

CABINET

Budget & Policy Framework Update – General Fund Capital Programme 20 January 2009

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	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>	Referral	<input checked="" type="checkbox"/>
Date Included in Forward Plan	January 2009				
This report is public.					

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 1.4 of the report.
- 2 That Cabinet notes the latest position regarding the General Fund Capital Programme and funding assumptions from 2008/09 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.
- 3 That the draft Treasury Strategy for 2009/10 and associated Prudential Indicators be updated in line with the above recommendations.

Introduction

As part of the Corporate Plan and Budget Strategy for 2009/10, 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 2008, 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:

£251K towards IT Desktop Equipment (from renewals reserve)
£214K towards the Storey Institute project (from capital support reserve)
£200K towards Luneside East (from capital support reserve)
£139K for Denny Beck Bridge improvements
£66K towards Christmas Lights replacement (from renewals reserve)
£40K towards Morecambe Shop Front improvements
£18K towards Cemetery improvements
£18K towards heritage lighting St. George's Quay
£22K towards other minor 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 above amount to £1.018M over the period, including the current year.

1.2 Capital Receipts Position

Since the last capital update to Cabinet back in October, there have been no overall changes to the position so far. Further consideration of the estimated amounts and timing of capital receipts is currently underway, and Cabinet is due to receive a report on the property disposal strategy, now scheduled for February.

For the period from the current year onwards, capital receipts totalling £9.48M are anticipated, excluding the balance brought forward as at 01 April 2008.

1.3 Unsupported (or Prudential) Borrowing for Support Capital Investment

The original programme assumed only a £270K increase in the unsupported borrowing requirement from 2008/09 onwards. There are two changes to highlight:

- i. Further to Council in November, this year's underlying borrowing requirement has increased by £1.4M, but with the assumption that it be 'repaid' in 2009/10.
- ii. £70K of the original amount related to new poolside seating at Salt Ayre. This has been acquired at much less than originally estimated, however, and the borrowing need has reduced to £35K.

Given these points, at this stage it is proposed to provide for a net total increase of only £235K of unsupported borrowing over the period, albeit with the interim increase in borrowing of £1.4M between 2008/09 and 2009/10.

Members will 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. It is clear that significant risks still exist in this regard and ultimately, to manage the position in future years, again the Council may well have to face either deferring essential works or seeking other sources of funding – but again, prudential borrowing may well be the only feasible option. 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 at present it is felt prudent to minimise any other unsupported borrowing needs as much as possible, given the pressures on affordability. This will be kept under review, however.

1.4 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.

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 if available.

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 £41M, representing around 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 related business 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.
- 2.2 More information has also been received from Service Managers on various scheme amendments, although another 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, there is one issue to note:
- Cabinet may recall that for the Luneside scheme, £1.7M income was assumed within last year's accounts. A report will be brought to Cabinet regarding options for the way forward but for now, given the current position, this amount has been covered provisionally from the Council's own resources.

3 REVIEW OF CAPITAL SCHEME PROPOSALS 2009/10 ONWARDS

- 3.1 The existing programme from 2009/10 onwards will be rolled forward for one year into 2013/14 and this is also being reviewed by Service Managers. As a result of this exercise so far, existing schemes have either been retained or amended, but very few new scheme proposals have been put forward.
- 3.2 Relevant Officers are assessing the resulting bids in accordance with the criteria as set out in the Capital Investment Strategy and against Cabinet's proposed Corporate Priorities. For now though, some important points are highlighted, which may impact on the revenue budget and well as the capital programme:
- No specific provision or proposals have been included as yet in connection with other key capital issues such Chatsworth Gardens, or Luneside for future years.
 - It is assumed that no specific provision is required regarding Access to Services, other than the earmarked reserve referred to in the revenue budget report.
 - Proposals are awaited for items such as the demolition of the Dome, etc. Should Cabinet propose the closure of any other facilities, these may also give rise to other similar capital considerations.
 - Reviews of IT capital related projects and municipal building works are underway, and this may influence the amounts and timing of schemes.
 - Some outline scheme proposals, such as Lancaster Science Park, etc. are subject to further consideration by Cabinet, before they progress.
 - 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 proposals should be treated as revenue or capital. No proposals have been received as yet for 2013/14.
 - The draft capital programme attached has implications for the revenue budget. Generally these are already provided for, but again more information and work is needed to clarify the position.

4 SUMMARY POSITION

- 4.1 Whilst it is acknowledged that further work is still required or underway, the latest capital position is as follows. A more detailed statement is included at **Appendix A**. It is highlighted that for now, the appendix focuses on the net programme, i.e. showing particularly the in-year City Council funding contributions to schemes.

	2008/9	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
Total Proposed Net Programme	3,387	2,913	1,978	1,398	561
Estimated Council Funding Available (including year end capital receipts balances etc.)	3,173	5,760	2,962	2,079	781
Cumulative Surplus (+) / Shortfall (-)	-214	+2,847	+984	+681	+220

- 4.2 It can be seen from the above that at present, the cumulative surplus is just over £200K. This is prior to considering the various issues outlined in section 3, however, and it is expected that the position will deteriorate, at least in the shorter term.
- 4.3 As in previous years, it is recommended that Cabinet takes forward the review of the draft programme 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)

Funding Assumptions and Achieving a Balanced Capital Programme

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 for achieving savings 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 2013/14.

Should surplus resources be available, these could be used:

- to repay borrowing, or to reduce the call on the revenue budget;
- to fund new capital schemes;

- to make provision for other anticipated liabilities.

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.*

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 initial information and outline options for Cabinet to consider in formulating its proposals for a balanced Capital Programme to 2013/14 in line with the Prudential Code. It is clear, however, that there are other major capital issues that have yet to be incorporated into the draft programme. 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 Local Authorities
Draft Capital Investment Strategy

Contact Officer: Nadine Muschamp

Telephone: 01524 582117

E-mail: nmuschamp@lancaster.gov.uk