Appendix 'A'

Capital Starts Programme 2010/11 to 2013/14

This report considers:

1. The process for developing the capital programme
2. The resources available to support capital investment over the next four years
3. Proposals for specific capital investment by the County Council over the next four years.
4. Proposals in relation to the management of the capital programme requested by the Cabinet at its meeting on 3rd December 2009.

Developing the Capital Programme

Traditionally the County Council has approved a single year, new starts capital programme annually. Given the nature of capital schemes and the delays which can occur due to unexpected issues, significant levels of capital slippage have occurred, particularly in recent years when capital resources have been relatively plentiful and the programme has been larger than has previously.

Moving to a four year planning approach will allow project managers to refine schemes due to start on site in future years. This will result in smoother delivery, while also providing time and space to engineer costs down. While slippage may still occur in longer term programmes it is possible to better anticipate the phasing of payments on schemes if there is a longer run in to starting on site.

As set out in the section below, dealing with the anticipated pressure on public finances is likely to have a greater impact on capital resources. In these circumstances the ability to plan over a longer period allows the Council to focus more clearly on securing value for money from each scheme included in the programme.

For these reasons it is proposed to develop a four year capital investment strategy for the period 2010/11 to 2013/14, based on the forecast of available capital resources over that period. The programme will continue to be reviewed annually and progress will be monitored and reported quarterly.

As in previous years, capital proposals have been originally developed based on key priorities for investment in services. These proposals have then been initially prioritised by the Capital Strategy Group (an officer working group) using the criteria set out at Annex 1. The outcome of this process was informally discussed by Cabinet and the Executive Leadership Team at a workshop resulting in the list of schemes by priority set out in Annex 2.

The proposals have been assessed largely on the ability to meet corporate objectives. The prioritisation broadly reflects the continuation of a number of strategic investment programmes which the County Council has previously committed to.

These include the regeneration of libraries and the modernisation of day care facilities for people with learning disabilities.

Available Resources

Resources to support capital expenditure come through a number of routes:

- *Single Capital Pot* – This is the capital equivalent of the revenue support grant settlement. Resources flow through these arrangements either as capital grant or supported borrowing. These resources generally are not tied to specific schemes although they do relate to specific expenditure "blocks", which tends to drive how resources are allocated.

- *Capital receipts* – These arise from the sale of the County Council's surplus assets. Receipts are sometimes described as earmarked when for example the proceeds from the sale of a building are used to procure the same service on a different and more appropriate site.

- *Other Grants and Contributions* – These include things such as lottery grants and developers contributions under section 106 and other similar agreements. These resources are generally tied to specific schemes and may require matched funding.

- *Prudential or Unsupported Borrowing* – This is borrowing for which no support is provided through the revenue support grant, but which the County Council deems as affordable having regard to the impact on the revenue budget. No new prudential borrowing is planned in the new investment proposals.

- *Revenue Contributions* - Subject to there being capacity in the revenue budget the County Council can use revenue resources to fund capital expenditure.

Annex 3 sets out the current forecast of capital resources available to fund a four year investment strategy from 2010/11 to 2013/14. The resources have been split over the three service blocks as follows:

- Schools
- Transport
- Other Services

In the past the County Council has "passported" the resources received through the Single Capital Pot to the Schools and Transport blocks. While there is no obligation to do this, there is a risk that if it is not done then the level of future allocations will be scaled back. It is therefore assumed that "passporting" of these resources continues.

The available resources are summarised in the table below:

Service Block	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**	**Total £000**
Schools	12.4	8.3	5.6	5.6	31.9
Transport	35.4	23.7	15.9	15.9	90.9
All Other	33.1	10.0	4.9	4.9	52.9

Total	**80.9**	**42.0**	**26.4**	**26.4**	**175.7**

It should be emphasised that the Single Capital Pot resources in this table are a forecast based on anticipation that capital resources will be significantly reduced over the next four years. This view was confirmed by the Chancellor's pre-budget report. These figures will be revised as further information becomes available. However, given the very significant reduction that is likely in capital resources “passported” to schools and transport, it is vital that early consideration be given to the implications of this in terms of investment priorities and any potential impact on revenue budgets, for example in terms of the ability to capitalise design costs.

In terms of the Other Services Block, less than £1m per year of resources is forecast from the Single Capital Pot. The balance of resources is, in effect, already "in the bank". However, in order not to place undue strain on delivery of any programme it is suggested that these resources be deployed over the full four year planning horizon.

The resource forecast rest on a number of key assumptions:

- The current committed programme assumes a level of capital receipts will be generated, and given the current economic climate, further increases are not considered achievable as asset values are likely to be markedly down on what will be achievable beyond the current recession. Should further receipts become available these will be factored into the annual review of the capital investment strategy.

- No new unsupported (or prudential) borrowing will be undertaken. This will ensure no additional pressure on the revenue budget. However, further schemes (particularly for office rationalisation) are likely to be brought forward on the basis of a business case which delivers savings greater than the cost of any prudential borrowing, i.e. they meet the criteria of a genuine invest to save initiative. Such business cases will be the subject of separate approval and future years revenue budgets will be stripped of the savings.

- Current internal financing arrangements for vehicles are assumed to continue and it is proposed to create a “revolving fund” from the Council’s County Fund balance on an invest to save basis to pay for energy and water conservation measures. The size of the fund would be capped at £2m and savings on energy costs removed from budgets in order to make repayments to the Fund. Specific rules in relation to the Fund will be subject to separate approval.

- Any risk of a shortfall in capital receipts related to the Building Schools for the Future programme in excess of £1.5m will be met from Schools Block resources.

- No new revenue contributions will be available to finance capital expenditure. However, the release of £5m of uncommitted capital reserves to support the programme in 2011/12 is built in to the forecast.

- Resources released through the review of commitments against the current programme (totalling £19.741m) are available to support new starts as agreed by the Cabinet at its meeting on 3 December 2009.

- Alongside the review of capital commitments reported to the Cabinet in December, a review of all capital resources was undertaken. This work has identified a previously earmarked capital receipt and a range of other funds totalling £4.7m which can be released to support new starts.

Cabinet have previously expressed understandable concerns relating to the level of slippage forecast within the 2009/10 capital programme. In order to significantly reduce the risk of slippage, further work is being undertaken on the capital proposals to establish a realistic and robust phasing. To complement this and reduce the risk of slippage further, Cabinet may wish to consider an element of “over-programming” within the capital investment programme.

In effect this means approving schemes to a value greater than resources immediately available. This reflects the fact that some slippage will not be prevented by the other measures that have been taken to improve delivery of the programme. Given the overall scale of the programme and the previous history of slippage over-programming of between £5m - £10m would not be unreasonable. Clearly any over programming does not increase the level of resources available and ultimately progress on schemes will need to be carefully monitored and if necessary slow down or speed up the progress of individual schemes as appropriate.

Capital Investment Proposals

Annex 2 sets out the capital investment proposals put forward for consideration and an officer assessment of the priority attached to each scheme. These total £66m and relate only to the Other Services Block. Schemes within the Schools and Transport Blocks are dealt with through separate processes driven by the Schools Asset Management Plan and the Local Transport Plan.

The proposals for capital investment exceed the resources available of £53m, by £13m despite the proposals being generally focussed on delivering existing strategies and essential work to meet statutory obligations and Cabinet. Cabinet are asked to consider their priorities for capital investment over the four year period 2010/11 – 2013/14.

Management of the Programme

At its meeting on 3 December 2009 the Cabinet asked the Executive Director for Resources to bring forward guidelines for the future management of the capital programme from 2010/11 onwards.

The rationale for any new guidelines must be to improve delivery of the overall capital programme. Key considerations include improving the prioritisation process, enhancing the development of individual business cases and reducing the level of slippage. As both revenue and capital resources become scarcer in the coming years it will be important that guidelines encourage the focus of resources on those schemes which are most important in terms of their impact on priority outcomes.

A Capital Programme Manual will be developed over the coming months bringing together existing guidance and good practice. However, the following principles are suggested as setting a broad framework within which the programme should be managed.

- Any element of an annual programme allocation for which contractual commitment has not been made in the relevant start year will not be available to be carried forward to the next year. Member commitment to such schemes will need to be reaffirmed or unused resources will be a corporately available for use in the next budget round.

- For block allocations within the Schools and Transport Blocks (such as Highways Structural Maintenance and Schools Modernisation) any under spends on individual schemes within the block allocation not required in the to offset overspends on other schemes within the block will not be available to be carried forward to the next start year. Such resources will be considered by the Cabinet as part of the overall allocation of resources in the next budget round.

- Schemes presented for consideration must be fully developed. This is intended to encourage the delivery of longer term strategies as a series of individual projects rather than a large single block allocation within the programme. By focussing on specific elements (for example one children's home at a time) schemes will be more easily deliverable.

- A series of capital virement rules will be developed requiring the approval of either the Executive Director for Resources or the Director of Finance in consultation with the Cabinet Member responsible for resources i.e. the Leader of the Council.

- While external funding for capital investment is vitally important to gain maximum value for money, there will be no presumption that external funding will always be taken up. Externally funded projects must be subject to the same degree of appraisal as schemes funded by the County Council's own resources to ensure that it meets key priorities and does not reflect "chasing the money".

- For the Schools and Transport Blocks, Executive Directors will develop proposals in order to meet the planning totals agreed by the Cabinet.

These broad parameters should achieve the aims of improving programme delivery and the more robust development of schemes before they come forward for consideration. Detailed guidance will be developed to support them in the coming months.