Appendix 'A'

Money Matters - The Capital Investment Programme 2015/16 and Beyond

1. Introduction

This report sets out the level of additional capital resources made available to the County Council through the Local Government Finance Settlement and other sources together with an overview of demand for capital investment in the context of the Council's transformation programme.

2. Resources Available to the Council

Resources available to the Council to support capital investment potentially come from a number of sources:

- Central government support
- Capital receipts
- Prudential borrowing
- The Council's revenue resources

2.1 Central Government Support for Capital Spending

Central Government support for capital spending generally comes in the form of annually announced capital grants. The County Council, in line with practice in most councils, has traditionally treated these as ring fenced. While it would be possible to divert the government grant allocated to these areas to other council priorities in general terms these areas have been key priorities. In addition, government statements over the years have highlighted the risk that such diversion of resources *could* result in lower allocations in future years.

2.1.1 Schools and Early Years (both the improvement of existing schools and the provision of new places)

The grant for 2015/16 has not yet been announced by the government, but indicative figures received earlier in the financial year were £21.168m for 2015/16, of which c£8m was for basic need (i.e. new school places), which is likely to leave a demand pressure in terms of resources for new places. The remaining £13.168m is to fund maintenance and minor improvements

Other than the use of s106 contributions, the County Council has not in recent years added any of its own resources to the government grant available to fund capital investment in schools. There is significant demand for new places in some parts of the County.

2.1.2 Integrated Transport Funding

This resource transfers to the Lancashire Enterprise Partnership as part of the Local Growth Fund allocation. Given the scale of demand for capital investment across the various Highways and Transport Masterplans, the level of resources announced does not match demand for investment. The recent round of announcements have provided the £6.054m each year from 2015/16 to 2020/21, which will provide matched funding for masterplan schemes included within the Growth Deal. However, given the scale of resources required for delivery of the masterplans there is a shortfall of £4.044m over the period to 2017/18 between the resources available and the intentions set out in the various masterplans.

2.1.3 Highway Maintenance Funding

The recently announced allocations for highways maintenance are:

Total allocation (£m) 2015/16	Total allocation (£m) 2016/17	Total allocation (£m) 2017/18	Indicative allocation (£m) 2018/19	Indicative allocation (£m) 2019/20	Indicative allocation (£m) 2020/21
23,075	21,154	20,514	18,567	18,567	18,567

Allocations over a longer term are welcome, and enable greater financial and operational planning. However, given the level of annual spending requirement outlined in the Transport Asset Management Plan there is inadequate funding of c£29m over the six year period. Of this, £10.257m falls over the period 2015/16 to 2017/18.

2.1.4 Better Care Fund (BCF)

A further ring fenced category has emerged with the introduction of the Better Care Fund (BCF) which will include both the General Social Care Capital Grant and the Capital Grant for Disabled Facilities Grants.

- The general social care capital grant allocation of £3.073m in 2015/16 will form part of the overall BCF and must be spent on delivering the overall objectives of the Fund with sign off by the Health and Well Being Board. The County Council has already agreed to commit the 2015/16 allocation of £3.073m to the delivery of the Extra Care strategy.
- The capital grant for disabled facilities grants of £6.365m must be passported to the district councils.

Further exceptional capital resources may be made available for the costs of implementing the Care Act, but it is suggested that these are passported on the grounds that they represent a new burden.

2.2 Capital Receipts

The current capital programme requires capital receipts of £29m to support existing commitments in 2015/16 and later years, with £21m required in 2014/15. This includes both earmarked receipts (where the sale of a specific asset has been earmarked to fund a specific scheme) and general receipts which support the overall programme.

The forecast for capital receipts has been reviewed in light of current market conditions. Taking the position on earmarked receipts and general receipts together there is a potential shortfall over the next 2 years of between £4m-£5m, on the assumption that all disposals scheduled in 2015/16 take place and deliver the estimated receipts. Given the current market conditions, it is likely that major receipts such as the Building Schools for the Future sites will take much longer to deliver receipts than previously anticipated due to the need to do significant work to achieve development schemes for the sites which maximise the receipt for the Council.

Given the financial uncertainty surrounding these resources, it is proposed that £5m of the extra-ordinary position in relation to capital financing which is forecast for 2014/15 be set aside to provide alternative funding for the capital programme. When the receipts are realised, the funding will be available to support the Council's capital investment priorities.

2.3 Prudential borrowing

Prudential borrowing is available to the Council to support capital investment, but it must be affordable within the Council's revenue budget plans and the potential outcome from such capital investment would have to be balanced against the impact it would have on the Council's need to make savings, and subsequent impact on services. However, given the current financial position and the potential future risks, there would appear to be currently no scope for further prudential borrowing at this time. Every £1m of prudential borrowing would require revenue support of up to £0.1m per year, depending on the nature of the assets being acquired.

2.4 Revenue Resources

The Council can use revenue resources whether from the revenue budget or available one off resources to finance capital expenditure. Currently, revenue resources of £3.2m per annum are included within the service offer going forward to fund the vehicle replacement programme across a range of operational services including Highways, Countryside and Travelcare.

3 Competing Priorities for Capital Investment

As ever, there are competing priorities for the use of capital resources. Those issues which have emerged include:

i. Repairs and renewals needed to maintain our assets, including the shortfall of Highways Maintenance funding over the next three years which amounts to £10.257m.
ii. The current annual "core" programme, which is an annual sum for smaller programmes of schemes within some services. These are in effect rolling programmes of work.

3.1 The requirement for repairs and renewals

A potential overall requirement for repairs and renewals (other than in relation to Highways), is set out below and is based on either current spending levels or initial estimates in relation to areas where it is known that there are ongoing requirements which are not currently provided for.

	£m Starts Per Annum
Repairs and Renewals	
Structural Maintenance of Buildings *(More significant planned maintenance spend such as roof and boiler replacements)*	1.500
Minor Improvement Works *(Small alteration schemes to buildings to adapt to changing user requirement and issues such as disability adaptations)*	0.750
Maintenance of Non Highway Structures *(There is currently no provision for structures like the Crook O' Lune bridge where a planned approach rather than crisis response would be beneficial)*	0.500
Energy and Water Conservation Measures *(Very few schemes met the criteria for the previous revolving fund arrangement and in future direct investment based on an appropriate business case allowing the taking of the full relevant revenue saving would be appropriate.)*	0.500
Total Repairs and Renewals	**3.250**

3.2 Core (small) programmes

Currently the following small programmes have usually been included in the Capital Investment Programme and should be considered in the context of the overall corporate priorities:

Service Spending	£m Starts Per Annum
Strategic Development *(Provision for smaller projects often providing a degree of matched funding for larger schemes)*	1.000
Environmental and Community Projects *(A relatively small amount of match funding which releases land fill tax of £0.9m back to projects in Lancashire)*	0.080
Total Service Spending	**1.080**

4 A Capital Starts Programme for 2015/16 and Beyond

Cabinet is requested to consider the following recommendations:

a) That all central government resources announced for all years are passported to the relevant programmes to support equivalent amounts of spending, as shown in the draft programme at Annex 1. For the Highways and Transport Programme a proposed allocation of these resources is at Annex 2. As the Schools resource remains provisional it is proposed that the detailed allocation is determined by the relevant Cabinet Member(s) as in previous years and that any adjustments to phasing as a consequence of this are delegated to the s151 Officer.

b) The Disabled Facilities Grant be passported to the City and Borough Councils in line with the relevant grant conditions.

c) The programme incorporates a vehicle replacement programme to 2017/18 set at a level in line with the resources currently available within the revenue budget, but subject to the agreement of the detailed overall replacement programme by the relevant Cabinet Member(s).

d) That the identified shortfall of capital receipts be addressed by setting aside £5m of the extra-ordinary 2014/15 financial position on the capital financing budget.

e) Consider priorities for further capital investment in light of resource availability, in particular in relation to the identified shortfall on resources for the Highways and Transport Masterplans and core programme areas such as repairs and renewals.

A draft Capital Investment Programme for 2015/16 and beyond incorporating the above recommendations is set out at Annex 1, with the detail of the Highways and Transport programme at Annex 2. In addition this programme incorporates changes in phasing to reflect the latest round of budget monitoring, which is reported in detail elsewhere on the agenda for this meeting, and:

- The various changes to the programme already agreed to support the delivery of the Preston Bus Station scheme (incorporating the Youth Zone). Specifically this involves a change in the level of provision for Short Break Units for Children with Disabilities to match the resources within the revenue service offer and the level of demand. This follows the review of commitments against the capital programme for Children and Young People's Services which was requested by Cabinet when the revised bus station scheme was approved.

- Incorporates the expenditure that will be incurred by the County Council (on behalf of the LEP) on all City Deal schemes as separately identified programmes. It will be necessary to incorporate the detail of the various Growth Deal Schemes for which the County Council will be accountable body when that Deal is signed.

The draft Highways and Transport Programme at Annex 2 reflects the following:

- The level of resource for Highways maintenance allocated through Government Grant. As indicated above over the 3 years to 2017/18 this is £10.257m less than the requirement set out in the Transport Asset Management Plan (TAMP). Clearly this presents a risk in terms of deterioration of the asset and members may wish to consider whether and how this should be addressed.
- The first phase of delivery of the various masterplans. However, the resources available are £4.044m less than the cost of the schemes identified for delivery through the masterplanning process. Unless additional resources can be identified a revised programme which fits the available resources will need to be considered by the portfolio holder.

This programme reflects over programming of £15.4m (4.3%), excluding the highways issues referred to above which is within the tolerances previously established. This excludes the City Deal where the cash flow impact is dealt with through a separately agreed mechanism and is reflected within the revenue budget for 2015/16 and the financial strategy for future years.

5 Financial Risks within the Capital Programme

The following are the key risks within the overall programme:

5.1 Expenditure Side Risks

There are two key risks on the expenditure side. The first is the clarity of specification where the Council has a reasonably good record and where the nature of the schemes being undertaken which tend to mirror schemes previously undertaken means that other than the usual risk of site abnormals the risk is fairly well contained. In addition there is a tradition within the Council of using prudent estimating assumptions including optimism bias which mitigate against this risk. The second relates to tender prices which are largely driven by the state of the construction market. As the economy grows this risk increases, however, the Council has a good record of engineering costs down and the various partnering frameworks with contractors provide some mitigation against this risk.

5.2 Resource Side Risk

The key risks in terms of capital resources are firstly the generation of sufficient capital receipts, It appears that the market is improving somewhat and simpler disposals are being achieved. However, there are a number of more major disposals where the nature of the eventual disposal is more complex and may involve the County Council having to wait longer to receive a receipt. In these cases the ultimate receipt (and the nature of the eventual development) may well be better than might otherwise be expected. Generally there is sufficient slippage in the programme to cover this risk, however, as one of the objectives of the new organisational structure is to improve capital programme delivery the risk in this area is likely to increase, although as indicated above this is a timing issue and not an issue that will increase the underlying need to borrow in the longer term.

5.3 Demand Risk

Capital resources remain scarce and the level of demand for capital investment is likely to continue to be greater than the resources available to fund it for some considerable time into the future. Consequently the commissioning process that lies at the heart of the new organisational design will need to provide a prioritisation process that allows demand for and supply of resources to be matched. Even so there are service areas where demand, for example for school places, seem likely to consistently exceed resources going forward and consideration will need to be given to innovative ways of meeting these areas of demand.

6 Conclusion

The Capital Investment Programme at Annex 1 incorporates the additional resources made available from both the Local Government Finance Settlement and the revenue service offer and it is open to members to consider whether and how to address further investment needs over the life of the financial strategy particularly taking account of the potential impact on the revenue budget of any decision to finance capital spending through prudential borrowing.