

SHADOW EXECUTIVE
20 JANUARY 2009

SUBJECT	CAPITAL PROGRAMME 2009/10 – 2012/13 (To consider a draft Capital Programme for Central Bedfordshire.)
REPORT OF	Director of Corporate Resources <i>Contact Officer: Brian Mew (Tel: 01462 611070)</i>

IMPLICATIONS

SUSTAINABILITY	The Council's Capital Programme is directed towards achieving the Council's key priorities, including managing growth effectively.
FINANCIAL	The Capital Programme includes potential capital investment of up to £160 million over the next four years. The revenue effects of that part of the Council's Capital Programme that is not funded by external finance forms a significant element of the Council's revenue budget.
LEGAL	The provisions in the Capital Investment Strategy and the detailed documents produced in respect of it will ensure that the Council fully complies with all legislation and regulations in relation to Capital Finance.
PERSONNEL/EQUAL OPPORTUNITIES	None
COMMUNITY DEVELOPMENT/SAFETY	None
TRADES UNIONS	None
HUMAN RIGHTS	None
KEY ISSUE	Yes
BUDGET/POLICY FRAMEWORK	The Capital Programme approved by Central Bedfordshire will form part of the Council's Budget and Policy Framework.

OTHER DOCUMENTS RELEVANT TO REPORT
Capital Investment Strategy Report to Shadow Executive 16 December 2008

RECOMMENDATIONS: That the Executive: - 1. Consider the draft Capital Programme proposals for 2009/10 – 2010/11 for Central Bedfordshire attached at Appendices A – G.

- 2. Approve in principle those schemes categorised as Priorities 1 to 5 as the basis of the Capital Programme to be recommended to the Shadow Council.**
- 3. Consider the indicative Capital Programme proposals for 2011/12 – 2012/13 for Central Bedfordshire attached at Appendix H.**
- 4. Consider the draft Housing Revenue Account Capital Programme for Central Bedfordshire attached at Appendix K.**
- 5. Considers the comments of the Shadow Scrutiny Committee and a further report on the Capital Programme at its next meeting.**

Reason for Recommendation: *To progress the process of approving the Capital Programme.*

1. Background:

- (a) At its meeting on 16 December 2008, the Shadow Executive approved a draft Capital Investment Strategy and process for considering the Capital Programme for the period 2009/10 – 2012/13. The Council's Capital Programme, which is directly influenced and informed by the Capital Investment Strategy, is a major component of the Council's Medium Term Financial Strategy with significant financial implications.
- (b) The establishment of the new authority and the current transition period inevitably places the authority in a different position to that of established authorities when formulating and considering its Capital Programme. There are a number of factors contributing to the limitations on the scope of the Capital Programme formulation and approval process for 2009/10:
 - The new Council will not meet until June 2009 and members will have had little opportunity to debate and shape their priorities to meet the new unitary's objectives;
 - Officer structures and processes are still under development to consider, evaluate, and prioritise both new and previously approved schemes;
 - The need to ascertain the current position regarding schemes, and the resources, inherited from predecessor authorities;
 - The need to consider the revenue affordability of the Council's Capital Programme alongside the emerging and complex revenue budget for the new authority;

- The lack of certainty around key funding sources until closedown of the 2008/09 accounts of the three predecessor authorities has taken place.
- (c) In these circumstances, the Shadow Executive is unlikely to be able to approve a Capital Programme that truly reflects the new Council's objectives, and which entails fundamental changes in priorities from those of the predecessor authorities.
- (d) The December 2008 report stated that the Capital Investment Strategy would need to be developed and amended during the course of 2009/10, and that the Capital Programme would be the subject of a detailed review earlier in 2009/10 than would normally be the case in the budget and planning cycle. This review will be informed by the closedown position of the predecessor authorities, in particular the disaggregation of the Bedfordshire CC Balance Sheet.
- (e) This report is brought to members at this stage for comment and shaping and based on the feedback, will be finalised and brought back to the February meeting of the Shadow Executive for recommendation to Council.

2. Process

- (a) As a starting point for formulating the Capital Programme for Central Bedfordshire, a number of actions have been undertaken:
 - Updating the current Capital Programme monitoring position, reflecting the 2007/08 outturn positions and current forecast 2008/09 outturn positions, for Bedfordshire CC, South Beds DC, and Mid Beds DC;
 - Updating and reviewing the current position regarding both earmarked and general capital funding;
 - Disaggregating the Bedfordshire CC Capital Programme to Bedford BC and Central Bedfordshire including disaggregation of funding, in order to provide an initial starting point;
 - Categorising current and proposed capital schemes attributable to Central Bedfordshire over Directorate headings, and undertaking some review of schemes;
 - Identifying revisions to current schemes and potential new capital requirements in respect of the new authority.

- (b) An important area of work has been disaggregation of the current approved Bedfordshire CC programme. Current Bedfordshire CC schemes that are location specific have been allocated relatively easily to the two unitary authorities, together with the relevant earmarked funding if applicable. In some areas, disaggregation and allocation has been less straightforward.
- (c) Over the past few weeks, officers have undertaken an exercise to establish the status and prioritisation of current and projected schemes, using the following key for categorisation and prioritisation:

First Tier Schemes (*Demonstrably meeting one or more of the five criteria listed below*)

- 1. In progress – scheme physically underway
- 2. Fully Funded – wholly externally funded, e.g. grant funding, S.106 Agreements, etc.
- 3. Significant External Funding Available (esp. where external funding could be lost)
- 4. Mandatory / Health and Safety Critical
- 5. Strategic / Policy Commitment (esp. to third parties)

Second Tier Schemes (not meeting above criteria, ranked by fit to priorities):

- 6. Second Tier Priority 1
- 7. Second Tier Priority 2

- (d) This prioritisation mechanism is not as refined as that previously used in the three authorities, or that envisaged for Central Bedfordshire. However, it is required to provide some form of starting point. Work has also been continuing on reviewing the capital financing position and determining the overall level for an affordable 2009/10 programme, which is referred to later in this report. The Shadow Scrutiny Committee on 22 January 2009 will consider this report and the accompanying draft Capital Programme, and comments will be reported to the Shadow Executive meeting on 17 February 2009 that will recommend a final programme to the Shadow Council meeting on 25 February 2009.

3. Draft Capital Programme

- (a) The work outlined above is still ongoing in some areas. However, notwithstanding these areas of work, a summarised draft Capital Programme for Central Bedfordshire is attached in the appendices.

- (b) The following appendices are attached to this report:

Appendices A – G Capital Programme 2009/10 – 2010/11 Proposed Schemes by Priority

Appendix H – Indicative Capital Programme Proposals 2011/12 – 2012/13

Appendix I – Capital Programme Summary 2009/10 – 2012/13

Appendix J – Notes on Capital Schemes

Appendix K – Draft HRA Capital Programme 2009/10 – 2012/13

- (c) Appendices A to G show the draft programme categorised by priority. Those 2008/09 schemes in the Bedfordshire CC programme that are allocable to Central Bedfordshire and which continue into 2009/10 and beyond are shown within the programme. Bedfordshire CC schemes that are budgeted for 2008/09 only, are shown for information, but no attempt has been made to disaggregate these schemes. There may be some slippage of these schemes into 2009/10 requiring either Central Bedfordshire or Bedford to pick this slippage up in their programmes, and where this slippage has already been identified the disaggregated figure to be picked up by Central Bedfordshire has been shown in 2009/10. Bedfordshire CC staff are currently working on a trial closedown exercise that may flag up the slippage that will need to be picked up by the two unitaries. To an extent, the issue of slippage is not particularly significant as it merely reduces the starting financing position inherited by the new authority, as long as the slippage is not concentrated disproportionately by one of the authorities, and there are no indications that this is likely to be the case.
- (d) The Appendices show the estimates for schemes showing gross budgets and earmarked funding. One of the features of the Capital Programme for county level services is that earmarked funding, particularly from Government Capital Grants, is a more significant factor than in district level services.
- (e) A range of revisions have been incorporated into this draft programme, including the inclusion of latest available monitoring information. Consequently, although the starting point of the programme reconciles with each authority's published information, from 2008/09 onwards there are variances due to the inclusion of this information. In addition, the most recent information on capital allocations for schools for 2009/10 and 2010/11 has been used in this report.

- (f) New schemes for 2009/10 have been highlighted separately in the programme. It should be noted that the capital requirements associated with transition and implementation are not included in this exercise and are not included in the Appendices.
- (g) Appendix J provides brief supporting notes and supplementary information on the schemes shown in the Appendices.
- (h) Appendix I shows a Summary of the draft Capital Programme, summarised by Directorate. Overall, the draft Capital Programme summary indicates the following levels of net capital expenditure for 2009/10 and 2010/11 categorised by Priority:

Prioritisation Category	2009/10 £000	2010/11 £000
First Tier Schemes		
Priority 1	9,206	4,740
Priority 2	0	0
Priority 3	12,318	13,910
Priority 4	5,589	5,192
Priority 5	4,109	19,652
Sub-Total	31,222	43,494
Second Tier Schemes		
Priority 6	988	4,377
Priority 7	0	0
Sub-Total	988	4,377
Prioritisation still required	58	48
Total	32,268	47,919

- (i) This summary indicates a range of possible levels of programme that the Shadow Executive may wish to approve at this stage. It should be noted that officers intend to critically review the prioritisation accorded to each scheme as far as possible before the draft programme is brought back to the Shadow Executive in February.

4. Programme Issues

- (a) This section of the report outlines a number of general issues within the draft programme, and provides some more information on the major schemes and key issues in each directorate area

(b) General Issues

The work carried out on the formulation of the Capital Programme to date has indicated a range of general emerging issues with the programme and its funding, in addition to those referred to in paragraph 1 (b). Some of these are outlined in more detail below.

(c) Slippage and Section 106 Agreements

The capital programmes of all three predecessor authorities are showing significant slippage and deferral. These generally relate to areas where the current economic climate is a significant factor, such as the realisation of Section 106 agreements. This is particularly the case in respect of schools projects with Section 106 funding; the affordable housing programme; and a number of major projects associated with the provision of leisure and community facilities. These issues are referred to in more detail below under the relevant directorate.

(d) Capital Receipts

The economic situation is also having a major effect on the realisation of capital receipts from the disposal of land and property assets. Indications are that new capital receipts arising in 2009/10 are likely to be minimal. As a result, financing of that part of the Capital Programme not funded through earmarked sources of funding is likely to fall on capital receipts already secured.

(e) Policies and Practice

Finally in respect of general issues, there are a number of areas in the Capital Programme where the creation of Central Bedfordshire could provide an opportunity to challenge previous policies and practices and develop a new approach and prioritisation. Corporate Property is an example of this, where officers are investigating the establishment of a corporate block budget to deal with pressing property issues. Another area is Schools, where Bedfordshire CC was not able to fund a programme of the size indicated by central government as a result of being a "floor" authority. This resulted in Bedfordshire CC not being able to take advantage of the full amount of "permission to borrow" allowed by central government. It would be appropriate to consider this matter further when the Capital Investment Strategy and Programme is reviewed once the new authority is established.

(f) Children, Families, and Learning – Schools

A number of schools projects that were included in the Bedfordshire CC programme in future years with Section 106 funding have been retained in the draft programme without estimated expenditure or funding figures. It is unusual for these projects to be fully funded from S.106 funding. These serve as “markers” only, indicating that some additional provision and funding will be required as developments eventually progress.

(g) Children, Families, and Learning – Other

There are currently particular issues with a number of schemes in the current programmes where the provision of leisure and community facilities is predicated on the availability of Section 106 funding and the progression of residential developments. This particularly the case with the Creasy Park and Astral Park schemes in South Beds, and the Stotfold scheme in Mid Beds.

The Flitwick Leisure Centre scheme has been retained in the programme with possible expenditure from 2010/11 onwards. As negotiations continue, it is likely that expenditure and funding estimates for this scheme will require revision.

Two significant new schemes at Saxon Pool and Sandy Sports and Leisure Centre have also been flagged up for inclusion in the programme, having been considered by the Mid Beds Leisure Facilities Strategic Partnership.

(h) Sustainable Communities

The capital schemes and proposals within this directorate have been reviewed in detail. The draft programme for the directorate indicates an extensive range of schemes associated with economic development and regeneration, a number of which have levered in significant levels of Growth Area Funding (GAF).

Review of current highways issues has led to a number of growth proposals being identified in the programme, particularly in respect of street Lighting and Bridges. These areas are referred to in some detail in Appendix J, which presents notes on the schemes shown in the Appendices.

The Mid Beds affordable housing programme shown within this directorate has also been subject to significant slippage, and has been divided into committed and uncommitted budgets.

(i) Social Care, Health and Housing (General Fund)

The programme for this directorate for 2009/10 and 2010/11 is largely focused on Mandatory and Discretionary Renovation Grants, with the only major scheme being completion of the London Road (Dunstable) flats project in association with Aldwyck Housing Association.

(j) Business Transformation

A very limited programme is indicated for this directorate for 2009/10, with the only significant proposal being for a new Customer Relationship Management (CRM) system.

(k) Corporate Resources

The Corporate Resources directorate programme is focussed on ICT and Corporate Property.

The principal feature of the proposed programme for this directorate is the proposal for a Corporate Property Block budget of £4 million per annum over the next 4 years to adopt a corporate approach to a range of property issues. As part of this approach, it is recommended that all elements of this provisional capital programme would be subject to a rigorous challenge through a shadow Capital Assets Management Group prior to any final approval process and implementation. As noted in the Appendices, the inclusion of this block budget in the draft programme has superseded a range of property-related capital budgets previously approved by predecessor authorities. More information is included on this proposal in Appendix J.

(l) Housing Revenue Account (HRA)

Although part of the Social Care, Health and Housing directorate, the HRA Capital Programme has been kept separate from the General Fund Capital Programme. This is because the HRA (in respect of the housing stock in South Beds) is a separate statutory account of the council with its own capital funding and financing arrangements. The HRA Capital Programme is funded primarily through the Major Repairs Allowance (MRA), supplemented by the use of capital receipts through RTB sales. The proposed HRA Capital Programme and its funding is shown in Appendix K. It should be noted that the use of capital receipts shown is use of existing receipts, the amount of new receipts being realised in 2008/09 and forecasted in 2009/10 now being almost minimal. The HRA Capital Programme is included in this report for completeness, but it would be appropriate for it to be considered in conjunction with the HRA Revenue Budget at the Shadow Executive meeting on 17 February 2009.

5. Capital Financing, Financial Implications, and Affordability

- (a) The financial implications of the Capital Programme in respect of Central Bedfordshire's revenue budget position can be broadly divided into two areas. The first is the revenue effects inherited by the authority as a result of the predecessor authorities' programmes up to and including 2008/09. The second area is the revenue effect of financing the programme from 2009/10 onwards.
- (b) Specialist external advisors, Sector Treasury Management Services, have been advising Bedfordshire County Council, Bedford Borough Council and Central Bedfordshire regarding capital financing. Their work has entailed disaggregating the actual Bedfordshire County Council capital financing position, i.e. debt and investments, as at 31 March 2009; establishing a starting point for assessing the revenue implications of this for the new authorities; and exploring options that put the two successor unitary authorities in the most advantageous financial position possible, given current circumstances.
- (c) The disaggregation work is based primarily on tax base, although there are some complications regarding some Bedfordshire County Council market loans, which, unlike PWLB debt cannot be physically split between the two unitary authorities. For Central Bedfordshire, the revenue implications inherited from the predecessor authorities are based on the calculation of the authority's Capital Financing Requirement (CFR), which reflects the authority's underlying need to borrow, and its Minimum Revenue Provision (MRP), which is a charge to the revenue account of 4% of the CFR. In broad terms, the MRP of 4% is intended to cover the principal element of borrowing. The other element of revenue cost for an authority with debt is the interest cost on that debt.
- (d) Sector have estimated that the CFR for Central Bedfordshire as at 31 March 2009 would be around £176 million, and that the estimated share of debt for the authority would be around £156 million (which includes nearly £2 million of South Beds debt). It is understood that Bedfordshire CC will not now be undertaking any further borrowing in respect of financing its Capital Programme in 2008/09. A further adjustment (called Adjustment A) is made to the CFR before calculating the MRP. Consequently, the estimated MRP base position for Central Bedfordshire for 2009/10 is £5.094 million.
- (e) At an average interest rate on Bedfordshire CC debt of 4.421%, the estimated cost of servicing the debt inherited by Central Bedfordshire would be £6.909 million.

- (f) The estimated inherited base position in (d) and (e) above gives a starting point of gross capital financing costs in the revenue budget for 2009/10 of £12.003 million. In the disaggregated Bedfordshire CC budget, there are also other costs of £777,000 to be added to this figure under this heading, related to PFI, S.106 interest, and insurance, giving a total of £12.780 million. This compares with a current assumption in the revenue budget envelope of £12.056 million for these items. However, this is before considering any options in respect of setting aside receipts to reduce MRP, and the investment interest impact of financing capital expenditure in 2009/10, both of which are referred to below.
- (g) Sector have been looking at options whereby the 2009/10 opening CFR position for Central Bedfordshire, and consequently the MRP, could be reduced by setting aside the unapplied capital receipts of Mid Bedfordshire (estimated to be over £55 million as at 31 March 2009). This reduction would be achieved by setting aside these receipts in the Capital Adjustment Account in the Mid Bedfordshire balance sheet as at 31 March 2009. In accounting terms, this action would effectively “pre-fund” capital expenditure.
- (h) It is recommended that this option, and these capital financing and accounting issues, be considered further in the report to the February Shadow Executive.
- (i) Capital expenditure in a financial year affects the MRP for the following year. The effect of £32.268 million net capital expenditure in 2009/10 (the total potential programme shown in Section 3) would be an increase in MRP of £1.291 million in 2010/11.
- (j) The other revenue effect of expenditure at this level in 2009/10 would be roughly half of the interest cost (in this case lost interest on investment) assuming that spending took place relatively equally throughout the year, with the 2010/11 effect being the full year interest cost. Assuming interest rates at 2% for the coming year, the interest effect of £32.268 million net expenditure in 2009/10 would be £323,000 in 2009/10 and £646,000 in a full year. Given the current outlook for interest rates it is assumed at this stage that using capital receipts to finance capital expenditure and consequently losing investment interest will be more financially advantageous in 2009/10 than undertaking new borrowing. For information, it is estimated that every additional £100,000 of capital expenditure in 2009/10 would increase net revenue expenditure by £1,000 in 2009/10 and £6,000 in 2010/11.

- (k) In summary, the financial implications arising for the Council in respect of capital financing are: MRP on the inherited position; MRP on new capital expenditure; interest on historic and new debt (if any); and investment interest. These figures will be affected by the level of Capital Programme ultimately approved by the Council and any decisions on options to reduce MRP. These issues will be dealt with in more detail in the report to the February Shadow Executive. Indications at present are that the Council should be able to approve a Capital Programme for 2009/10, and an indicative programme for 2010/11, that substantially meets most of the Council's inherited commitments and initial priorities, with the revenue implications contained within the current assumed budget envelope. However, a considerable amount of refinement and critical review does still need to be undertaken.

Background Papers:

Location of Papers: Accountancy Section, Council Offices, Priory House

File Reference: N/A