

Capital Spending and Financing 2011/12

1 Introduction

1.1 This Appendix reports that:

- ◆ capital schemes costing £107.1m were started during 2011/12 from the approved capital programme for the year of £167.6m
- ◆ this left £60.5m for schemes not started by 31 March 2012 and unallocated cash limit which will be carried forward to 2012/13, subject to Cabinet's approval
- ◆ capital payments of £161.7m were incurred in 2011/12 and this can be financed within available resources
- ◆ this includes capital payments of £15.1m on the street lighting private finance initiative scheme which will be financed by means of a finance lease funded from Government grant
- ◆ it is proposed that, under the Prudential Code for Capital Finance, new prudential borrowing of £15.6m is used in 2011/12 to fund previously approved schemes. Government grant support will not be available to finance this borrowing
- ◆ repayments of prudential borrowing from capital receipts and other sources total £9.9m in 2011/12
- ◆ the planned transfer to the capital reserve in 2011/12 of £26.3m of resources to fund the increase in the capital programme from 2012/13 onwards has been made
- ◆ a further £5.1m of resources has been transferred to the capital reserve in 2011/12 for use in funding schemes that have been carried forward to 2012/13
- ◆ capital receipts of £7.8m were achieved from the sale of assets in 2011/12.

2 Capital programme for 2011/12

2.1 Table 1 below shows that 64% of the capital programme for 2011/12 of £167.6m was started in the year.

Table 1 - Capital schemes committed in 2011/12	£000	%
Approved value of the capital programme for 2011/12	167,631	100.0%
Schemes committed in 2011/12	107,084	63.9%
Balance of cash limit at 31 March 2012	60,547	36.1%
Schemes for which approval to carry forward to 2012/13 is now requested	37,228	22.2%
Schemes previously approved for carry forward	21,414	12.8%
Balance of cash limit remaining	1,905	1.1%
Total cash limit to be carried forward to 2012/13	60,547	36.1%

- 2.2 The majority of the capital programme is controlled on a 'starts' basis for which the full estimated cost of the scheme is counted against the service's capital cash limit for the year in which the scheme is started. Some schemes, such as lump sum provisions and block votes, are controlled on an 'expenditure' basis. In those cases, the amount actually spent in the year is charged against the cash limit. The total of £107.1m shown in Table 1 for the schemes committed in 2011/12 is an aggregate for both 'starts' and 'expenditure' schemes.
- 2.3 An analysis by service of the figures in Table 1 is provided in Annex 1.

3 Carry forward of schemes not committed by 31 March 2012

- 3.1 The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2012. The total value of such schemes and unused cash limit is £60.5m. This includes £21.4m of Children's Services schemes for which approval to carry forward to 2012/13 has previously been given during 2011/12.
- 3.2 As Table 2 shows, the proportion of the 2011/12 programme that has been committed in the year, at 63.9%, is a little lower than the level achieved in 2010/11.

Table 2 – Percentage of capital programme committed

	2010/11 £m	2011/12 £m
Value of projects		
- committed	162.3	107.1
- carried forward	50.3	60.5
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Total programme	212.6	167.6
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Percentage committed	76.3%	63.9%

- 3.3 Individually, most of the schemes and provisions to be carried forward are relatively small amounts. There are three schemes which exceed £1m:
- ◆ structural maintenance of roads and bridges (£9.4m)
 - ◆ the Economy, Transport and Environment scheme at Newgate Lane, Gosport (£1.7m)
 - ◆ capital repairs schemes funded from local resources and Government grant (£13.6m).

4 Capital expenditure and financing 2011/12

- 4.1 Total expenditure actually incurred in 2011/12, arising from the capital programme for 2011/12 and earlier years, was £161.7m. This is £4.9m

or 3.0% lower than the revised estimate for 2011/12. This a close result, as the timing of capital expenditure flows between financial years is often difficult to predict. The delays in committing a significant proportion of the capital programme for 2011/12, as shown in Table 2, will have reduced the level of payments in the year.

- 4.2 An analysis of the expenditure of £161.7m by service and type is included in Annex 2.
- 4.3 The proposed method of financing this expenditure is summarised in Table 3:

Table 3 – Capital financing 2011/12

	Adjusted revised estimate £000	Actuals £000	Variation £000	Actual funding %
Government supported borrowing	10,605	3,125	-7,480	1.9%
Finance lease for street lighting PFI	15,104	15,104	-	9.3%
Prudential borrowing				
- for capital schemes	17,597	15,629	-1,968	9.7%
- repayments of specific schemes	-35,088	-9,914	+25,174	-6.1%
Government capital grants	68,546	83,469	+14,923	51.6%
Contributions from developers and outside agencies	19,141	19,140	-1	11.8%
Capital receipts	37,185	6,699	-30,486	4.1%
Revenue reserves, including trading units	3,543	3,543	-	2.2%
Revenue contributions				
- general corporate provision	42,778	42,778	-	26.5%
- funded by Dedicated Schools Grant for capital repairs in schools	13,502	13,502	-	8.4%
Total capital resources	192,913	193,075	+162	119.4%
Less transfers to/from capital reserve				
- planned transfer to reserve of resources for future programmes	-26,293	-26,293	-	-16.3%
- additional transfer to/from reserve	-	-5,086	-5,086	-3.1%
	166,620	161,696	-4,924	100.0%

- 4.4 Where possible, available Government capital grant has been used to finance expenditure with the use of Government borrowing allocations deferred until future years.

- 4.5 Spending on locally resourced capital schemes in 2011/12 was lower than estimated, particularly on structural maintenance of roads and bridges, and the unused resources of £5.1m will be carried forward to 2012/13.
- 4.6 As reported in section 6 below, capital receipts in 2011/12 were lower than estimated, mainly because the sale of land at Merton Rise in Basingstoke has been delayed until 2012/13. As those proceeds will be used in part to repay prudential borrowing, the level of repayments in 2011/12 was lower than estimated, as shown in Table 3.

5 Borrowing

- 5.1 Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from the Government, provided their actions meet the requirements of the Prudential Code for Capital Finance introduced by the Local Government Act 2003. This is known as 'prudential borrowing'. It does not attract any support from the Government towards the repayment and interest costs, which fall wholly on the County Council's own resources.
- 5.2 Cabinet agreed criteria for the use of prudential borrowing in November 2003, with revisions in February 2006. Since then, its use has been agreed for a number of capital schemes, primarily on an invest-to-save basis. It is proposed that a total of £15.6m is borrowed in 2011/12 for these schemes, in accordance with the approved criteria.
- 5.3 Prudential borrowing of £9.9m has been repaid in 2011/12 including the use of capital receipts from the sale of sites at Moorgreen Road, Hedge End and Romsey Primary School, together with developers' contributions for the schemes at Endeavour Primary School in Andover and Marnel schools in Basingstoke.
- 5.4 The Prudential Code includes a number of indicators intended to illustrate whether local authorities are acting prudently. The County Council's latest position on these prudential indicators following the 2011/12 outturn is summarised in Appendix 3. It shows that the County Council continues to be in full compliance with the requirements of the Code.
- 5.5 In addition to the prudential borrowing, it is proposed that £3.1m of loans are raised in 2011/12 on the basis of the Government borrowing allocations.
- 5.6 Capital grants from the Government of £83.5m have also been used to finance capital expenditure in 2011/12.

6 Capital receipts

- 6.1 Capital receipts from the sale of land and property in 2011/12 were £7.8m in total. This includes the disposal on Trafalgar House in Winchester which was completed in 2011/12 but the cash proceeds

were not fully received until after 1 April 2012. As a result, £6.7m of the capital receipts in 2011/12 have been used to fund expenditure in the year.

- 6.2 The total amount received in 2011/12 was less than the estimate of £37.2m primarily because the disposal of land at Merton Rise in Basingstoke is now expected to be completed in 2012/13.
- 6.3 Services' proposed shares of capital receipts in 2011/12 are summarised in Annex 3. The County Council's policy allows services to retain 25% of capital receipts from the sale of their assets, with up to 100% for approved rationalisation schemes. Receipts from development account and county farm sales are retained for corporate use unless, in the case of county farm sales, alternative proposals are specifically approved. In accordance with this policy, services are entitled to £7.7m of the £7.8m received in 2011/12. Cabinet has previously approved the addition of majority of this amount to services' capital programmes, leaving a total of £15,000 for which approval is now required for allocation to services, as set out in Annex 3.

Analysis of capital programme 2011/12 and requests by services to carry forward capital schemes to 2012/13

	(1) Approved value of programme	(2) Schemes committed in 2011/12	(3) Schemes for which approval to carry forward is now requested	(4) Schemes already approved for carry forward	(5) Unallocated cash limit available for carry forward to 2012/13	(6) Total cash limit carried forward to 2012/13 (columns 3+4+5)
	£000	£000	£000	£000	£000	£000
Adult Services	6,553	5,127	1,426	-	-	1,426
Children's Services	54,116	26,556	4,241	21,414	1,905	27,560
Economy, Transport & Environment	59,114	43,880	15,234	-	-	15,234
Policy and Resources	47,848	31,521	16,327	-	-	16,327
Total	167,631	107,084	37,228	21,414	1,905	60,547
	100.0%	63.9%	22.2%	12.8%	1.1%	36.1%

Summary of capital expenditure in 2011/12

Analysis by service

	£000	%
Adult Services	5,354	3.3
Children's Services	61,302	37.9
Economy, Transport & Environment	71,792	44.4
Policy and Resources	23,248	14.4
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	161,696	100.0
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Analysis by type of expenditure

	£000	%
Land	2,359	1.5
Construction work	131,022	81.0
Fees and salaries	18,502	11.4
Furniture, equipment and vehicles	9,813	6.1
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	161,696	100.0
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Annex 3

Analysis of capital receipts 2011/12

	(1) Net capital receipts £000	(2) Shares from in/out and other schemes previously added to programme £000	(3) now available to be added to programme £000	(4) 25% share of qualifying receipts now due to services £000
Adult Services	2,400	2,400	-	-
Children's Services	3,361	3,361	-	-
Economy, Transport & Environment	45	-	-	11
Policy and Resources	2,008	1,311	635	4
	----- 7,814 -----	----- 7,072 -----	----- 635 -----	----- 15 -----
Total now to be added to services' programmes			----- 650 -----	

The capital receipts used to repay prudential borrowing, totalling £2.7m, are included column (2) in the table above.