CABINET

Budget & Policy Framework Update – General Fund Capital Programme 22 January 2008

Report of Corporate Director (Finance & Performance) and Head of Financial Services

PURPOSE OF REPORT					
To provide the latest information on the General Fund capital position for both current and future years, to allow Cabinet to make progress in developing its capital investment proposals and the supporting Investment Strategy.					
Key Decision		**Non-Key Decision**		**Referral**	**X**
Date Included in Forward Plan	January 2008				
This report is public (with the exception of Appendix A. This is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.)					

1. RECOMMENDATIONS OF OFFICERS:

1 **That the draft Capital Investment Strategy be updated to reflect the changes in financing assumptions as outlined in sections 1.1 to 1.5 of the report.**

2 **That Cabinet notes the delegated actions of the Head of Financial Services with regard to the funding of vehicle acquisitions as outlined in section 1.4 (iii).**

3 **That Cabinet notes the latest position regarding the General Fund Capital Programme and funding assumptions from 2007/08 onwards, together with the work ongoing, and takes action to ensure that a fully balanced Programme is presented for Cabinet's consideration at the February meeting, for subsequent referral on to Council.**

4 **That the draft Treasury Strategy for 2008/09 and associated Prudential Indicators be updated in line with the above recommendations.**

Introduction

As part of the Corporate Plan and Budget Strategy for 2008/09, the Capital Programme is being reviewed further to ensure that it is still affordable and that both existing schemes and new investment proposals tie in with Cabinet's proposed priorities and the overall Capital Investment Strategy. This report provides an update on the General Fund Capital Programme position for both current and future years. It should be noted, however, that further work is continuing, and that capital issues should be considered alongside revenue budget proposals – the two aspects are interlinked and each can have significant bearing on the other.

Proposal Details

1 RESOURCES TO SUPPORT CAPITAL INVESTMENT

The various sources and availability of capital funding have been reviewed and are outlined as follows.

1.1 Revenue Financing Of Capital Schemes

Further to the approval of the original programme back in February 2007, no general provision for revenue funding of capital is assumed, but several specific revenue funding contributions are included for various schemes (or proposals), as shown below.

Direct Revenue Financing of Schemes:
£261K towards Customer Services Centres (from access to services reserve)
£300K towards IT Desktop equipment (from renewals reserve)
£224K towards the Storey Institute project (from capital support reserve)
£139K for Denny Beck Bridge Improvements
£105K towards Christmas lights Replacement (from renewals reserve)
£48K towards Cemetery Improvements
£46K towards Poulton Property Acquisitions on Green Street
£44K towards Salt Ayre Schemes (£30K of which is from renewals reserve)
£40K towards Morecambe Shop Front Improvements
£14K minor contributions for IT Software Schemes
£50K towards Energy Efficiency Schemes (from assumed revenue savings)

This latter is on the assumption that the scheme is Invest to Save, i.e. that savings in energy costs will accrue and be used to recover the costs of the initial investment. In total the contributions amount to £1.271M over the period to 2012/13, including the current year.

1.2 Capital Receipts Position

Since last Budget Council there has been little change to the capital receipts position, except for items included elsewhere on this agenda and recently there has been specific consideration of the issues and risks attached. The latest draft capital receipts schedule is attached at ***Appendix A*** and this assumes that the proposed sales included elsewhere on the agenda will be approved. It is highlighted that this appendix is exempt by virtue of paragraph 3 of Schedule 12a of the Local Government Act 1972. Further consideration of the estimated amounts and timing of these capital receipts is currently underway, in view of planning and associated issues.

In total, for the period from the current year onwards capital receipts totalling £10.6M are anticipated. After allowing for the effects of slippage from 2006/07, this represents an increase of around £1M when compared with the assumptions made during the last budget.

Under the current approved Capital Investment Strategy such forecast additional capital receipts are not to be used to support new spending or commitments. Instead, their application 'will be considered in context of meeting the overall target'. In updating the draft programme, therefore, these extra resources have been set side on the assumption that this principle will be retained in the updated Investment Strategy. A similar principle was adopted for any sales associated with the Nightingale Hall site following Cabinet's decisions in October although as yet, no estimated sale price has been assumed for that particular site. These assumptions help to mitigate the financial risks facing the Council.

1.3 **Supported Borrowing To Support Capital Investment**

Following the relatively recent move by Government to award capital grants rather than borrowing allocations for private sector housing and flood defence schemes, it is expected that there will be continue to be no supported borrowing need in future for General Fund (and this is also the case still for Council Housing).

1.4 **Unsupported (or Prudential) Borrowing To Support Capital Investment**

Back in February Council resolved that unsupported borrowing to finance capital investment should be based on £1M in total, over the period to 2012. This has been used as the starting point in going forward to 2013 but there are other issues to highlight, some of which may need further consideration:

i. Further to Council's approval of the Storey Creative Industries Centre, unsupported borrowing of £200K has been included to help finance the scheme.

ii. Two proposed schemes at Salt Ayre (namely Poolside Seating and the Climbing Wall) have been included on the basis that unsupported borrowing of £105K could fund the proposals with no net impact on the revenue budget, as the borrowing costs could be met from additional income. This is in line with the current Investment Strategy principles but only as long as the business case is robust, and this has still to be confirmed. This principle may also apply to other capital investment proposals such as the Platform. It must be accepted, however, that if the proposals are ultimately included in the capital programme on this basis, but then they cannot reasonably expected to be self financing, then they would not go ahead.

iii. In October an options appraisal on over £1.5M of asset acquisitions was undertaken in conjunction with the Council's advisors. Further to this, the Head of Financial Services authorised £762K of those assets to be financed through unsupported borrowing rather than leasing, in line with previously agreed procedures. The underlying reason for borrowing rather than leasing was that the tenders were unlikely to meet the accounting requirements attached to operating lease arrangements, but the costs of borrowing were comparative to leasing in any event. The revenue consequences of this can be met from existing budget provisions, although a transfer between leasing and debt repayment budget headings is required and this has been incorporated into the draft revenue budget. Cabinet is asked to note these actions.

iv. Members may recall that £0.5M borrowing leeway was originally approved in February, and of this £200K has since been allocated to the Storey project as referred to above. For now, and given the current position on capital receipts, it is assumed that the remaining amount will be set aside to assist with the capital receipts position, should the need arise. The Head of Financial Services (as s151 officer) would advise against providing any future borrowing leeway under the existing framework at this time.

v. With regard to access to services' accommodation developments, no provision has been made as yet, as this is dependent upon the outcome of the homeworking/hotdesking pilot project. If the Council is to take forward the rationalisation of its municipal buildings within the next five years, however, it is expected that some unsupported borrowing would be needed to facilitate the developments. At present though, no such provision can be reasonably quantified.

Given these points, at this stage it is proposed to provide for a total of £2.067M of unsupported borrowing to finance the specific items quantified above. Members may be aware that some years ago, one of the principles adopted by the Council was that capital schemes would only progress when resources were actually available. From the earlier section on capital receipts, it is clear that significant risks exist in this regard and ultimately, to manage the position in future years, the Council may well have to face either deferring essential works or seeking other sources of funding – but prudential borrowing may well be the only feasible option if insufficient, appropriate property sales can be achieved. To ensure that such borrowing met the requirements of the Prudential Code, i.e. that it is prudent, affordable and sustainable, the Council would need to secure additional revenue savings in order to meet the borrowing costs, over and above any other savings targets that may be in place in order to achieve desired Council Tax levels. For these reasons it is felt prudent to minimise any other unsupported borrowing needs as much as possible, given the pressures on affordability.

1.5 **Grants, Contributions and other Scheme Specific funding**

In services reviewing capital schemes and bids, they have also been requested to review the level of external funding available. Such funding is usually scheme specific in nature, with the bulk of it relating to various grants and contributions, and as such its availability may not have any direct bearing on the net funding position of the overall programme. There is one exception to this, however, in that 50% of the Council's expected Performance Reward Grant will take the form of a capital grant but will be available to support capital investment generally. An amount of £62K has been provided for in 2007/08.

Regarding General Fund Housing, Officers are still awaiting confirmation of Government funding allocations and therefore it is expected that these will be incorporated into the February report. As such, there has been no significant review of this element of the programme.

As in previous years, Cabinet is asked to have regard to external funding generally when considering potential areas for capital investment. There are some key points to note:

- Whilst external funding might present an opportunity, this is only the case if the relevant scheme contributes to the Council's priorities and it does not leave the authority with ongoing commitments that it would rather not support, given all other spending pressures.

- Project managing the delivery of externally funded schemes can be very resource intensive, particularly for large complex schemes. The Council needs to ensure it has the skills and resources to do this and there are costs attached, even if they are catered for within existing budgets.

- Some schemes may be only externally funded in part, with match funding requirements from the Council.

- Any overspending on grant funded schemes, or failure to meet grant criteria, may result in a call on Council resources.

At present the draft programme has identified estimated grants and contributions of around £48M, representing almost 80% of total forecast funds. This helps to highlight the extent of reliance on (and success in attracting) external funding. Recent experiences in connection with the Storey project and Luneside East also highlight some of the financial consequences if schemes either do not progress as planned, or if such plans prove over optimistic. Cabinet is asked to bear this in mind in formulating its proposals for Council.

2 REVIEW OF CURRENT YEAR'S CAPITAL PROGRAMME

2.1 Relevant Officers have continued to clear the progression of capital schemes during the year, in accordance with delegated authority under Financial Regulations. For new schemes, this is done only when project management arrangements are deemed acceptable and funding is available. There are still schemes ongoing that started before the Council's new project management arrangements were implemented, however, and these will be reviewed once the new Capital Programme has been approved. A summary position statement is included at **Appendix B.** It can be seen that only 5 projects have not yet been cleared by the Group and work is currently underway to address these as appropriate.

2.2 More information has also been received from Service Managers on various scheme amendments, although a further exercise is currently underway to assess any further likely slippage into next year. A fully summary of amendments will be included in the February report but for now, most of the changes identified so far re relatively minor, with one exception, as follows:

- For Luneside, an overspending of £251K is now forecast, and supporting information on the scheme is included at ***Appendix C***. Extra external funding had been gained in the past to cover previously reported overspendings, but no such further funding is anticipated. Therefore Cabinet will need to allow for the overspending in its overall capital programming proposals.

3 REVIEW OF CAPITAL SCHEME PROPOSALS 2008/09 ONWARDS

3.1 The existing programme from 2008/09 onwards has been rolled forward for one year into 2012/13 and this has also been reviewed by Service Managers. As a result of this exercise existing schemes have either been retained or amended, and other new scheme proposals have been put forward.

3.2 Relevant Officers have subsequently assessed the resulting bids in accordance with the criteria as set out in the Capital Investment Strategy and against Cabinet's proposed Corporate Priorities, and the outcome of this piece of work has been fed into Star Chamber initially. For now though, some important points are highlighted, both of which may impact on the revenue budget and well as the capital programme:

– A review of IT capital related projects is underway, and this may influence the amounts and timing of schemes.

– Several potential developments at Williamson Park have been indicated, but full information on the proposals has not yet been received and it is unclear whether it will be available in sufficient time to be considered in this budget round.

– Items elsewhere on this agenda include capital proposals and these have been included within the draft programme for now, subject to Cabinet's deliberations.

– Some of the costings of the capital proposals are provisional and may be updated. Furthermore, there is some further work required on assessing whether certain bids should be treated as revenue or capital; this relates to the revenue growth bids also.

– The draft capital programme attached has implications for the revenue budget. Some are already provided for whilst others are clearly not, but again more information and work is needed to clarify the position. For now though, any indicative revenue implications that are not already budgeted for have been included in the Revenue Budget report elsewhere on the agenda.

4 SUMMMARY POSITION FOR FUTURE YEARS:

4.1 Whilst it is acknowledged that further work is still required or underway, the latest capital position is as follows. More detailed statements are included at ***Appendix D.*** Both the gross capital programme (***D(1)***: including external funding) and the net programme (***D(2)***: showing only the City Council funding requirement) are included for information.

	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing (Private sector - not council owned)	5,789	3,897	1,018	1,067	1,120	TBC	12,891
Other Services	17,453	23,085	4,244	2,169	1,506	799	49,256
Total Draft Programme	**23,242**	**26,982**	**5,262**	**3,236**	**2,626**	**799**	**62,147**
Estimated Specific External Funding	18,216	23,504	3,594	1,637	1,200	0	48,151
Estimated Available Council Funding	5,991	6,907	113	457	519	100	14,087
Less Extra Forecast Receipts Set Aside		-1,007					-1,007
Cumulative Surplus (+) / Shortfall (-)	**+965**	**+3,387**	**+1,832**	**+690**	**-217**	**-916**	**-916**

4.2 It can be seen from the above that the cumulative shortfall is currently estimated at £916K, assuming that the extra potential capital receipts would be set aside as mentioned earlier.

4.3 As in previous years, it is recommended that Cabinet takes forward the review of capital bids and funding assumptions, so that proposals for balancing the programme can be brought back to the February meeting for subsequent referral on to Council.

5 DETAILS OF CONSULTATION

The development of capital investment proposals falls under the consultation exercise as outlined in the budget and policy framework timetable.

6 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

<u>Funding Assumptions and Achieving a Balanced Capital Programme</u>

The broad options for achieving a balanced programme are set out below and are very much dependent on Members' views on spending priorities. As such, a full options appraisal and risk assessment cannot be completed until budget proposals are known in more detail. That said, the basic options include:

- removing schemes from the draft programme, taking account of service needs and priorities;
- reducing proposed net expenditure on schemes, where possible;
- generating additional capital resources (e.g. receipts, direct revenue financing or borrowing), within affordable limits.
- deferring projects into later years – although this would not help with the overall five-year programme unless schemes were deferred until after 2012/13.

As referred to in earlier reports, setting a balanced capital programme is an iterative process, essentially balancing service delivery impact and aspirations against what the Council can (and is prepared to) afford.

In deciding the way forward, Cabinet is asked also to take into account the relevant basic principles of the Prudential Code, which are:

- *that the capital investment plans of local authorities are affordable, prudent and sustainable, and*
- *that local strategic planning, asset management planning and proper options appraisal are supported.*

Noting the Actions of the Head of Financial Services regarding Vehicle Acquisitions

The only alternative option would be to defer noting the actions, pending receiving further information.

7 OFFICER PREFERRED OPTION AND COMMENTS

The Officer preferred options are as set out in the recommendations of the report.

8 CONCLUSION

This report provides information and outline options for Cabinet to consider in formulating its proposals for a balanced Capital Programme to 2012/13 in line with the Prudential Code. It is clear that the investment needed in Council owned buildings and facilities represents a major call on resources, and that opportunities may exist for generating significant capital receipts, but further work is needed to ensure that the final proposals to Council are prudent, affordable and financially sustainable.

RELATIONSHIP TO POLICY FRAMEWORK **The proposals seek to ensure that capital investment decisions are in support of the Policy Framework and are affordable, in context of the Council's medium term financial planning.**	
CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability etc)** **None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.**	
FINANCIAL IMPLICATIONS **As set out in the report.**	
DEPUTY SECTION 151 OFFICER'S COMMENTS **The s151 officer has prepared this report, as part of her responsibilities with regard to providing advice to Members on capital programming requirements under the Prudential Code. Her specific comments are included in the body of the report and the Deputy s151 Officer has nothing further to add.**	
LEGAL IMPLICATIONS **Legal Services have been consulted and have no comments to add.**	
MONITORING OFFICER'S COMMENTS **The Monitoring Officer has been consulted and has no further comments.**	
BACKGROUND PAPERS **Prudential Code for Capital Investment in**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117**

Local Authorities **Draft Capital Investment Strategy**	**E-mail:nmuschamp@lancaster.gov.uk**