

MEDWAY COUNCIL

CABINET

27 NOVEMBER 2007

CAPITAL PROGRAMME 2008/2009 AND BEYOND

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Mick Hayward, Chief Finance Officer

1. Summary

- 1.1. This report sets out recommendations for a provisional programme of capital investment for 2008/2009 and beyond.

2. Decision Issues

- 2.1 According to the council's constitution it is the responsibility of Cabinet, supported by the management team, to formulate the capital budget. This proposal should be submitted to the overview and scrutiny committees for their views. Council has the ultimate responsibility for determining the final budget.
- 2.2 Cabinet is asked to accept this as an urgent item to facilitate the budget consultation process in accordance with the timescales in the constitution.

3. Background

- 3.1. This report seeks to ensure that the capital programme process is integrated with the process for setting the revenue budget and the level of Council tax and all capital expenditure is matched to available resources. As will be seen later in the report, the capital programme is predominantly funded from Government and other grants, borrowing, third party contributions and the Council's own resources.
- 3.2. As Members will be aware, the prudential regime for capital investment came into effect for the 2004/2005 financial year which increased the funding available to local authorities through 'unsupported' borrowing providing that these capital investment plans are affordable, prudent and sustainable.
- 3.3. All revenue implications for unsupported capital schemes, including the cost of borrowing, must be within the parameters established for the revenue budget setting process and the medium term financial plan. To date the Council has approved some £28m of capital expenditure to be funded through the prudential regime.

- 3.4. The current forecast shows that almost £27 million of the current approved programme of some £128 million will be delivered in future years and capital resources will either roll forward or new allocations become available. The majority of capital resources to support investment for the current financial year were announced in 2005 as part of the transition to three year settlements to be introduced from 2008/2009 following the Government's Comprehensive Review (CSR 2007). Initial indications were that the results would be published in early summer. However, Members will be aware that this was delayed until 9 October. In any event, the capital allocations within the CSR are at a high level and it will be for each Government Department or Region to advise local authorities of their individual allocations. At the time of writing this report only detailed information in respect of school funding has been received.
- 3.5. The annual target for capital receipts must remain at £4 million as it is vital to ensure capital reserves are sufficient to match our investment plans. Commitments from the current capital programme and ongoing support of annual schemes represent an additional demand for receipts of £10 million by the end of 2010/2011.
- 3.6. The provisional capital programme for 2008/2009 and future years incorporates schemes which are fully supported by borrowing, grant or other external contributions.

4. Provisional Capital Programme 2008/2009

- 4.1. In setting a programme of investment in the capital programme, Members must consider all financing options available and have regard to option appraisal, asset management planning, strategic planning and achievability of the Council's forward plan.
- 4.2. As indicated in paragraph 3.4, few detailed funding announcements have been made to date. The capital programme must be considered provisional at this stage and Cabinet are requested to consider the core funded programme and the unfunded proposals for consideration by overview and scrutiny as work in progress.
- 4.3. In considering schemes for inclusion within the programme the revenue implications of new investment must always be assessed. This information forms a component of the prudential indicators of affordability. Consequently, individual schemes will be considered in detail before submission to Members for formal approval.
- 4.4. Schemes which require a draw on reserves or revenue funds cannot be considered due to severe budget constraints. Uncommitted general reserves were £3.7 million at the end of March 2007 and this balance is committed to fund currently approved schemes as can be seen from Table 1.
- 4.5. The following table lists approved schemes, funded from capital receipts or reserves which will continue into future years to the extent of the unused amount of the approval:

Table 1 Unsupported existing approved Capital Schemes for 2007/2008

Scheme funded from Capital Receipts and Reserves	Total Scheme Approval £000s	Forecast Spend to 31/03/08 £000s	Future Years to 2010/2011 £000s
Member's Priorities	2,790	2,540	250
Highways	1,553	1,553	0
Building Maintenance Programme 6	1,000	0	1,000
Universities at Medway (Final Phase)	1,000	1,000	0
Rochester Improvement Programme	943	943	0
ICT Strategic Fund	848	300	548
Townscape Heritage Initiatives	639	233	406
Eastgate House Improvements	614	14	600
Strood Riverside	542	542	0
Strategic Sites Investment Programme	702	702	0
Building Maintenance Programme 5	431	431	0
Disabled Facilities Grant	378	378	0
Medway Enterprise Gateway	362	62	300
EH Local Management Agreement	342	92	250
Older Persons Plan	240	240	0
Renovation Grants etc.	234	0	234
Chatham Historic Dockyard Trust	205	205	0
Energy Efficiency Carbon Trust	150	25	125
Hard Landscaping within GM Contract	140	35	105
Chatham Centre and Waterfront	116	116	0
Ranscombe Farm Country Park	110	1	109
Gillingham Park	104	13	91
Miscellaneous Minor Schemes	86	86	0
Medway Park (Black Lion)	3,100	100	3,000
Strood Riverside Land Compensation	3,538	0	3,538
Total	20,167	9,611	10,556
Funding			
Reserves	3,673	3,173	500
Capital Receipts Existing Programme	9,956	6,438	3,518
Capital Receipts Future Programme	6,538	0	6,538

4.6 Accumulated capital receipts will be sufficient to cover the existing unsupported schemes detailed above with the exception of the future commitments for compensation payments to Network rail in respect of land acquisition at Strood

Riverside and the Council's commitment to match the University of Kent's funding for Medway Park.

- 4.7 In addition to the future commitments indicated above, there are a number of schemes, although uncommitted at this stage, which have been ongoing programmes in the past and are considered essential to maintain service levels across the Council and these will also present a draw on capital receipts yet to be realised. These schemes, including Medway Park and Strood Riverside land compensation, are summarised in Table 2 and Members are requested to consider them for incorporation within the draft capital programme over the period of the current CSR subject to sufficient resources being available:

Table 2 Unsupported Programmes. Requirement for Future Years

Scheme currently unfunded	2008/2009 £000s	2009/2010 £000s	2010/2011 £000s
Existing Commitments from Table 1	4,730	1,808	0
Highways	1,500	1,500	1,500
Building Maintenance Programmes 7+	0	1,000	1,000
Disabled Facilities Grants (40%)	380	380	380
Empty Homes	300	300	300
Older Persons Plan	170	101	101
ICT Funding (top up)	5	60	114
Total	7,085	5,149	3,495

- 4.8 For Member's information, the following table lists approved schemes, funded from unsupported borrowing which will continue into future years to the extent of the unused amount of the borrowing approval:

Table 3 Unsupported Existing Approved Capital Schemes for 2007/2008

Scheme funded from Unsupported Borrowing	Total Scheme Approval £000s	Forecast Spend to 31/03/2008 £000s	Future Years to 2010/2011 £000s
Gun Wharf	21,300	21,300	0
Medway Innovation Centre Phase II	4,150	450	3,700
Mercury Abatement	1,174	5	1,169
Napier Road	550	50	500
Strood SC Football Academy	292	292	0
Customer First	190	190	0
Total	27,656	22,287	5,369

- 4.9 At this stage, no further schemes have been identified for funding under the prudential borrowing regime.
- 4.10 As indicated in paragraph 3.4, CSR 2007 has introduced a three year funding settlement for local authorities. At the time of writing this report, with the exception of school's funding, little detailed information has been received in respect of individual service allocations. The following table, although incomplete, will give Members an indication of those major schemes or programmes which are externally funded or funded by borrowing backed by Central government support. Comparative figures for 2007/2008, where appropriate, are shown for information:

Table 4 Summary of External Funding for 2008/2009 Programme

Directorate/Scheme	2007/2008	2008/2009	2009/2010	2010/2011
	£000	£000	£000	£000
Children's Services				
Devolved Formula capital	5,713	5,351	5,301	5,301
Modernisation – Note 1	4,468	3,276	3,070	3,070
Basic Need	2,224	2,744	2,744	2,744
Primary Capital Programme	0	0	3,404	5,782
School's Access Initiative	546	620	620	620
Extended Schools	0	432	458	236
Harnessing Technology Grant	0	939	940	965
LCVAP – Note 1	431	593	593	593
Targeted Capital Fund – Note 2	0	0	2,000	6,000
Early Years (Sure Start)	2,953	489	1,023	607
Community Services				
Housing Repairs MRA	2,198	tba	tba	tba
Decent Homes SCE(R)	735	tba	tba	tba
Housing (General Fund)	281	tba	tba	tba
Personal Social Services	312	tba	tba	tba
Disabled facilities Grant – Note 3	540	tba	tba	tba
Regeneration and Development				
Transport – Integrated Transport	2,585	2,841	3,163	3,494
Transport - Maintenance	1,836	tba	tba	tba
Total	24,822			

- Notes :1) These allocations are reduced by the advances made in 2007/2008
2) This represents 14-19 diplomas, SEN and disabilities.
3) The allocation for Disabled Facilities Grants represents 60% funding. This therefore assumes 40% from the Council's other capital resources.

4.11 Apart from those schemes listed in Table 2, there are no new proposals for inclusion in the capital programme for 2008/2009 at this stage. A sizeable amount of the anticipated funding will be allocated to ongoing programmes e.g. MRA and LTP. However, some £14 million has been allocated to Children's Services. Of this allocation, approximately £8 million is either devolved to schools or earmarked for specific programmes. Future years commitments form the current capital programme

amount to a further £3 million leaving £3 available to fund to future projects. A full review of the Children's services capital programme will, therefore, be undertaken as part of the budget setting process.

- 4.12 New schemes proposed for inclusion in the capital programme have the potential to be included, subject to full Council approval, at any time. Clearly in this regard there is a distinction between the capital and revenue budget, although there is a likelihood of revenue consequences arising from capital investment. The approval process for such schemes will need to have regard to their priority and funding mechanism.
- 4.13 It must be re-emphasised at this stage that there will be limited Council funding available for 2008/2009 and future years. As indicated earlier, the availability of reserves is now non-existent and the opportunity to generate substantial capital receipts from the sale of non-operational and surplus assets becomes more difficult with the passage of time.

5. Funding the Approved Programme

- 5.1. The capital programme will be funded by several funding sources:
- Supported Borrowing (SCE(R));
 - Government Grant (SCE(C));
 - Other Capital Grants;
 - Major Repairs Allowance; and
 - Developer Funds / Specific Reserves.

Confirmation of the indicative allocations will be published throughout December, and any additional allocations announced over the winter and throughout the beginning of next year.

- 5.2. These funding streams have differing characteristics. Most central government support is allocated through the Single Capital Pot which comprises two components: Supported Capital Expenditure (Revenue), known as SCE(R) and Supported Capital Expenditure (Capital Grant), known as SCE(C). SCE(R) is the amount of expenditure towards which revenue support grant (RSG) will be paid to a local authority to reflect the costs of borrowing.
- 5.3. Central government support for borrowing through the Revenue Support Grant (RSG) is only given on the amounts allocated within the single capital pot. Local authorities need to take the totality of Government support, both SCE(R) and SCE(C), into account in setting prudential limits for the forthcoming financial year. However, under the Prudential Code councils are free to make their own borrowing decisions (within certain parameters) according to what is affordable. This additional borrowing is not supported within the aggregate of external funding sources, and therefore is an additional revenue cost.
- 5.4. The majority of capital grants are current year allocations. However, school modernisation grants and some targeted capital funding has to be spent in 17 months aligned to the school year. Local transport plan (LTP) grants are allocated for the

current year with indicative figures of a second year allocation. Devolved formula capital grants must be spent within three years. The CSR indicated that there will be a marked shift from SCE(R) to capital grant over the next three years.

- 5.5. In keeping with the Council's clear policy objectives, further developer contributions will be secured throughout 2008/2009. These contributions will be applied to secure investment to match the objectives set out in the Community Plan, and other planning and development priorities.

6. Consultation

- 6.1 The Community Plan, our local performance plan priorities, and key service plans encompass all aspects of capital expenditure within the authority. The Community Plan shows how the Council is able to work collaboratively with others to capitalise resources to realise the community's investment priorities.

7. Financial and legal implications

- 7.1. The financial implications are contained in the body of the report.
- 7.2. The council's constitution contains the budget and policy framework rules. The relevant extracts from the constitution are reproduced as follows:
- The budget and policy framework rules contained in the constitution specify that Cabinet should produce the draft revenue and capital budget. This initial budget will be submitted to the overview and scrutiny committees for consideration with any proposals referred back to Cabinet for further discussion.
 - Under the constitution Cabinet has complete discretion to either accept or reject the proposals emanating from the overview and scrutiny committees. Ultimately it is Cabinet's responsibility to present a budget to Council, with a special Council meeting arranged for this purpose on 28 February 2008. The adoption of the budget and the setting of council tax are matters reserved for Council.

8. Recommendations

- 8.1. That Cabinet notes the unsupported capital commitments from 2007/2008 as summarised in Table 1.
- 8.2. That Cabinet considers the ongoing schemes for 2008/2009 and future years as summarised in Table 2 for inclusion in the draft capital programme.
- 8.3. That Cabinet notes the scheme funded from unsupported borrowing as summarised in Table 3
- 8.4. That Cabinet notes the capital allocations received to date as summarised in Table 4.
- 8.5. That Cabinet forwards the provisional draft capital programme to Overview and Scrutiny as work in progress inviting them to offer comments on the proposals outlined.

9. Suggested reasons for decisions

- 9.1. It is the responsibility of Cabinet to develop draft budget proposals for consideration by overview and scrutiny committees. These draft proposals are the first stage of the budget consultation process leading to further discussion by Cabinet and formal council tax setting on 28 February 2008.

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Background papers

None