

# **BUDGET AND PERFORMANCE**

## **General Fund Capital Programme Update Report 31 January 2006**

### **Report of Councillor Barker**

<b>PURPOSE OF REPORT</b>			
To provide the latest information on capital for both current and future years, to allow Cabinet to make progress in developing its capital investment proposals and the supporting Investment Strategy.			
<b>Key Decision</b>		<b>Non-Key Decision</b>	
			<b>Referral from Cabinet Member</b>
This report is public.			<b>X</b>

This report went to Cabinet on 17<sup>th</sup> January 2006.

#### **1. RECOMMENDATIONS OF CABINET MEMBER:**

- 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 actions of the Head of Financial Services with regard to the funding of vehicle acquisitions.**
- 3 That at this stage capital funding leeway of £500,000 be assumed, although this be subject to further review prior to Cabinet submitting its final capital proposals to Council for approval.**
- 4 That Cabinet notes the latest position regarding the General Fund Capital Programme and funding assumptions from 2005/06 onwards, and the further work ongoing, and that it considers these further in order to make recommendations on the setting of a balanced Capital Programme for the period to 2010/11.**
- 5 That the draft Treasury Strategy for 2006/07 and associated Prudential Indicators be updated in line with the above recommendations.**

## **Introduction**

As part of the Corporate Plan and Budget Strategy for 2006/07, the Capital Programme has been 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.

## **Proposal Details**

### **1 RESOURCES TO SUPPORT CAPITAL INVESTMENT**

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

#### **1.1 Revenue Financing Of Capital Schemes**

Following Cabinet's earlier decision, no general provision for revenue funding of capital is assumed though there are still relatively small pockets of specific funding mainly for existing committed schemes in the current year.

#### **1.2 Capital Receipts Position**

Since the draft Investment Strategy was reported there have been some further changes to the receipts position, the most significant ones being the disposal of part of Spring Garden Street car park and a change in the expected selling price of the Morecambe former coach park. As a result of the changes, gross receipts of £4.2M are currently anticipated for the period ending March 2011.

#### **1.3 Supported Borrowing To Support Capital Investment**

In the December report it was highlighted that future housing allocations may be awarded as capital grant allocations, rather than as supported borrowing. It has now been confirmed that this change will be introduced from 2006/07 and a capital grant allocation of £1.717M has been received for that year; further allocations for 2007/08 and for Disabled Facilities Grants are expected shortly. This change is very much welcomed; in addition to it being far simpler and clearer, it has knock-on benefits from improved cashflow and from reduced borrowing costs in future years. Officers are now reviewing and updating the proposed General Fund Housing capital proposals and these will be incorporated into the February report.

Furthermore it is now known that river and sea defence schemes will also be wholly grant funded as from next year. Whilst this will not have the same cash flow benefits, it will result in further savings in future years borrowing costs. This issue is also highlighted in the Revenue Budget Update report elsewhere on the agenda.

Following these changes it is expected that no supported borrowing will be needed in future for General Fund (and this is also the case still for Council Housing).

#### **1.4 Unsupported Borrowing To Support Capital Investment**

Back in October Members resolved that initially, estimated unsupported borrowing to finance capital investment should be based on £1M in total, over the period to 2011. This was very much a starting point and in going forward, certain issues must be considered or addressed:

- The likely timing of any access to services' accommodation developments is being reviewed in high level terms, to assess whether some degree of unsupported borrowing should be provided for within the five year capital programme. Even if ultimately the Council chooses not to progress alternative accommodation options, there is still a major backlog in outstanding works required to existing municipal accommodation estimated in the region of £3M; currently assumed to be half capital and half revenue. Given the current position regarding consultation on the way forward, for this budget exercise it is not proposed to address fully the matter for 2006/07 but this position is neither prudent nor sustainable in the medium to longer term. During next year, it is essential that progress is made in funding accommodation developments, irrespective of which option is taken forward.
- In order to progress the improvement works to the Clock Tower, the use of £112K borrowing leeway was approved in September of this year; this will be met through unsupported borrowing with the revenue consequences being met from repair and maintenance budgets.
- As part of last year's outturn, vehicle acquisitions totalling £544K were funded from capital receipts rather than unsupported borrowing. This was on the basis that the switch in financing would be reversed in the current year, so that overall there would be no impact on the Council's capital position. In addition, further asset acquisitions appraisals have been undertaken in 2005/06. Following the options appraisal, the Head of Financial Services authorised an additional £79K of vehicle acquisitions to be funded from unsupported borrowing, rather than leasing. 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 effected in the draft revenue budget. Cabinet is asked to note these actions.
- Other capital investment proposals arising in line with the Investment Strategy need further quantification and appraisal, not least in terms of affordability, sustainability and prudence, i.e. the main principles underpinning the Prudential Borrowing Code. This applies to invest to save schemes also. The outcome of the provisional settlement provides an opportunity perhaps to afford a greater level of capital investment, but clearly this needs to be assessed in context of other spending priorities and the longer term implications.

Given these points, at this stage it is proposed to provide for £735K of unsupported borrowing to finance the specific items quantified above, but still retain the existing assumption regarding general unsupported borrowing of a further £1M. It is highlighted that this may well change in the coming months, although the aim will be to reduce the reliance on unsupported borrowing. This is in clear recognition that progression of accommodation developments will require additional unsupported borrowing in future, whichever option is ultimately taken forward, and therefore it is felt prudent to minimise other unsupported borrowing needs as much as possible, given future 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. For this reason, the summary five year position referred to later in the report focuses on the Council's net contribution to schemes, with external specific funding being shown separately. There is one notable 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 £69K has been provided for in years 2006/07 and 2007/08.

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.

## 1.6 Leeway in Capital Funding

At the October meeting Members supported the idea of retaining some funding leeway for next year's programme to cover certain situations, but that the amount of leeway provided be reviewed in light of any emerging new risks attached to the programme etc. This information is not available fully at present, but at this stage it is assumed that the framework will be retained and re-established back at £500K, subject to Council approving the relevant borrowing limits.

## 2 REVIEW OF CURRENT YEAR'S CAPITAL PROGRAMME

2.1 Since December more information has been received from Service Managers on this year's Capital Programme and the outcome is set out at **Appendix A**. In summary the following have been identified to date:

- Over £13M of slippage on schemes. This is exceptionally high but much of it relates to delays experienced in finalising agreements for externally funded schemes such as Luneside East. Furthermore the level of slippage is likely to increase once information on the West End Masterplan is received. This is currently being reviewed by relevant officers, tied in with next year's spending plans on Private Housing, as mentioned earlier. The amount of slippage to be funded from Council resources amounts to approximately £0.5M.
- One major underspending has been identified in connection with sea defence works, but this is due to firming up the details of the scheme. In the main it will be externally funded so does not represent a true financial saving to the Council.

2.2 Members may recall that in approving the Capital Programme back in March, certain schemes were subject to further reports back to Cabinet prior to schemes progressing as further details were required; this was because some schemes were very outline in nature. Not all of these reports have been submitted as yet - ones in connection with the Port of Heysham, Salt Ayre and Heysham Mossgate are currently being progressed.

- 2.3 The appendix also highlights four new scheme bids that have been received. Two were the subject of Cabinet reports back in December and the other two (Willow Lane Play Area and Shrimp Cycle Route) have been included in the draft Revised Programme only on the basis that they are wholly self financing and have no revenue implications for the Council. If this is not the case, they will not go ahead and will be removed from the programme for the next update.
- 2.4 Whilst the slippage information provided by services may be updated further as outlined, Cabinet is requested to allow for the above changes in its overall capital programming proposals.

### 3 REVIEW OF CAPITAL SCHEME PROPOSALS 2006/07 ONWARDS

3.1 The existing programme from 2006/07 onwards has been rolled forward for one year into 2010/11 and has 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 put forward; these will be available shortly through the Intranet (under Financial Services). The criteria being used by officers to assess bids are as set out in the approved Capital Investment Strategy and it is clear that more work needs to be done to firm up and clarify the details or implications for many of the bids submitted to date. The outcome of this further piece of work will be fed into Cabinet for the next meeting. For now though, two important points are highlighted, both of which may impact on the revenue budget and well as the capital programme:

- Several bids that relate to property improvements or ‘repairs’ need to be assessed to see whether they are truly capital or whether they need to be treated as revenue, but more detail is required from services before this can be done.
- The draft capital programme attached also outlines indicative revenue implications of bids or schemes. Some are already provided for within the budget, 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 SUMMARY 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. A more detailed statement is included at **Appendix B** (larger copies available on request).

	2006/7	2007/8	2008/09	2009/10	2010/11	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Housing (Private – not HRA)	2,053	430	430	430	430	3,773
Other Services	2,564	1,940	1,013	608	250	6,375
<b>Total Provisional Net Programme</b>	<b>4,617</b>	<b>2,370</b>	<b>1,443</b>	<b>1,038</b>	<b>680</b>	<b>10,148</b>
Estimated Council Funding Available <i>(excluding external sources)</i>	2,939	1,838	1,076	798	430	7,081
<b>Cumulative Surplus (+) / Shortfall (-)</b>	<b>-1,678</b>	<b>-2,210</b>	<b>-2,577</b>	<b>-2,817</b>	<b>-3,067</b>	<b>-3,067</b>

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)

### **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 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 2010/11.

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.*

### **Leeway in Capital Funding:**

Given that Cabinet have already approved the reasoning and options appraisal behind providing for leeway at earlier meetings, the options are basically either to accept the proposed level of leeway or reject it / make amendments to it. Any further risk or other considerations will depend upon whether Cabinet put forward any alternative recommendations.

### **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

There are no specific Officer preferred options at this stage, other than noting the position regarding vehicle purchases.

## 8 CONCLUSION

This report provides initial information and outline options for Cabinet to consider in formulating its proposals for a balanced Capital Programme to 2010/11 in line with the Prudential Code.

### **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.

### **SECTION 151 OFFICER'S COMMENTS**

The s151 officer has been involved in the preparation of 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.

### **LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments.

### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no comments to add.

### **BACKGROUND PAPERS**

Prudential Code for Capital Investment in  
Local Authorities  
Draft Capital Investment Strategy

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