

CABINET

24 NOVEMBER 2009

CAPITAL PROGRAMME 2010/2011 AND BEYOND

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Summary

This report sets out recommendations for a provisional programme of capital investment for 2010/2011 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 £31m of capital expenditure to be funded through the prudential regime as 'invest to save' projects.

- 2.4 Elsewhere on this agenda, Members will be considering the latest capital monitoring report which indicates that almost £65 million of the current approved programme of £155 million will be delivered in future years and approved 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). The current CSR three-year funding ends in March 2011 and there has been no confirmation from Government that, even if there is a CSR 2010, it will cover a further three-year period. Unlike Government support for revenue funding, where a reasonable degree of consistency is assured, capital funding cannot be assumed to become available to any great degree. The capital proposals in this report therefore only include announced supported funding up to 2010/2011.
- 2.5 The existing and proposed capital programme will continue into 2011/2012 where funding comes from the Council's own resources, where there are external contributions or where Government support (i.e. borrowing approval or grant) extends past March 2011. In addition to the supported programme there are commitments from the current capital programme and ongoing support of annual schemes which will represent a demand for capital receipts in excess of £16 million by the end of 2011/2012 as can be seen in Table 1.

3. Provisional Capital Programme 2010/2012

- 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 in 2007, Government departments are releasing funding on a year by year basis and, therefore, the capital programme for 2010/2011 should be considered provisional at this stage. Cabinet is requested to consider the core funded programme and any unfunded proposals for consideration by overview and scrutiny as work in progress until formal confirmation of 2010/2011 funding has been received.
- 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 should 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 2009 and £332,000 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 and 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 2009/2010

Scheme funded from Capital Receipts, and Reserves (General Fund)	Total Scheme Approval £000s	Forecast Spend to 31/03/10 £000s	2010/2011 and Future Years £000s
Highways Capital Works	3,096	1,596	1,500
Building Maintenance Programme 6	2,580	600	1,980
Medway Park (Black Lion)	2,100	2,100	0
Strood Riverside Land Compensation	1,330	1,330	0
Member's Priorities	1,097	948	149
Church Terrace Retaining Wall	847	847	0
ICT Strategic Fund	721	357	364
Civic Centre Demolition	687	500	187
Eastgate House Improvements	568	18	550
Transformation Programme	429	300	129
Townscape Heritage Initiatives	362	250	112
St George's Centre Kitchen Extension	330	330	0
Medway Council New Website	250	150	100
Mercury Abatement	200	0	200
EH Local Management Agreement	158	30	128
Gillingham Park	103	103	0
Gun Wharf Reception & Signage	100	100	0
Ranscombe Farm Country Park	97	97	0
Hard Landscaping within GM Contract	82	40	42
Guildhall Museum - Opening the Doors	70	70	0
Upnor Castle – Visitor Interpretation	50	50	0
Playbuilder	29	29	0
Floodlighting	27	27	0
Energy Efficiency – Carbon Trust	27	27	0
Strood Environmental Enhancements	26	26	0
Chatham Centre and Waterfront	24	24	0
Jobshop Chatham	19	19	0
Echoes Extension Strood	18	18	0
Watermill Wharf	10	10	0
Total	15,437	9,996	5,441
Funding			
Reserves	332	322	10
Capital Receipts	15,105	9,674	5,431

- 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 and the sale of other HRA property e.g. garages. The downturn in the housing market has significantly reduced the availability of capital receipts. The following table lists the current approved capital programme funded from RTB and other HRA receipts.

Table 1(b) Unsupported existing approved Capital Schemes for 2009/2010

Scheme funded from Capital Receipts and Reserves (Housing RTB)	Total Scheme Approval £000s	Forecast Spend to 31/03/10 £000s	2010/2011 and Future Years £000s
Disabled Facilities Grants (Note 1)	472	472	0
Housing Renovation Loans	284	284	0
Crisis Grants	257	182	75
Empty Homes	34	34	0
Landlord Loans	25	25	0
HRTA Garage Review	19	19	0
OT Adaptations (top up)	23	8	15
Total RTB Capital Receipts Funding	1,114	1,024	90

Note 1: Although there is no longer a requirement to match fund the Government grant received in respect of Disabled Facilities Grants, the Council has continued to support this programme on a 40/60 basis and, in addition, has approved considerable extra funding. Assuming the 2009/2010 level of Government grant (£648,000) is repeated in 2010/2011 and Members wish to continue to support Disabled facilities Grants on the 40/60 basis, a further £472,000 of RTB capital receipts will be required in 2010/2011.

- 3.7 The Council has taken out £10 million of unsupported borrowing to fund the capital programme in anticipation of future capital receipts with the intention of repaying the borrowing by 31 March 2011. Unless the property disposal programme is accelerated, there is likely to be a shortfall of capital receipts of almost £3.7 million by this date.
- 3.8 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 2 Unsupported Borrowing - Existing Approved Capital Schemes

Scheme funded from Unsupported Borrowing	Total Scheme Approval £000s	Spend 2008/2009 £000s	Forecast Spend 2009/2010 £000s	2010/2011 and Future Years £000s
Gun Wharf	21,300	2,161	2	0
Highways Investment Programme	4,000	0	2,000	2,000
Medway Innovation Centre Phase II	4,150	3,817	333	0
Customer First	776	47	8	0
Mercury Abatement	488	0	0	488
Library management System	300	206	94	0
Strood SC Football Academy	293	0	0	0
Total	31,307	6,231	2,437	2,488

- 3.9 As indicated in paragraph 2.4, 2010/2011 is the last year of the CSR 2007 three-year funding settlement for local authorities. Table 3, although incomplete, will give Members an indication of those core schemes or programmes which are externally funded or funded by borrowing backed by Central government support. Comparative figures for 2008/2009 and 2009/2010, where appropriate, are shown for information.
- 3.10 In addition to the 'core' funding indicated in Table 3, there are a number of major schemes managed by Medway Renaissance funded both from the Homes and Communities Agency (HCA) through the Thames Gateway Delivery Plan and Department for Transport major projects. These are shown in Table 4.
- 3.11 Partnership for Schools (PfS) has indicated that some £89 million will be available for new academies in Strood, Rochester and Gillingham and outline business cases are currently being developed. At the time of writing this report no formal notification of funding has been received from PfS and, therefore, these schemes are not included in the capital programme proposals at this stage.
- 3.12 Whilst the majority of the 2010/2011 funding shown in Table 3 will be for ongoing programmes of improvements e.g. highways maintenance and improvement, school condition works, devolved formula capital and existing capital commitments, it can be seen from this table that Children and Adults directorate will be receiving considerable extra funding. Further reports will be presented to Members at the appropriate time and the areas that will benefit include:
- Endowment for the new Chatham Academy;
 - Progression of the Primary Strategy Programme and
 - Improving access to short break provision for disabled children.

Table 3 Summary of External Funding for 2008/2011 Programme

Directorate/Scheme	2008/2009 £000s	2009/2010 £000s	2010/2011 £000s
Business Support			
Housing Maintenance Programme (MRA)	2,156	2,212	tba
Decent Homes (SCE(R))	735	735	tba
Housing (General Fund)	649	985	903
Disabled facilities Grant	570	648	tba
Children and Adults			
Devolved Formula Capital	4,870	4,820	4,820
Modernisation	3,284	3,069	3,070
Basic Need	2,745	2,745	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	938	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
Children's Social Services	51	51	50
Mental Health	115	115	115
Social Care	138	138	138
Social Care ICT Infrastructure	57	61	65
Regeneration, Community & Culture			
Transport – Integrated Transport	2,841	3,163	3,494
Transport – Maintenance	1,976	2,167	2,462
Road Safety	68	72	71
Waste Infrastructure Capital Fund	447	447	165
Safer Stronger Communities	75	75	75
PSA Funded Schemes	0	1,961	925
Total	24,563	33,383	35,007
Government Grant	13,289	21,913	26,512
Supported Borrowing	11,274	11,468	8,495

Table 4 Summary of Government Funding for Regeneration Schemes

Scheme	2008/2009 £000s	2009/2010 £000s	2010/2011 £000s
Medway Renaissance Partnership	1,400	1,215	1,000
Rochester Riverside	558	377	565
Chatham Road Network Phases 2 & 3	1,798	3,017	3,235
Chatham Development Briefs	170	230	0
Queen Street Chatham	230	220	0
Chatham Bus facility	454	2,097	3,949
Chatham Waterfront	133	1,110	1,007
Chatham Public Realm	105	250	1,500
Corporation Street Rochester	39	130	131
Medway Park (Black Lion)	2,750	1,500	0
Parklands (Inc Non-Medway Schemes)	733	4,797	4,666
A228 Ropers Lane to Grain	177	2,931	7,472
Quality Passenger Transport Corridor	205	565	7,230
Urban Traffic Management & Control	0	1,233	6,767
Gillingham Station	24	200	1,276
Total	8,775	19,871	38,798

- 3.13 The following table summarises the funding sources for both unsupported and core funded programmes for the CSR Period (Tables 1 to 4). Further resources are available by way of developer and school contributions etc., and this funding is allocated to specific schemes as and when available.

Table 5 Total Draft Capital Programme Funding 2008/2011

Funding Source	2008/2009 £000s	2009/2010 £000s	2010/2011 £000s
Government Grant	19,258	38,598	64,407
Supported Borrowing	11,275	11,468	8,495
Capital Receipts	6,650	10,698	5,520
Major Repairs Allowance (MRA)	2,156	2,212	tba
Regional Housing Board Grant	649	985	904
General Reserves	447	322	10
Prudential Borrowing	6,231	2,437	2,488
Total	46,666	66,711	91,824

3.14 Apart from financial support for Disabled Facilities Grants referred to in paragraph 3.6, there are no new proposals for inclusion in the capital programme for 2010/2011 and future years at this stage as the majority of provisional funding has already been allocated to existing schemes. 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.

3.15 It is clear that outside of existent approvals and future supported projects, there is very little scope for adding to the capital 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))
- Major Repairs Allowance
- Government Grant (SCE(C))
- Capital Receipts
- Other Capital Grants
- 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 2010/2011. 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 Risk Management

- 6.1 With a total capital programme approaching £92 million for 2010/2011 there is always a possibility that schemes may not be delivered on time thus not fulfilling the Council's strategic priorities and also schemes may not be delivered within approved external funding approvals thus straining the Council's limited capital resources. The Council has a good track record of managing capital schemes and identifying alternative sources of funding where schemes are subject to unforeseen and unavoidable additional costs.
- 6.2 The most significant risk facing delivery of the Council's capital programme is maximising external funding for regeneration and this is inherent in the report's restriction to funding announcements made in CSR 2007. The current economic climate is deterring investors from committing substantial sums for development at Rochester Riverside, for example, and some Government funding is currently being approved on a year to year basis rather than for the lifetime of the projects. In order to progress the Council's regeneration programme, officers are continually investigating alternative methods of delivery should external funding not be forthcoming.

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 25 February 2010. 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 2009/2010 as summarised in Tables 1(a) and 1(b).
- 8.2 That Cabinet notes the schemes funded from unsupported borrowing as summarised in Table 2.
- 8.3 That Cabinet considers the additional funding required for Disabled Facilities Grants, as indicated in paragraph 3.6, for inclusion in the draft capital programme.
- 8.4 That Cabinet notes the actual and indicative capital allocations for 2010/2011 as summarised in Tables 3 and 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 25 February 2010.

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Background papers

None