Agenda Item No. CR2

SHADOW EXECUTIVE
17 FEBRUARY 2009

SUBJECT	**CAPITAL PROGRAMME 2009/10 – 2012/13** (To recommend a Capital Programme for Central Bedfordshire to the Shadow Council for approval.)
REPORT OF	**Director of Corporate Resources**
Contact Officer: Brian Mew (Tel: 01462 611070)	

IMPLICATIONS

SUSTAINABILITY	The Council's Capital Programme is directed towards achieving the Council's key priorities, including managing growth effectively.
FINANCIAL	The indicative Capital Programme could potentially exceed investment of more than £200m 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. Consequently, the actual Programme approved and delivered by the Council will be dependent on the availability of capital finance and the affordability of proposals.
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 Capital Programme Report to Shadow Executive 20 January 2009

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RECOMMENDATIONS:

That the Shadow Executive: -

1. **Considers the comments of the Shadow Scrutiny Committee and the Corporate Resources Transition Task Force on the proposed draft Capital Programme.**

2. **Recommends the General Fund Capital Programme for 2009/10 – 2010/11, attached at Appendix B, to the Shadow Council for approval.**

3. **Approves in principle the indicative Capital Programme proposals for 2011/12 – 2012/13 attached at Appendix C.**

4. **Recommends the Housing Revenue Account Capital Programme for 2009/10 – 2012/13, attached at Appendix E, to the Shadow Council for approval.**

5. **Recommends the Capital Investment Strategy, attached at Appendix F, to the Shadow Council for approval.**

Reason for Recommendation: *To recommend a Capital Programme to the Shadow Council.*

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. The Shadow Executive approved the draft Capital Investment Strategy for submission to Full Council as part of the budget process, and the Capital Investment Strategy is attached at Appendix F to complete this process of approval. Some minor amendments have been made to the attached Strategy, primarily to reflect changes in the approach to categorising schemes as the 2009/10 programme has developed.

The Shadow Executive then went on to consider a full draft Capital Programme at its meeting on 20 January 2009, which was directly influenced and informed by the Capital Investment Strategy and is a major component of the Council's Medium Term Financial Strategy with significant financial implications.

(b) Both reports considered by the Shadow Executive noted that the establishment of the new authority and the current transition period inevitably placed limitations on the scope of the Capital Programme formulation and approval process for 2009/10:

- The new Council will not form or meet until June 2009 and members will have had little opportunity to debate and shape their priorities to meet the new unitary's objectives;

- Staffing structures will not be in place until April 2009 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, it was noted that the Council will not be in a position to approve a Capital Programme that truly reflects the new Council's objectives and priorities, and which challenges the priorities set by the predecessor authorities.

(d) A more robust Capital Investment Strategy will be developed during the course of 2009/10 in full consultation with members of the new authority, and the Capital Programme will be the subject of a detailed review in 2009/10. This review, which will need considerable member involvement, will be informed by the closedown position of the predecessor authorities, in particular the disaggregation of the Bedfordshire CC Balance Sheet.

(e) The Shadow Executive meeting on January 2009 approved the draft Capital Programme as the basis for consultation with the Shadow Scrutiny Committee. A system of categoration was adopted to enable members to familiarise themselves with detailed proposals and to make judgements about the continuance or otherwise of proposals. In accordance with the recommendation of the Shadow Executive, schemes in categories 1 to 5 have been used as the basis of the proposed programme, and schemes in category 6 have not been included.

(f) As a reminder, the key used for the categorisation of schemes, confirmed by the Shadow Executive, is shown below:

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)
6. Second Tier Schemes – largely aspirational at this stage.

(g) The Shadow Scrutiny Committee considered the draft Capital Programme and the report to the Shadow Executive at its meeting on 22 January 2009. The draft Capital Programme and the report to the Shadow Executive were also circulated to the Corporate Resources Transition Task Force for comments. The comments of the Shadow Scrutiny Committee and initial comments from members of the Corporate Resources Transition Task Force are shown in Appendix A.

2. Amendments to the Draft Programme

(a) Since the draft programme was initially considered by the Shadow Executive, there have been a number of amendments to the programme that are outlined below. These amendments are highlighted in the programme Appendices attached to this report.

(b) Community Football Development Centre (Dunstable) - £2.6m
Community Football Development Centre (Leighton) - £2.4m

At its meeting on 13 January 2009, the South Beds Executive considered a range of revisions to its current Capital Programme proposals relating to Community Football Development. In summary, these revisions involved deciding to abort the Houghton Regis Pavilion and Pitch project and diverting the previously agreed funding to other projects, including the provision of parking on the same site. In addition, the South Beds Executive recognised that the timing of the Section 106 receipt earmarked for the Community Football Development Centre (Dunstable) was now uncertain and recommended that this scheme proceed prior to the receipt of this funding, to enable Football Foundation funding to be secured. The Section 106 receipt is now anticipated for 2011/12.

(c) Categorisation of Schemes

A number of the categories initially assigned to schemes have also been reviewed to ensure that they are in accordance with the criteria referred to in 1. (f). Consequently, the following amendments have been made:

Community Football Development Centre (Dunstable) - Category 1 to Category 3

Community Football Development Centre (Leighton) - Category 1 to Category 3
Flitwick Leisure Centre - Category 5 to Category 3
Carbon Management – Category NS to Category 2
Rural Management – Category NS to Category 5
Children's Social Care SCP Contribution – Category NS to Category 5

3. Capital Programme

(a) The Capital Programme reflecting these amendments is attached to this report in the following appendices:

Appendix B – Capital Programme 2009/10 – 2010/11:

Appendix C - Indicative Capital Programme Proposals 2011/12 – 2012/13

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

Appendix E – HRA Capital Programme 2009/10 – 2012/13

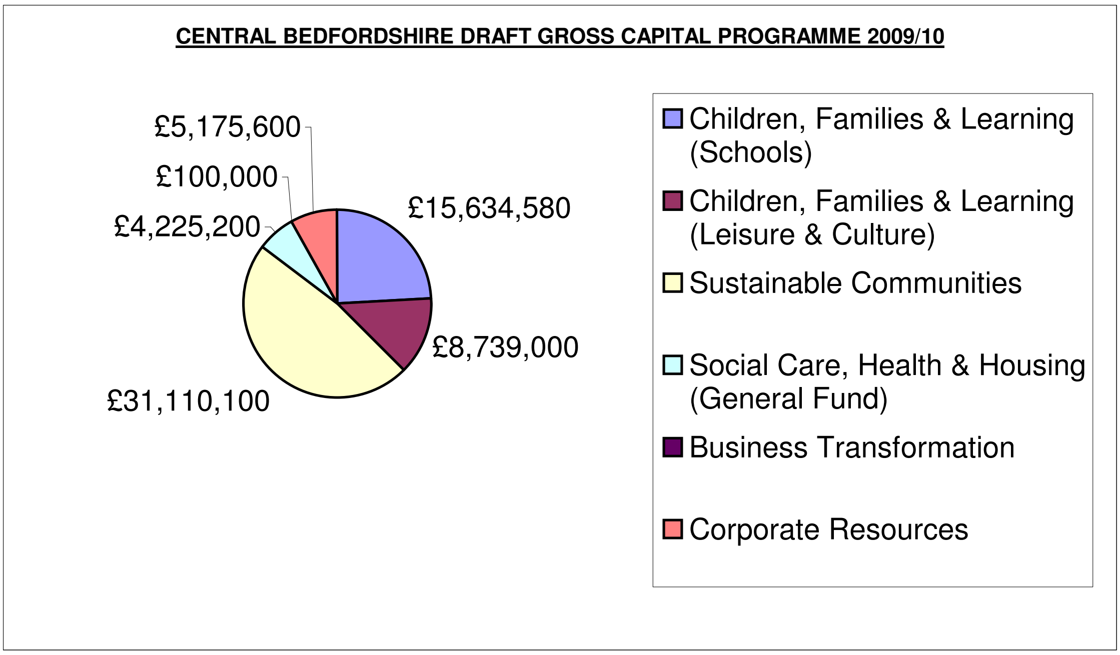
(b) The appendices show the Capital Programme by Directorate, and within each directorate individual schemes are listed by category. It should be reiterated that any capital requirements associated with transition and implementation are not included in this exercise and are not included in the Appendices.

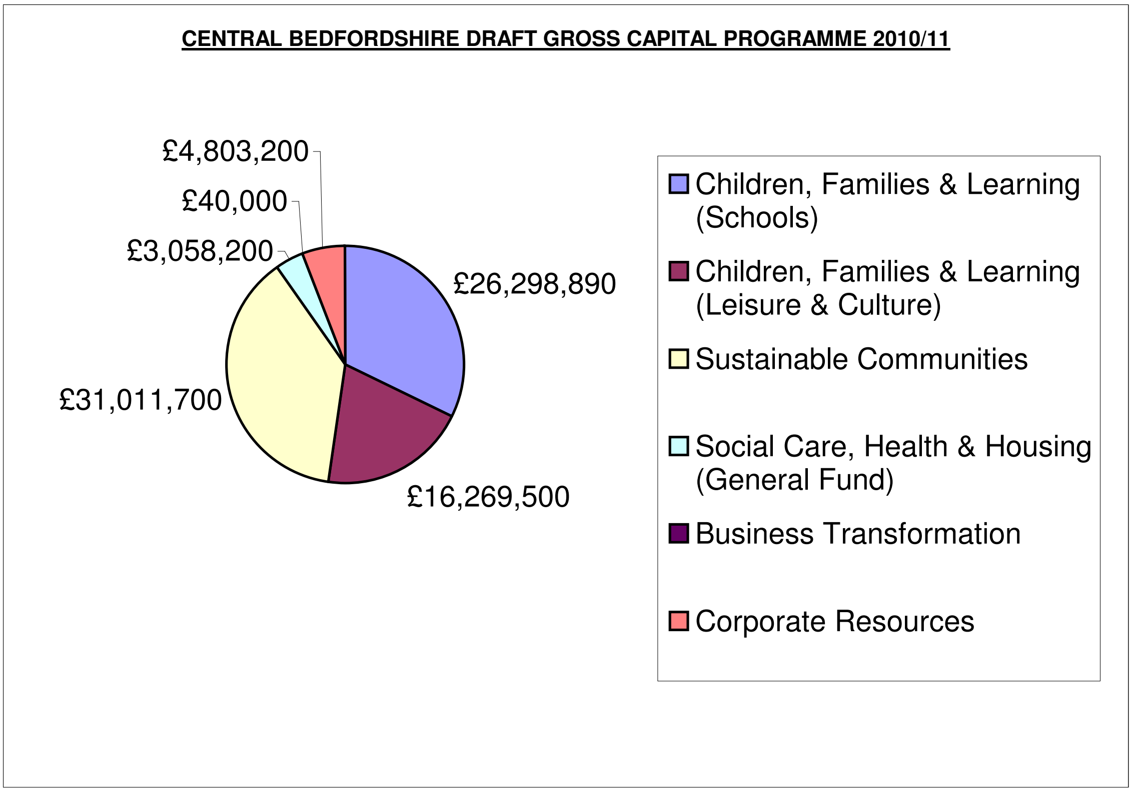
(c) The Appendices show the estimates for schemes showing gross budgets and earmarked funding. One of the features of the Capital Programme for county level services is that earmarked funding, particularly from Government Capital Grants, is a more significant factor than in district level services.

(d) Appendix D shows a Summary of the Capital Programme, which is summarised further for 2009/10 and 2010/11 in the table shown below:

Directorate	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
	£000	£000	£000	£000	£000	£000
	Gross	Funding	Net	Gross	Funding	Net
CFL (Schools)	15,634	12,673	2,961	26,299	17,068	9,231
CFL (Leisure & Culture)	8,739	3,149	5,590	16,269	6,450	9,819
Sustainable Communities	31,110	15,630	15,480	31,012	13,566	17,446
SCHH (General Fund)	4,225	878	3,347	3,058	785	2,273
Business Transformation	100	10	90	40		40
Corporate Resources	5,176	70	5,106	4,803	70	4,733
Totals	64,984	32,410	32,574	81,481	37,939	43,542

(e) The summary Capital Programme position by Directorate is also shown below in pie chart form:





(f) Paragraph 1 (d) of this report has indicated that the Capital Programme will be the subject of a detailed review in 2009/10. Further review of the draft programme has indicated four key areas, or “service blocks” of significant potential net capital expenditure that will need to be considered in detail as part of this review:

Service Block	2009/10	2009/10	2009/10	2010/11	2010/11	2010/11
	£000	£000	£000	£000	£000	£000
	Gross	Funding	Net	Gross	Funding	Net
Leisure	6,240	1,679	4,561	4,449	650	3,799
Highways	14,357	6,254	8,103	14,357	6,254	8,103
Housing	3,675		3,675	3,195		3,195
Property	4,000		4,000	4,000		4,000
Totals	28,272	7,933	20,339	26,001	6,904	19,097

(g) The Leisure block relates to a number of schemes concerning Leisure Centre and Community Football provision, which are largely schemes in their early stages identified as policy commitments by the district councils. This is an area of significant potential spend where Central Bedfordshire will need to develop a cohesive and integrated strategy towards the provision of facilities.

(h) The schemes identified for Highways represent a reduction from the total expenditure programmes envisaged by Bedfordshire CC. However, this is again an area where Central Bedfordshire needs to develop its own priorities and programme.

(i) The Affordable Housing programmes summarised in the Housing block above are the inherited provisions from Mid and South Bedfordshire, and development of expenditure priorities in this area will be dependent on the development of an integrated Housing Strategy for Central Bedfordshire.

(j) The proposed programme includes a proposed block budget for Corporate Property of £4 million per annum, which as a significant increase on the capital programme provisions of the predecessor authorities. This proposed block requires more analysis and working up into an achievable programme, and will be influenced by the medium term Accommodation Strategy for Central Bedfordshire.

(k) 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 funding are shown in Appendix E. 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.

(l) Capital Programme – Status

It should be noted that in the Constitution currently being drafted for Central Bedfordshire, it is recognised that the Capital Programme is a programme of estimated capital expenditure and associated funding. The full Council will approve a Capital Programme each year, recognising that approving initial estimates is the first stage in the process of progressing a proposed scheme to implementation. Estimates produced at this stage will be liable to change. Before a scheme in the Capital Programme receives final approval from the Executive to proceed, Directors must put forward to the Executive a project appraisal (possibly in the form of a Project Initiation Document) covering the following elements as a minimum requirement:

- Description
- Justification
- Deliverable outcomes
- Feasibility study / options appraisal
- Financial analysis including appropriate measures of investment appraisal
- Budget including life cycle cost
- Project plan

Consequently, inclusion of a new scheme in this programme does not constitute permission to proceed without following the process outlined above.

4. Capital Financing – 2009/10 Base Position

(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. This section of the report deals with the first area.

(b) Independent advisors have been advising Bedfordshire County Council, Bedford Borough Council and Central Bedfordshire regarding 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 complications regarding some Bedfordshire County Council market loans, which, unlike Public Works Loans Board (PWLB) debt cannot be physically split between the two unitary authorities. Central Bedfordshire will manage these loans, with costs shared between the two new Authorities in relation to tax base. 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 for the principal repayment element of this borrowing. In broad terms, the MRP 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. Each year, full Council must approve the Council's MRP policy for the coming year, there now being four options available to the Council for calculating this item.

(d) The independent advisors have estimated that the CFR for Central Bedfordshire as at 31 March 2009 would be around £184 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.

(e) Further work has been carried out in this area by Arlingclose, who have been engaged solely by Central Beds and who are currently the treasury management advisors for both Mid Beds and South Beds. Arlingclose have drafted the Treasury Management Strategy reported elsewhere on this agenda, and that report includes a recommended MRP policy. The recommendation for MRP policy for is for the adoption of Option 1, the Regulatory method, as this enables Central Bedfordshire to take advantage of an element in the MRP calculation called "Adjustment A". All of the predecessor authorities to Central Bedfordshire have relied on this element in calculating their MRPs and it consequently influences the revenue base budget. In simple terms, Adjustment A reduces the MRP charge required to be made in the revenue account by nearly £2 million every year compared with the charge using the other options. Consequently, the estimated MRP base position for Central Bedfordshire, the principal repayment element, for 2009/10 is £5.403 million.

(f) Actual interest costs payable on the debt of £156.0m that will be inherited by Central Bedfordshire from Bedfordshire County Council, is at an average interest rate of 4.421% and the **estimated interest cost will be £6.909 million per annum**. Most of the debt is at fixed rates of interest and little scope exists to reduce this expenditure.

(g) The estimated inherited base position referred to above thus gives a starting point of gross capital financing costs in the revenue budget for 2009/10 of £12.312 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 £13.089 million. This compares with a current assumption in the revenue budget envelope of £12.056 million for these items.

(h) Options have been looked at whereby the 2009/10 opening CFR position for Central Bedfordshire, and consequently the MRP, could be further reduced by setting aside some or all of 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.

(i) This option has some significant advantages in reducing MRP, and capital receipts inherited from the former Mid Beds District Council could be set-aside at a level sufficient to ensure that the capital financing element in the revenue budget is brought in at the level of the budget envelope for this item. This would require a set aside in the Mid Beds 2008/09 accounts of around £23 million, resulting in a reduction in MRP for 2009/10 of around £923, 000. This would have a resultant impact of reducing usable capital receipts for the new authority from £55m to just over £32 million, but would ensure that the revenue budget envelope assumption was delivered. This option is recommended in the Treasury Management Strategy report elsewhere on this agenda, although the precise amount of the set-aside required will in turn be influenced by the outturn position on the Bedfordshire CC Capital Programme.

5. Capital Financing – Funding the Central Bedfordshire Capital Programme

(a) Capital expenditure in a financial year affects the MRP for the following year. The effect of £32.27 million net capital expenditure in 2009/10 (the total potential programme shown in Section 3) would be an increase in MRP of £1.29 million in 2010/11.

(b) The other revenue effect of expenditure at this level in 2009/10 would be roughly half of the interest cost, of either lost interest on investment or interest on borrowing, assuming that spending took place relatively equally throughout the year, with the 2010/11 effect being the full year interest cost. Given the current outlook for interest rates using capital receipts to finance capital expenditure and consequently losing investment interest would be more financially advantageous in 2009/10 than undertaking new borrowing. However, without further asset disposals this is not a sustainable proposition beyond the next two years, as all receipts will be utilised in this period. Current economic conditions are unlikely to be conducive to disposals activity during this period. Use of all of the Council's capital receipts in this short period could seriously constrain flexibility in future years.

(c) It is recommended that the Council should keep its options open at this stage in terms of whether to fund the unfinanced element of the Capital Programme by the use of capital receipts or borrowing. Having approved the programme, this is essentially an issue of selecting the most financially advantageous option with regard to interest rates, timing, and future considerations. Consequently, in the summaries shown later in this section, the unfinanced element of the Capital Programme is shown as being financed by striking a 50/50 balance in 2009/10 and 2010/11 between the use of capital receipts and borrowing as a working assumption.

(d) Three further issues have been identified when considering the financing of the Capital Programme proposed in this report. These are: the effect of slippage; the level of new capital receipts; and the need to "smooth" the programme to ensure affordability.

(e) Slippage

There may be some slippage of schemes from all of the predecessor authorities into 2009/10, which will need to be financed by Central Bedfordshire. Where this slippage has already been identified, these figures are shown in 2009/10. However, there will inevitably be areas where the total amount of slippage to be picked up by Central Bedfordshire will not be known until the closure of accounts process, particularly for Bedfordshire CC. Bedfordshire CC staff are currently working on a trial closedown exercise that may flag up the slippage that will need to picked up by the two unitaries. To an extent, the issue of slippage should not be particularly significant as it merely reduces the starting financing position inherited by the new authority, as long as the slippage is not concentrated disproportionately on one of the authorities and that the predecessor authorities have the resources in place to meet this expenditure; and there are no indications that this is likely to be the case. However, this will be a factor that will need to be taken into account in the detailed review of the Capital Programme during 2009/10 referred to in this report.

(f) Capital Receipts

As referred to in previous reports, the economic situation is 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. However, this situation could obviously change in the medium term, both as a result of economic circumstances, and as Central Bedfordshire reviews its ongoing property portfolio and long-term requirements. Again, this will be an important part of the detailed review in 2009/10.

(g) "Smoothing" of Capital Financing

As currently presented in this report, the proposed Capital Programme exhibits a degree of skewing of the financing requirement to 2010/11 (around £47 million unfinanced). Given the workings of the capital financing regime (MRP calculation, etc.), this position would probably create an unsustainable revenue budget position in respect of capital financing costs in 2011/12. A degree of "bunching" of estimated spend in the early years of a capital programme is probably inevitable, particularly in the circumstances of Central Bedfordshire's first programme. However, this is probably an unrealistic estimate of the position, and the programme is likely to exhibit significant slippage into 2010/11 and future years. The fundamental review of the programme may also lead to deferral and re-appraisal of schemes. Consequently, and adjustment has been made to the programme to reflect this assumed slippage and deferral and deliver a degree of "smoothing" of the net funding requirement. In very broad terms the Council should be looking at a net funding requirement of no more than £30 million in any given year, indicating an annual gross programme, depending upon grants and external funding, of around £55m - £60m per annum, and this adjustment has been based on this.

(h) The proposed summary capital financing position for the Capital Programme summarised in Section 3, and taking into account all the points in this section is shown below. Although very draft and indicative at this stage, this strategy towards capital financing should ensure that in the medium term the Council remains within the revenue budget envelope assumed for capital financing costs.

(i) Capital Financing Summary

	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000
Total Expenditure	64,984	81,481	36,097	21,770
Less; Assumed Slippage c/f	(15,000)	(36,481)	(20,000)	
Add: Assumed Slippage b/f		15,000	36,481	20,000
	49,984	60,000	52,578	41,770
Funded by: -				
Government Grants	24,471	26,205	5,343	1,616
External Contributions (S106 etc)	7,849	11,360	6,527	4,850
Contributions from Reserves	20	304	300	300
Revenue Contributions	70	70	70	70
Borrowing	8,787	11,031	34,930	32,934
Capital Receipts	8,787	11,030	5,408	2,000
Totals	49,984	60,000	52,578	41,770

Background Papers:

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

File Reference: N/A