and delivery of the entire ICT estate at individual schools, including the provision of equipment. A successful pilot was carried out during 2010/11 at a primary school and a secondary school. It is intended to extend the pilot across several schools in 2011/12 and it could potentially be taken up by a significant number of Hampshire schools. The £1.56m covers the initial capital investment and it will be funded by prudential borrowing. The ongoing management element of the service will be covered by IT

Services' trading account and funded by customer charges, together with the financing costs of the prudential borrowing.

Advance and advantageous land

- 11.4. The proposed provision for advance and advantageous purchases of land is £0.65m in each year from 2011/12 to 2014/15.

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 2011/12 and the progress on obtaining the capital receipts necessary to finance the capital programme.
- 12.2. As agreed by Cabinet in December 2010, a medium term review of the capital programme will be undertaken over the next few months for future consideration by the Leader and Cabinet in June/July 2011, as part of the Medium Term Financial strategy for 2012/13 and beyond. This will consider the forecast levels of capital receipts, prudential borrowing protocols, other financing models including how private finance could be leveraged into future infrastructure planning and how existing assets could be developed to create new service opportunities.

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 2011/12 to 2014/15:
- 1 That prudential borrowing estimated at £7.220m to finance part of the cost of school schemes included in the capital programme for Children's Services for 2011/12 to 2014/15, in advance of developers' contributions, be approved in principle subject to further project appraisal reports to the Executive Member for Policy and Resources on the specific proposals (paragraph 8.14)
 - 2 That prudential borrowing of £1.0m per annum to finance the Hampshire Transport Management vehicle purchase programme be approved (paragraph 11.2)
 - 3 That prudential borrowing of £1.56m to finance the IT Hosted Schools Solution project be approved (paragraph 11.3)
 - 4 That Children's Services capital resources totalling £20.482m be carried forward from the 2010/11 capital programme to 2011/12 (paragraph 8.3)
 - 5 That it be a recommendation to Council that:
 - a) the capital programme for 2011/12 and the provisional programmes for 2012/13, 2013/14 and 2014/15 be approved as set out in Appendix 3 of the accompanying report and 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

- b) 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
- c) 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 2011/12 to 2014/15 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 2011/12 to 2014/15 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. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

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

No specific proposals.

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

No specific proposals affecting adaptation to climate change.

Capital Programmes 2011/12 to 2014/15 proposed by Executive Members

1 Summary of the proposed programmes

- 1.1 The proposed four-year programme of £492m can be reconciled with the guidelines set by the Cabinet in December 2010, as Table 12 shows.

Table 12 – Capital programme 2011/12 to 2014/15 – funding sources

	£000
Guideline for the four-year locally resourced programme	
- as agreed by Cabinet in December 2010	53,702
- subsequent adjustments including virements to/from revenue	-9,040

Adjusted locally resourced guidelines	44,662
Additional funding from local resources	
Use of revenue savings in previous years	
Adult Services – learning disability integration	247
Use of capital receipts – Children’s Services	5,721
Use of reserves – Hampshire Transport Management	25
Local resources	
Basingstoke Canal 2011/12 and 2012/13 programmes	489
Prudential borrowing	
Children’s Services	7,220
Environment – Project Resilience	40,000
Hampshire Transport Management vehicles	4,000
IT Services – Hosted Schools Solution	1,560

Total additional funding from local resources	59,262
Government support	
Capital grant allocations	348,591
Resources carried forward from previous years	
Children’s Services	15,460
Phasing of starts to match resources – Environment	1,034

Total funding available from Government support	365,085
Other external resources	
Developers’ contributions – Children’s Services	29,399
less required to repay prudential borrowing	-7,220

Total funding available from other external sources	22,179

Total excluding land for programmed schemes	491,188
Land for programmed schemes	400

Total programme 2011/12 to 2014/15	491,588

- 1.2 The total support from Government grant allocations, £365m, represents 74% of the total four-year programme of £492m. This is unchanged from the equivalent percentage for the existing three-year capital programme approved in February 2010. At 74%, it gives the Government significant scope to influence the County Council's priorities on capital investment, although a number of the Government's grants are now unringfenced.
- 1.3 The Environment capital programme also includes a number of local transport schemes supported wholly or in part by developers, totalling £25m between 2011/12 and 2014/15. The individual schemes are identified in the Environment capital programme in Appendix 3.

Capital Expenditure Flows and Financing Resources 2010/11 to 2014/15

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 2010/11 and the following four years will result from works in progress (schemes started in 2009/10 and earlier years) plus those arising from the proposed programme for 2010/11 to 2014/15, as Table 13 below shows.

Table 13 – Capital expenditure flows

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000	£000
Works in progress at 31 March 2010 and schemes starting in 2010/11	161,611	73,582	37,567	4,862	953
Programmes starting in 2011/12 2012/13, 2013/14 and 2014/15	-	92,610	118,682	114,789	109,256
Highways schemes funded by developers' contributions	9,863	8,992	7,984	5,170	4,556
Fees – property related	12,232	10,117	10,277	10,460	9,331
Land	1,626	3,739	3,397	1,351	746
Total expenditure flows	185,332	189,040	177,907	136,632	124,842

- 1.3 In practice, expenditure flows in the years after 2012/13 may be higher than suggested by Table 13 if further developer and other external contributions become available to fund additional capital schemes, as well as higher levels of Government support than 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
 - 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 14 - Resources to fund capital expenditure

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000	£000
Borrowing					
Government allocations	54,882	21,897	2,000	-	-
Prudential borrowing	8,744	17,157	14,920	11,831	11,000
less repayments from capital receipts etc	-8,292	-13,757	-19,500	-13,716	-6,288
Capital grants	63,942	88,356	103,168	81,929	69,111
Contributions from other bodies including developers	19,321	18,662	24,083	18,140	9,478
Capital receipts	13,148	31,064	26,750	12,667	16,290
Contributions from reserves	3,254	25	-	-	-
Revenue contributions to capital less repayment from capital receipts of loans under the School Balances Loan Scheme	30,853	29,934	26,561	25,843	25,272
	-	-4,271	-	-	-
New resources in the year	185,852	189,067	177,982	136,694	124,863
Resources added to capital reserve to meet expenditure in subsequent years	-520	-27	-75	-62	-21
Total resources available	185,332	189,040	177,907	136,632	124,842

2.3 The prudential borrowing shown in Table 14 includes the £10m per annum from 2011/12 for the Environment's Project Resilience for the structural maintenance of highways which was agreed by Cabinet in May 2010.

2.4 Forecasts of capital receipts have begun to increase from 2011/12 but initially this is primarily for disposals necessary to repay prudential borrowing for school and other rationalisation schemes started in advance of the capital receipts.

- 2.5 Contributions from the revenue budget to fund capital payments will be £30.3m in 2010/11 and £25.7m in 2011/12. These revenue contributions provide support towards the capital repairs of buildings (£17.7m in 2011/12, including £13.7m for school capital repairs funded by the revenue Dedicated Schools Grant) and structural maintenance of highways (£5.0m in 2011/12).

3 Capital reserve

- 3.1 The balance in the general Capital Reserve brought forward on the closure of the accounts for 2009/10 was nil. Table 15 summarises the position from 2010/11 onwards.

Table 15 – Capital reserve

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000	£000
Opening balance	-	120	147	222	284
Used in year	-	-	-	-	-
Added in year	520	27	75	62	21
Planned transfer to fund expenditure on The Square, Winchester	-400	-	-	-	-
Closing balance	120	147	222	284	305

4 Revenue implications

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

Table 16 – Revenue effects

	Running costs	Capital charges	Total
	£000	£000	£000
2011/12 starts	360	3,489	3,849
2012/13 starts	545	3,603	4,148
2013/14 starts	401	3,081	3,482
2014/15 starts	167	2,913	3,080
Total	1,473	13,086	14,559

- 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. Trading units' capital schemes also include a 3.5% return on capital employed.

- 4.3 Although the capital charges in Table 16 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 four-year programme will be £3.3m.

5 Debt outstanding

- 5.1 Table 17 below shows the estimated debt to be financed by the County Council including the new borrowings necessary to finance the proposed four-year programme.

Table 17 – Debt outstanding

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
Debt outstanding at the beginning of the year	590.5	621.5	621.2	592.8	566.1
New borrowings	63.6	39.1	16.9	11.8	11.0
Repayments from:					
- the revenue account	-24.3	-25.6	-25.8	-24.8	-24.0
- capital receipts and developers' contributions	-8.3	-13.8	-19.5	-13.7	-6.3
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Debt outstanding at the end of the year	621.5	621.2	592.8	566.1	546.8
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- 5.2 As the table shows, the amount of debt outstanding will reduce as a result of the coalition Government's decision to issue all of its support for local authorities' capital expenditure from 2011/12 onwards in the form of capital grants, and not as borrowing allocations. Once Government borrowing allocations from 2010/11 and earlier years have been used, the only planned borrowing will be prudential borrowing.

6 Prudential borrowing

- 6.1 In November 2003, Cabinet agreed a framework for the use of prudential borrowing 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 proposed prudential borrowing is summarised in the following table.

Table 18 – Prudential borrowing

	Specific projects £000	Repaid £000	Temporary shortfall £000	Repaid £000	Total £000
2004/05 actuals	20,372	-	-	-	20,372
2005/06 actuals	12,893	-	1,861	-	14,754
2006/07 actuals	22,864	-3,855	-	-1,861	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 estimate	8,744	-8,292	-	-	452
2011/12 estimate	17,157	-13,757	-	-	3,400
2012/13 estimate	14,929	-19,500	-	-	-4,571
2013/14 estimate	11,831	-13,716	-	-	-1,885
2014/15 estimate	11,000	-6,288	-	-	4,712
2015/16 estimate	10,000	-1,114	-	-	8,886

6.4 The schemes funded by these advances are summarised in Table 19.

Table 19 – Summary of outstanding and planned prudential borrowing advances

	£000
Financed from savings in the revenue budget	126,655
'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions	57,301
Trading units' capital investment to be financed from future charges	12,596
Temporary borrowing to meet short-term capital resources shortfalls	1,861

Total	198,413

- 6.5 The 'bridging loans' in advance of capital receipts or developers' contributions are expected to be fully repaid by 2014/15. In addition to these lump sum repayments, £127m 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 For bridging loans raised since the beginning of 2006/07, services have been required to meet the annual cost of interest and principal repayment from their revenue budgets or existing capital programmes, or by setting aside part of their shares of other capital receipts. This eliminates the strain on the County Council's annual revenue budget which would otherwise have to be met by savings elsewhere or be charged to the council tax.
- 6.7 In deciding whether the level of prudential borrowing set out in Table 18 is appropriate, it is necessary to consider whether the overall level of prudential and Government-supported borrowing complies with the requirements of the Prudential Code for Capital Finance in Local Authorities. The prudential indicators used as part of the process of assessing compliance are included in Appendix 5 of the report on this Agenda on the Revenue Budget.