Appendix 'A'

Capital Investment Strategy 2011/12 to 2014/15

Introduction

The capital programme is a key part of the County Council's medium term financial strategy and new investment should be considered alongside the revenue budget.

The four year capital strategy enables consideration of investment priorities over the medium term thereby ensuring both revenue and capital spending plans are aligned, reflecting both the Administration's priorities and the need to invest in assets critical to the effective delivery of services.

An initial capital investment strategy for the period 2010/11 to 2013/14 was agreed as part of the 2010/11 budget. This strategy focussed on delivering key investments within a context of anticipated significant reductions in the level of government support for capital investment.

The announcement of the Comprehensive Spending Review in October 2010 confirmed this approach, setting out that:

- support for local authority capital investment across all services will reduce by 45% over the four year period 2011/12 to 2014/15.
- an increase in the interest rates charged by the Public Works Loans Board (PWLB, the body which supplies most local authority long term borrowing) will reduce local authority capital spending by a further 17%.

In total, it is expected that capital expenditure will reduce nationally in the order of two thirds over the next four years. In addition there is a significant switch away from support for local authority borrowing and in to capital grants as part of the government's overall deficit reduction package.

Subsequently the local government finance settlement was received on 13 December 2010, and the level of capital support was £101.5m better than previously anticipated.

Proposals for capital investment over the next four years have been prepared on the basis of a three year programme with an indicative fourth year. The proposals have been through an initial prioritisation process and are set out for Cabinet to consider. Over the next four years, the capital investment proposals put forward for consideration (excluding schools) total £218.5m.

In addition, this report sets out the statutory Minimum Revenue Provision Statement for approval.

The Capital Settlement

The capital settlement was announced on 13 December 2010 alongside the revenue settlement and it is anticipated that over the next three years, over £42m of additional capital resources will be available to invest into Lancashire than previous forecast. Whilst not all capital resources have been confirmed, we have been able to revise our planning assumptions in relation to schools, as a result of the settlement.

In addition, some £58m is likely to be available in 2014/15, but given the uncertainty regarding this, it is recommended that the 2014/15 programme remain indicative at this stage.

The resources available are summarised in the table below (unconfirmed figures are shown in italics).

	2011/12 £m	**2012/13 £m**	**2013/14 £m**	**Total £m**	**Indicative 2014/15 £m**
Schools Capital Funding					
Schools	34.503	*23.117*	*23.117*	*80.737*	*23.117*
Schools Devolved Formula Capital	4.802	*4.802*	*4.802*	*14.406*	*4.802*
Total Capital Funding for Schools	**39.305**	***27.919***	***27.919***	***95.143***	***27.919***
Non-Schools Capital Funding					
Transport	28.197	28.649	28.646	85.492	30.845
Other	2.861	2.928	-	5.789	-
Total	**31.058**	**31.577**	**28.646**	**91.281**	**30.845**
Previous Estimate	20.827	13.858	13.858	48.543	-
Increased Resources	**10.231**	**17.719**	**14.788**	***42.738***	***58.764***

In relation to funding fully passported to schools, the overall total announced is better than previously forecast. However, this is largely because of the rolling up of a range of specific programmes, including the Primary Capital Programme, in to a single allocation. A like for like comparison shows an increase of £2.165m in 2011/12. However, this is more than offset by the reduction in devolved formula capital, which reduces by £19.49m per year compared to the 2010/11 allocation

It is important to note that for schools only a one year firm allocation has been announced pending the Government's review of the overall schools programme.

One further change is that all capital resources for schools need to be spent within the financial year. Steps will need to be taken to manage the totality of the programme (as opposed to any one year's starts) to achieve this.

In relation to the Transport programme, this is considerably more favourable than anticipated. This reflects the priority attached by the Government to investment which will support economic growth.

All allocations will be made by way of capital grant; there will be no supported borrowing, reflecting the Government's view on overall public sector borrowing.

In addition to this the Cabinet's revenue budget proposals make £2.275m in 2011/12 and £6.389m in 2012/13 available for additional investment in highways maintenance.

The Committed Programme

The commitments arising from the current four year investment strategy (2010/11 to 2013/14), are set out in full in Annexes 1 and 2.

Available Resources 2011/12 to 2014/15

In addition to the further capital resources available as a result of the settlement, there is a significant change within the current capital programme, relating to the Waste Infrastructure project which as a result, frees £30m of resources from the County Council funded elements of the waste PFI scheme. This is principally as a result of the changes in relation to the Huncoat site. The revenue consequences of this funding are incorporated within the revenue budget and it is proposed that this funding be used to support further capital investment in the County's infrastructure across Lancashire.

Over the remaining three years of the current strategy, it is anticipated that some £81.4m is available for capital investment. By adding a new indicative year 4 to the programme the overall level of resources will increase by a further £65m, as set out in the table below.

	2011/12 – 2013/14 £m	2014/15 Indicative £m
Resource freed from the Waste Infrastructure Scheme	30.000	
Resources for additional investment in Highways Maintenance included in Cabinet's Revenue Budget proposals	8.664	
Increase in capital resources available through the settlement	42.738	
New 2014/15 Single Capital Pot Allocation for Schools and Transport (estimate)		58.764
New Capital Receipts		2.100
New Internal Financing (e.g. internal loans for vehicles)		5.000
Total	**81.402**	**65.864**
Of which:		
Passported for Schools	2.804	27.919
Passported for Transport	45.613	30.845
Available for other schemes	**32.985**	**7.100**

This assumes that the Council maintains its policy of "passporting" resources to the schools and transport blocks. Given the overall level of capital resources available and the demands which have been identified going forward it is recommended that this policy be continued.

In light of the overall settlement the Cabinet and Executive Leadership Team (ELT) have reviewed the existing commitments within the Capital Programme and concluded that with the exception of clawing back any scheme underspends, the investment proposed appropriately addresses corporate priorities.

In addition Cabinet and ELT have informally considered how best to frame a future programme utilising the additional resources available and minimising the impact on the revenue budget. The conclusion is that the most prudent approach is to agree a firm three year programme with an indicative fourth year, which at this stage is not fully financed. This reflects the uncertainties which exist around longer term financing and in particular the impact of the Local Government Resource Review, the impact of current property reviews and the wider economic situation on the level of capital receipts available and the ability of the Council to access lower cost sources of finance in the capital markets. These will gradually be resolved over the next 12-18 months allowing firmer decisions about the fourth year programme to be taken.

Priorities for Future Capital Investment 2011/12 to 2013/14

The key criteria for Cabinet and ELT in considering the various investment proposals is the opportunity for future capital investment to have a beneficial impact on the growth prospects of the County's economy, and which support the delivery of proposals in the revenue budget. To this end the proposals are focussed on an enhanced programme for the Transport Block together with a number of other schemes supporting corporate priorities. In total, the proposals would result in investment in key priorities of £218.5m over the next four years, bringing the overall total programme to around £442.2m, as shown in the table below.

	2011/12 £m	**2012/13 £m**	**2013/14 £m**	**Total £m**	**Indicative 2014/15 £m**
2010/11 and Earlier Years Starts (Annex 1)	134.228	29.663	0.239	164.130	
2011/12 and Future Years Starts (Annex 2)	21.038	16.036	22.496	59.570	
Proposed New Investment (Annex 3)	53.787	52.510	53.664	159.961	58.537
Total	**209.053**	**98.209**	**76.399**	**383.661**	**58.537**

Annex 3 sets out the proposed enhanced programme for the Transport Block together with the other proposed corporate priority schemes and the associated financing. These proposals will replace the programme which was previously approved which is set out at Annex 2.

The programme for the Schools Block will be set at the level of the allocation and will be approved by the Cabinet Member for Children and Schools in accordance with the County Council's scheme of delegation.

The Transport Programme is divided into five blocks:

- Highways Maintenance (total investment of £81m over the next three years)

  The funding allocated in this block reflects the decisions of the County Council in relation to the 2010/11 Budget to allocate additional resources and the Cabinet's proposals for further additional resources in 2011/12 and 2012/13. In addition, a further investment is proposed in 2014/14 in line with key priorities.

- Improving Safety Block (total investment of £10.7m over the next three years)

  This block includes a range of minor schemes including 20mph zones and street lighting crime reduction. The allocation reflects previously planned activity.

- Public Transport Infrastructure Block (total investment of £11.2m over the next three years)

  This block includes commitments to a number of significant schemes to improve public transport infrastructure.

- Major Schemes (total investment of £29.8m over the next three years)

  This block reflects the County Council's commitment to major transport schemes which will support Lancashire's economic position:

  - ***Blackpool to Fleetwood Tramway*** – This scheme was approved in 2008/09 and is well advanced.

  - ***Heysham – M6 Link*** – This scheme has been a long standing priority for the County Council. Negotiations have been conducted with the Department for Transport over a funding package for the scheme under their revised major schemes process. This requires a contribution to scheme costs of 10% together with a range of other commitments which would always have fallen to the Council's own resources to meet. Significant work has already been undertaken to reduce the cost of the scheme and further work to reduce costs further will remain a priority over the next 12 months.

  - ***Broughton By Pass*** – The inclusion of the Broughton By-pass within the Capital Programme is subject to the developer contributions shown within the programme. The construction of the by-pass is the subject of a Unilateral Undertaking under Section 106 of the Town and Country Planning Act 1990. This Unilateral Undertaking is between The Urban Regeneration Agency (formerly English Partnerships), Taylor Wimpey Developments Ltd, Preston City Council and Lancashire County

Council. This Undertaking provides for the payment of a "By-pass Contribution" to the County Council equivalent to 70.5% of the total costs of construction; including design costs, construction costs, supervision costs, and market value of the land required to construct the road. The total costs of the scheme now shown in the Capital Programme include both the by-pass and improvements to Broughton roundabout. Recently these have been considered as two discrete elements, however, they are now proposed as a single project. The 70.5 % "By-pass contribution" does not apply to the Broughton roundabout element of the scheme. A sum of £0.2m has already been paid to the County Council towards the costs of preparing the Broughton By-pass scheme. It should be noted that the phasing of spending in relation to this scheme is indicative only at this stage, and is currently being refined.

- Priorities Arising from the LTP Implementation Programme (total investment of £5.8m over the next three years)

  This block provides resources to address priorities which emerge through the LTP process.

Further work is required on the phasing of some of these schemes which will be reflected in the report to County Council, although it will not impact on the overall level of resources available.

Detailed allocations within the blocks will be approved by the relevant Cabinet Member in accordance with the County Council's scheme of delegation.

The other priority schemes proposed are:

- ***Economic Development Initiatives*** (total investment of £9m over the next three years)

  This will provide resources which will allow the County Council to, for example, provide support to the bringing forward of strategic sites for development and other projects which support the Council's economic development framework.

- ***Strategic Partnership Service Improvement Plans*** (£7.7m)

  These initial projects will facilitate the delivery of revenue savings through the Strategic Partnership and include the delivery at an early date of the new HR/Payroll System and improvements to the telephone infrastructure which supports Customer Access. Specific funding has been set aside through the Financial Strategy for Service Improvement Plans which comprise a combination of revenue and capital spending. Further schemes will be added to this programme as the various Service Improvement Plans are developed and considered on the basis of an investment to deliver savings.

- ***Tower Wood Centre Improvements*** (£1.7m)

  This scheme will improve facilities at the Centre, particularly the residential accommodation to allow for the development of new areas of business thus generating additional income for the County Council.

- ***Investment to Secure the Future of Household Waste Recycling Centres*** (£2.75m)

  This scheme is in part an invest to save project associated with the revenue budget proposals for HWRCs allowing the creation of better located replacement facilities to replace more than one current site. In addition there is work financed by a capital receipt from a developer in order to facilitate a land sale for development.

In total this results in an increase in the level of over programming in the 2011/12 to 2013/14 capital programme from £6.8m to £12.7m. The view of the County Treasurer (Designate) is that this is an acceptable level of over programming in the context of the total size of the programme and the prudent assumptions made about capital receipts given the likely increase in the number of surplus assets for disposal. This level of over-programming is also critical to delivering the programme and preventing excessive levels of slippage. In addition steps will be taken to "manage down" this over programming through the recycling of scheme underspends.

2014/15 Indicative Programme

As indicated above it is not proposed, at this stage, to set a firm programme for new starts within 2014/15. However, for planning purposes it is important to set out an indicative programme so that work can be carried out to prepare schemes to proceed once the firm programme is agreed. At this stage the indicative programme is not fully financed but this issue will be addressed in the financial planning process over the next two years.

In setting the indicative programme it is again assumed that the allocations for schools and transport are passported in full to those areas.

As set out in the table on page 4, it is estimated that there will be sufficient internally generated resources (for example capital receipts) to finance a core programme of repairs and renewals without new borrowing which would impact on the revenue budget.

In addition to this it is proposed that a further phase of the Libraries Regenerate programme is included in the programme given the service benefits that these schemes generate.

In combination this generates a 2014/15 indicative new starts programme as set out in the table below:

	£m
Schools Block	27.919
Transport Block (reflected in Annex 3)	47.437
Economic Development Initiatives	3.000
Libraries Regenerate Programme	1.000
Core Programme of Repairs and Renewals, including • Adults and Children's Social Care General Improvements • Non Schools Structural Maintenance • Disabled Access • Energy and Water Conservations • Vehicle Replacement	7.100
Total	**86.456**

As shown in Annex 3 this creates an indicative programme that is £16.6m underfunded at this stage. However, this will be addressed over the next two years as both future resource requirements and availability become clearer.

Minimum Revenue Provision

The Council is required to set out a statement of its policy for the calculation of the Minimum Revenue Provision which is the amount set aside for the repayment of principal on borrowing to finance assets. This is attached at Annex 4. Fundamentally the statement has not changed from last year. However, the incorporation of PFI schemes on the balance sheet as a result of the implementation of the International Financial Reporting Standards requires the incorporation of changes in relation to these schemes although there is no impact on the County Council's underlying financial position.

Prudential Indicators

The revised programme will result in changes being required in relation to the various prudential indicators in relation to capital financing which require approval by the full Council. These will be included in the Treasury Management Strategy when it is presented to the Council for approval in March 2011.

Conclusion

The proposals set out in this report seek to maintain investment in the County's key infrastructure and supports the Council's key corporate priorities. However, there remains work to do in securing sufficient capital resources over the next few years to maintain investment at appropriate levels.