

## **CABINET**

**25 NOVEMBER 2008**

### **CAPITAL PROGRAMME 2009/2010 AND BEYOND**

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from/Author: Mick Hayward, Chief Finance Officer

#### **Summary**

This report sets out recommendations for a provisional programme of capital investment for 2009/2010 and beyond.

#### **1. Budget and Policy Framework**

1.1 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. Background**

2.1 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.

2.2 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.

2.3 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 £27m of capital expenditure to be funded through the prudential regime as 'invest to save' projects.

- 2.4 The current forecast shows that almost £48 million of the current approved programme of £124 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 are part of the three year settlement announced in 2007 following the Government's Comprehensive Review (CSR 2007).
- 2.5 The provisional capital programme for 2009/2010 and future years incorporates schemes which are fully supported by borrowing, grant or other external contributions.
- 2.6 In addition to the supported programme there are commitments from the current capital programme and ongoing support of annual schemes which represent a demand for capital receipts in excess of £20 million by the end of 2010/2011 to provide funding for unsupported schemes.

### **3. Provisional Capital Programme 2009/2011**

- 3.1 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.
- 3.2 Although three year funding settlements were announced last year, the capital programme should 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.
- 3.3 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.
- 3.4 Schemes which require a draw on reserves or revenue funds cannot be considered due to severe budget constraints. Uncommitted general reserves were only £1.7 million at the end of March 2008 and over £1 million of this balance is committed to fund currently approved schemes as can be seen from Table 1.

3.5 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(a) Unsupported existing approved Capital Schemes for 2008/2009

<b>Scheme funded from Capital Receipts and Reserves (General Fund)</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend to 31/03/09 £000s</b>	<b>Future Years to 2010/2011 £000s</b>
Medway Park (Black Lion)	2,102	0	2,102
Strood Riverside Land Compensation	1,797	1,797	0
Member's Priorities	1,698	1,317	381
Highways	1,627	1,627	0
Building Maintenance Programme 6	1,075	790	285
Medway Innovation Centre	793	793	0
Eastgate House Improvements	579	19	560
Townscape Heritage Initiatives	544	210	334
Watermill Wharf	347	0	347
Transformation Programme	251	219	32
ICT Strategic Fund	232	157	75
EH Local Management Agreement	199	41	158
Energy Efficiency Carbon Trust	150	100	50
Hard Landscaping within GM Contract	105	35	70
Gillingham Park	103	0	103
Ranscombe Farm Country Park	97	0	97
Local Development Framework	59	59	0
Echoes Extension Strood	44	44	0
Chatham Centre and Waterfront	40	40	0
Floodlighting	28	15	13
Strood Environmental Enhancements	26	6	20
<b>Total</b>	<b>11,896</b>	<b>7,269</b>	<b>4,627</b>
<b>Funding</b>			
<b>Reserves</b>	<b>1,044</b>	<b>941</b>	<b>103</b>
<b>Capital Receipts</b>	<b>10,852</b>	<b>6,328</b>	<b>4,524</b>

- 3.6 The current capital programme for Housing (General Fund) is similarly supported by capital receipts from the non-pooled element (25%) of Right to Buy (RTB) sales. The downturn in the housing market is likely to significantly reduce the availability of capital receipts. The following table lists the current approved capital programme funded from RTB receipts.

**Table 1(b) Unsupported existing approved Capital Schemes for 2008/2009**

<b>Scheme funded from Capital Receipts and Reserves (Housing RTB)</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend to 31/03/09 £000s</b>	<b>Future Years to 2010/2011 £000s</b>
Disabled Facilities Grants	432	432	0
Housing Renovation Loans	338	338	0
Crisis Grants	100	100	0
Empty Homes	34	34	0
OT Adaptations (top up)	11	11	0
HRA Garage Review	20	20	0
<b>Total RTB Capital Receipts Funding</b>	<b>935</b>	<b>935</b>	<b>0</b>

- 3.7 Accumulated and forecast capital receipts (both General Fund and RTB) will only be sufficient to cover the forecast spend to 31 March 2009 from the existing unsupported schemes detailed above.
- 3.8 In addition to the current commitments detailed in Table 1, 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 highways planned maintenance 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(a) Unsupported Programmes. Requirement for Future Years**

<b>Scheme currently unfunded (General Fund)</b>	<b>Total £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
Existing Commitments from Table 1	4,627	3,936	691
Strood Riverside Land Compensation	3,100	3,100	0
Highways Planned Maintenance	3,000	1,500	1,500
Building Maintenance Programmes	2,000	1,000	1,000
ICT Strategic Fund	554	190	364
Transformation Programme	202	101	101
Ward Improvement Fund	330	165	165
<b>Total</b>	<b>13,813</b>	<b>9,992</b>	<b>3,821</b>

- 3.9 The future years housing capital programme similarly needs housing RTB receipts funding as indicated in the following table.

**Table 2(b) Unsupported Programmes. Requirement for Future Years**

<b>Scheme currently unfunded (Housing)</b>	<b>Total £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
Disabled Facilities Grants	760	380	380
Regional Housing Board Part Funded Schemes	493	145	75
OT Adaptations (top up)	22	11	11
<b>Total</b>	<b>1,275</b>	<b>536</b>	<b>466</b>

- 3.10 It can be seen from the above, that there is considerable pressure to generate further capital receipts to support the capital programme as identified to date.
- 3.11 For Member's information, the following table lists all approved schemes to date, funded from unsupported borrowing with the revenue costs met from existing resources:

**Table 3 Unsupported Borrowing - Existing Approved Capital Schemes**

<b>Scheme funded from Unsupported Borrowing</b>	<b>Total Scheme Approval £000s</b>	<b>Forecast Spend to 31/03/2009 £000s</b>	<b>Future Years to 2010/2011 £000s</b>
Gun Wharf	21,300	21,300	0
Medway Innovation Centre Phase II	4,150	4,150	0
Customer First	776	776	0
Mercury Abatement	686	0	686
Library management System	300	300	0
Strood SC Football Academy	292	292	0
<b>Total</b>	<b>27,504</b>	<b>26,818</b>	<b>686</b>

- 3.12 As indicated in paragraph 2.4, CSR 2007 has introduced a three year funding settlement for local authorities. 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 2008/2009, where appropriate, are shown for information:

**Table 4 Summary of External Funding for 2008/2011 Programme**

<b>Directorate/Scheme</b>	<b>2008/2009 £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
<b>Business Support</b>			
Housing Maintenance Programme (MRA)	2,156	2,212	tba
Decent Homes	735	735	tba
Housing (General Fund) – Note 1	649	985	904
Disabled facilities Grant – Note 2	570	tba	tba
<b>Children and Adults</b>			
Devolved Formula Capital – Note 3	4,870	4,820	4,820
Modernisation	3,276	3,069	3,070
Basic Need	2,745	2,744	2,745
Primary Strategy for Change (Indicative)	0	3,404	5,782
School's Access Initiative (SCE(R))	620	620	620
Extended Schools	432	457	236
Pathfinder Short Breaks	0	168	392
Harnessing Technology Grant	947	940	965
Youth Capital Fund	130	130	130
Targeted Capital Fund – Note 4	0	2,000	6,000
Sure Start, Early Years & Childcare	1,666	2,200	1,784
ICT Mobile Technology for Social Workers	39	0	0
Children's Social Services	51	51	50
Mental Health	115	115	115
Social Care	138	138	138
<b>Regeneration, Community &amp; Culture</b>			
Transport – Integrated Transport	2,841	3,163	3,494
Transport – Maintenance	1,946	2,140	2,462
Road Safety	68	72	71
Waste Infrastructure Capital Fund	447	447	165
Safer Stronger Communities	75	75	75
<b>Total</b>	<b>24,516</b>	<b>30,685</b>	<b>34,018</b>
<b>Government Grant</b>	<b>13,241</b>	<b>19,217</b>	<b>25,523</b>
<b>Supported Borrowing</b>	<b>11,275</b>	<b>11,468</b>	<b>8,495</b>

Notes: 1) Figures for 2009/2010 and 2010/2011 are indicative at this stage.

2) The allocation for Disabled Facilities Grants represents 60% funding. This therefore assumes 40% from the Council's other capital resources

3) Excludes allocations to voluntary aided schools .

4) This represents 14-19 diplomas, SEN and disabilities.

- 3.13 In addition to the 'ongoing' funding indicated in Table 4, Communities and Local Government (CLG) have allocated the following amounts through the Thames Gateway Delivery Plan. The majority of these schemes are awaiting detailed funding agreements.

**Table 5 Summary of Indicative CLG Funding for Regeneration Schemes**

<b>Scheme</b>	<b>2008/2009 £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
Medway Renaissance Partnership	1,400	1,200	1,000
Rochester Riverside	558	377	565
Chatham Road Network Phases 2 & 3	1,439	3,376	3,235
Chatham Development Briefs	200	200	0
Queen Street Chatham	200	250	0
Chatham Bus facility	458	2,097	3,945
Chatham Cable Car	100	100	0
Chatham Waterfront	500	750	1,000
Chatham Cultural Projects	150	250	0
Chatham Public Realm	100	250	1,500
Strood Centre Infrastructure	524	1,680	2,796
Corporation Street Rochester	40	130	130
Eastgate House Rochester	0	0	1,000
Medway Park (Black Lion)	2,750	1,500	0
<b>Total</b>	<b>8,419</b>	<b>12,160</b>	<b>15,171</b>

- 3.14 The following table summarises the funding sources for both unsupported and core funded programmes for 2009/2011 (Tables 2 to 5) with comparable figures for 2008/2009.

**Table 6 Total Draft Capital Programme Funding 2008/2011**

<b>Funding Source</b>	<b>2008/2009 £000s</b>	<b>2009/2010 £000s</b>	<b>2010/2011 £000s</b>
Government Grant	18,855	28,180	39,789
Supported Borrowing	11,275	11,468	8,495
Capital Receipts	7,263	10,425	4,288
Major Repairs Allowance (MRA)	2,156	2,212	tba
Regional Housing Board Grant	649	985	904
General Reserves	940	103	0
Prudential Borrowing	0	686	0
<b>Total</b>	<b>41,138</b>	<b>54,059</b>	<b>53,476</b>

- 3.15 In addition to the above, funding agreements are awaited following bids to government in respect of the Quality Bus Corridor, improvements to Gillingham station and improvements to the A228.
- 3.16 Apart from those schemes listed in the tables above, there are no new proposals for inclusion in the capital programme for 2009/2010 and future years at this stage. A sizeable amount of the anticipated funding will be allocated to ongoing programmes e.g. MRA and Local Transport Plan (LTP) resources. Almost £48 million has been allocated to Children and Adult Services. Of this allocation, over £9 million is devolved to schools and £19 million earmarked for specific programmes and future years commitments from the current capital programme. Some £20 million is therefore available to fund to future projects.
- 3.17 New schemes proposed for inclusion in the capital programme have the potential to be included at any time, subject to full Council approval. The approval process for such schemes will need to have regard to their priority and funding mechanism and any impact on the revenue accounts.
- 3.18 It is clear that outside of existent approvals and future supported projects, there is little scope for adding to the programme at this time. Reserves are no longer available and the existing programme already stretches potential capital receipts against the current state of the property market.

#### **4 Funding the Approved Programme**

- 4.1 The capital programme is funded by several sources:
- Supported Borrowing (SCE(R));
  - Government Grant (SCE(C));
  - Other Capital Grants;
  - Major Repairs Allowance;
  - Capital receipts 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.

- 4.2 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.
- 4.3 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 has demonstrated that there is a marked shift from SCE(R) to capital grant over the three year life.



- 4.4 Although, according to CLG, the individual elements of SCE(R) and some specific grants are not ringfenced, the Council has always applied this funding to relevant services as there is an expectation from individual Government departments that the full funding will be allocated appropriately. There is a risk that future funding could be jeopardised if this policy is not continued.
- 4.5 In keeping with the Council's clear policy objectives, further developer contributions will be secured throughout 2009/2010. These contributions will be applied to secure investment to match the objectives set out in the Community Plan, and other planning and development priorities.

## **5 Consultation**

- 5.1 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.

## **6 Financial and legal implications**

- 6.1 The financial implications are contained in the body of the report.
- 6.2 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 26 February 2009. The adoption of the budget and the setting of council tax are matters reserved for Council.

## **7 Recommendations**

- 7.1 That Cabinet notes the unsupported capital commitments from 2008/2009 as summarised in Table 1.
- 7.2 That Cabinet considers the ongoing schemes for 2009/2010 and future years as summarised in Table 2 for inclusion in the draft capital programme.
- 7.3 That Cabinet notes the scheme funded from unsupported borrowing as summarised in Table 3
- 7.4 That Cabinet notes the actual and indicative capital allocations for 2009/2010 and 2010/2011 as summarised in Tables 4 and 5.
- 7.5 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.

## **8 Suggested reasons for decisions**

- 8.1 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 26 February 2009.

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### **Background papers**

None