Appendix D

Money Matters
The County Council`s Capital Programme for 2016/17 and Beyond

Lancashire County Council

Contents	Page
1. Introduction	3
2. The 2015/16 Capital Programme	3
3. Quarter 2 Capital Programme Financial Position	4
4. Provisional Capital Programme for 2016/17-2018/19	7
5. Funding Implications	9
6. Capital receipts	10
7. Proposed Funding	10
8. Risks, important issues and funding pressures	12
9. Annex 1 - Additions to the Approved February 2015/16 Capital Programme up to 30th June 2015	
10. Annex 2 – Quarter 2 Outline Capital Monitoring	
11. Annex 3 – Risks, Important Issues and Funding Pressures associated with the Capital Programme	

Money Matters – The County Council`s Capital Programme for 2016/17 and Beyond

1. Introduction

This report sets out the following:

- a brief summary of the Capital Programme as approved by Cabinet in February 2015 and the additional approvals since then against which monitoring is undertaken;
- a summary of the County Council's Capital Programme financial position at the end of Quarter 2 of the 2015/16 financial year as at 30th September 2015;
- a summary of projects within the approved 2015/16 programme which are now complete or considered not needed which can be used as part of the 2016/17 programme funding solution;
- an outline of the 2016/17 and following two years draft capital programme including known projects and the effect on the capital programme of a number of Budget Options identified as part of the Cabinet discussions on the 26th November 2015;
- summary of the proposed funding of the 2016/17 capital programme and the revenue implications of the increased use of prudential borrowing;
- risks, important issues and funding pressures.

2. The 2015/16 Capital Programme

Table 1 below sets out the Capital Programme for 2015/16 and future years, showing the separate blocks as they were approved in February 2015. This table is as previously reported in Money Matters 2014/15 Outturn report. The 2015/16 column includes slippage brought forward. Annex 1 outlines the individual additions to the February approved programme up to 30th September 2015, and therefore included in the Quarter 2 monitoring.

The City Deal figures included in the February 2015 programme represented the nine years remaining from the initial ten year programme i.e. 2015/16 to 2023/24, whereas in the case of all other blocks, a programme was set with a maximum three year profile, i.e. ending in 2017/18.

Table 1: Capital Investment Programme blocks	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 onwards £m	Total £m
Schools	44.661	4.346	3.580	0.000	52.587
Children & Young People`s Services	13.989	3.225	0.002	0.000	17.216
Highways Maintenance	42.276	20.454	19.964	0.000	82.694
Transport Improvement Schemes	71.334	5.695	5.870	0.000	82.899
Waste & other Environment projects	1.660	0.500	7.307	0.000	9.467
Adult Social Care	16.892	6.787	0.213	0.000	23.892
Corporate Programmes excluding vehicles	26.169	12.962	0.000	0.000	39.131
Vehicle Replacement Programme	6.204	3.200	3.200	0.000	12.604
NON LEP LCC PROGRAMME SUBTOTAL	**223.185**	**57.169**	**40.136**	**0.000**	**320.490**
City Deal schemes	46.193	75.128	26.974	177.646	325.941
TOTAL APPROVED PROGRAMME	**269.378**	**132.297**	**67.110**	**177.646**	**646.431**

3. Quarter 2 Capital Programme Financial Position

For the current 2015/16 financial year, there is a forecast variance of £48.442m under performance, which is analysed in Annex 2.

Over the three years 2015/16 to 2017/18 inclusive, the period for which the capital programme was set in February 2015, the County Council`s capital programme excluding City Deal schemes is showing a forecast variance of £29.515m under performance against budget. The reasons for this are:

- **Schools block: total forecast underspend £4.555m**. This budget is the aggregate of Devolved Formula Capital grant from DfE held for individual Schools use which has not yet been spent by the individual schools.

- **Children and Young People block: total forecast under spend of £6.521m**. This relates mostly to un-programmed activity as at Quarter 2 in relation to Youth Zones £2.6m and Residential Overnight Breaks for Children with Disabilities £2.7m. The authority is currently reviewing delivery options.

- **Highways block: total forecast under spend of £3.702m**. The main items are: £3.233m relating to the M65 Crash Barriers and £0.368m relating to 2014/15 Unclassified Rural and £0.220 relating to 2014/15 ABC Roads. The forecast underspend re M65 Crash Barriers is due to external grants from DfT releasing resources. The 2014/15 Roads underspends were due to efficiencies in delivering the programmes of work.

- **Transport block: total forecast over spend £1.580m.** This is made up of **a** forecast underspend relating to Eaves Green Link Road (£0.561) and budget previously allocated to the now deferred Green Lane Link (£1.150) and a forecast overspend on the Heysham to M6 Link Road, caused by an additional £4m of event compensation payments.

  In addition it should be noted that the Heysham to M6 Link Road project was included in the Council`s capital programme at a value consistent with the amount of funding authorised in the programme not the value of the contract spend authorised in separate Cabinet reports. The difference is £3.772m, which has been consistently flagged as a risk requiring further funding. It is now clear that this extra funding will be required, and the current proposal is to fund this from borrowing. This has therefore been included in the draft 2016/17 programme presented in the Cabinet Report to which this Appendix is attached.

- **Waste and other projects block**: **total forecast under spend of £1.592m** relates to funding no longer required on the completed Liquid Logic project which replaced ISSIS.

  In addition, a spend of £7.807m has been forecast for 2016/17 and 2017/18 against the equivalent budget for a Waste transfer station in East Lancashire, but a project has not yet been identified.

- **Adult Social Care block, total forecast under spend of £8.464m**. This is made up of three major items. Firstly £0.829m of unallocated budget for the Learning Disability Daycare modernisation programme, awaiting identification of a project in East Lancashire, and secondly, £5.573m allocated for LCC's Extra Care Strategy. Whilst investment in Extra Care Housing is a policy priority for the Council, only schemes which are unviable commercially without a County Council contribution are supported. Potential schemes where a viable business case can be presented will be supported as they come forward. Finally, there is un-programmed budget for the Libraries Regenerate programme totalling £1.885m.

- **Corporate block, total forecast under spend of £6.261m,** made up mainly of an un-programmed Economic Development budget of £5.619 and a forecast underspend on Superfast Broadband Phase 1 of £1.2m. This was the forecast position as at 30th September 2015. Since then it has been proposed that £3.7m be allocated to fund Phase 2 of the development study for the Skelmersdale Rail Link. The balance of the funding will be utilised to unlock further development opportunities including a potential scheme for Lomeshaye Industrial Estate, Pendle.

The difference between the current total capital programme of £696.356m and the position presented at the 2014/15 Money Matters Out turn report (Table 1) of £49.925m relates to additional Cabinet approved projects and revisions to previously estimated funding. Annex 2 provides more detail on the capital monitoring position for quarter 2 as at 30th September 2015.

Completed Projects or those considered as no-longer necessary

Table 2 identifies the current level of un-programmed activity for projects deemed either complete or potentially not needed against the agreed programme:

Table 2	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**Total £m**
Lancashire Break Time (unused grant balance)	0.674	0.017	0.000	0.691
Liquid Logic/resolutions Service replacement for ISSIS	1.592	0.000	0.000	1.592
Waste Transfer Station (East)	0.000	0.000	7.307	7.307
Total	**2.266**	**0.017**	**7.307**	**9.590**

The costs within Table 2 for 2016/17 and beyond can be "recycled" to reduce the overall cost of borrowing and assist in funding additional items shown later within this report.

The Waste Transfer Station in the east of the county has been budgeted for and forecast to be spent within the capital programme for a number of years but to date has not been programmed. At this point it could be removed as it is not considered essential from an operational point of view.

4. Provisional Capital Programme for 2016/17 – 2018/19

Table 3 below details the proposed provisional capital programme for the period 2016/17 to 2018/19. City Deal is included only where LCC make a direct contribution to it or where LCC is supporting the cash flow requirements of the project in the early years.

City Deal and other Lancashire Economic Partnership activity is reported separately via the existing LEP reporting and performance framework. LCC is the accountable body for the LEP.

Table 3 Provisional Capital Programme	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**Total £m**
<u>Programme approved February 2015</u>				
a) 2015/16 and Prior Year Starts projects forecast requirement				
Street Lighting Challenge Fund project	5.000	4.800		9.800
Non highways structures	0.110	0.050		0.160
Burnley Town Centre	0.700	0.550		1.250
Fire Suppression systems at Waste plants	1.500	2.000		3.500
Waste transfer station (East)	0.500	7.307		7.807
Adult **(of which 5.967m in 2016/17 relates to Extra Care Strategy, only £5.573m of which has not yet been programmed**)	6.787	0.213		7.000
Corporate	0.129			0.129
Vehicles	2.850	2.850		5.700
Schools	4.346	3.580		7.926
CYP non schools	3.225	0.002		3.227
b) Removal of unprogrammed budgets as outlined in Table 2				
Waste transfer station (East)		(7.307)		(7.307)
c) 2016/17 and 2017/18 Starts approved in Feb 2015 programme to spend Single Capital Pot grants confirmed by DfT as available in that year				
Highways Maintenance	20.454	19.964		40.418
Transport	3.570	2.320		5.890
LCC contribution to City Deal from LTP	2.500	2.500		5.000

New for inclusion in February 2016 programme				
a) The following amounts have already received Cabinet approval and are now being listed for inclusion in the draft Capital Programme				
	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**Total £m**
Schools Playing Fields programme	0.783	0.253		1.036
Local Priorities Response Fund	2.500			2.500
Schools Single Capital Pot grant from DfE for Basic Need per Schools Capital Strategy Cabinet Report-allocations for 16/17 £8.891m plus 17/18 £29.006m (17/18 phased over 2 years)	8.891	9.006	20.000	37.897
Property Portfolio Rationalisation - Neighbourhood Centres suitability investment	10.000	5.000	5.000	20.000
Property Portfolio Rationalisation - Neighbourhood Centres dilapidations on terminated or surrendered leases	0.750	0.750		1.500
Heysham further funding required within £130m already approved expenditure. Funding not previously put in Capital Programme	3.772			3.772
Phase 2 Skelmersdale Rail Link study	0.500	3.200		3.700
Green Energy Fund to enable research and development to support and develop green energy businesses, develop energy solutions for the Council and the communities of Lancashire including the use of the Council`s buildings to generate energy, as approved at Full Council 12.2.15.	2.500	2.500		5.000
b) The following amounts have NOT previously received Cabinet approval. Each year DfT and DfE provide Single Capital Pot grants for Highways, Transport and Schools capital programmes. The figures below represent the value of those programmes that are equivalent to the amount indicated as being available by DfT and DfE, but not yet confirmed. Historically these amounts have been "passported" to be spent as indicated by DfT and DfE, but this principle could now be reconsidered. The only restrictions attached to these grants are that they are to be spent on capital.				
Highways Maintenance equivalent to indicative allocation			18.567	18.567
Transport equivalent to indicative (£6.054m less City Deal contribution £ 2.5m)			3.554	3.554
Contribution to City Deal			2.500	2.500
Single Capital Pot Schools indicative Condition allocations	11.319	11.319		22.638
c) Economic Development schemes				
SFBB Phase 2	2.400			2.400

d) **The following were Budget Options approved at Cabinet on 26th November 2015.**				
County Hall refurbishment (£1.4m training/ conference centre plus £2.2m for office refurb)	3.600			3.600
Parish Buses	0.500	0.500		1.000
Street Lighting Energy Contract Invest to save to convert 50% of remaining non LED lanterns not currently being replaced via DfT Challenge Fund programme	2.000	3.000		5.000
Asset management and Buildings Capital Programme and Energy Team	0.411	0.418		0.829
Asset Management Highways team	0.096	0.098		0.194
Provision Planning team	0.267	0.272		0.539
Public Rights of Way team	0.084	0.085		0.169
Environment and Community team	0.313	0.319		0.632
Programme Office team	1.448	1.475		2.923
Total Programme	**103.805**	**77.024**	**49.621**	**229.950**

The table above does not include the impact arising from variances in expenditure and funding during 2015/16. Analysis of this impact will be undertaken as part of the year end accounting process, but monitoring currently suggests that expenditure in 2015/16 is likely to be less than budget in total (see Appendix B).

The Commissioning function has prepared, and is currently implementing a comprehensive timeline which takes projects from the design stage through to detailed implementation with project managers. At the January meeting of the Capital Programme Board will be reviewing a new programme development framework which will reflect the new corporate structure.

It should be noted that the above is based upon the principle agreed with the Budget Scrutiny Working Group that prudential borrowing should take place wherever possible, rather than utilisation of capital reserves. Capitalisation of activity is subject to regulatory control and a review is undertaken prior to capitalisation to ensure compliance. In particular, within the CIPFA code, site selection is not regarded as eligible capital expenditure.

5. Funding Implications

The capital programme is currently funded by a variety of funding streams including specific government capital grants, capital receipts, LCC revenue funds and prudential borrowing. A number of actions are being recommended within this and other reports within this suite including ceasing to fund the capital programme from the use of revenue and revenue reserves and utilise more prudential borrowing. In total this is £61.281m.

6. Capital Receipts

In line with new Government legislation taking effect from 1 April 2016, Capital receipts are included in the MTFS Strategy to support revenue, hence capital receipts are excluded from Table 4 below with the exception of those specifically earmarked for a scheme included in the capital programme; and

With regard to Capital Receipts there are two anticipated sources:

- The Property Portfolio Rationalisation Strategy re Neighbourhood Centres includes expected Capital Receipts from sale of surplus properties totalling circa £11m; and
- Provisionally anticipated Capital Receipts from property other than Neighbourhood Centres totalling circa. £11.5m are also expected.

The estimated figures for Capital Receipts detailed above could change as a result of:

- Open market conditions at the point of sale of individual properties;
- The outcome of the exercise currently ongoing by officers in Asset Management to apply the principles of the Property rationalisation strategy approved by Cabinet on 26th November 2015; and
- Proposals to transfer surplus properties to third party organisations at a nominal sum as an alternative to sale on the open market.

7. Proposed funding

Table 4 below summarises the funding sources for the capital programme up to but not beyond 2018/19:

Table 4: Capital Programme Funding	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**Total £m**
Capital Programme per table 3	**103.805**	**77.024**	**49.621**	**229.950**
less				
Capital receipts earmarked for School Playing Fields programme	(1.036)			(1.036)
Single Capital Pot Grants confirmed by DfE and currently on DfE website:				
SCP Schools Basic Need	(8.891)	(14.484)	(14.522)	(37.897)
SCP Highway maintenance -may be more per Band 2/3 but leave confirmed amount in at present	(20.514)	(18.567)		(39.081)
SCP Transport (LTP)	(6.054)	(6.054)		(12.108)
Single Capital Pot Grants indicative:				
Schools Condition	(11.319)	(11.319)		(22.638)
Highway maintenance -may be more per Band 2/3 but leave confirmed amount in at present			(18.567)	(18.567)
Transport (LTP)			(6.054)	(6.054)
Other Grants and Contributions:				
allocated in Feb 15 programme	(0.362)	0.000	0.000	(0.362)
DfT challenge fund Street Lighting	(5.000)	(4.800)	0.000	(9.800)
Burnley BC contribution to Burnley Town Centre	(0.700)	(0.550)		(1.250)
BDUK match funding re SFBB Phase 2	(1.200)			(1.200)
Contribution from existing capital programme Economic Development block	(0.500)	(3.200)		(3.700)
Set aside from Reserves:				
Set aside from Waste PFI Reserve for Fire Suppression Systems at Thornton & Farington (total £4m less £0.5m for 15/16)	(1.500)	(2.000)		(3.500)
Set aside for Green Energy Fund	(2.500)	(2.500)		(5.000)
Net Prudential Borrowing Requirement excluding City Deal	**44.229**	**13.550**	**10.478**	**68.257**
City Deal-cashflow support	28.024	18.373	7.333	53.730
Total borrowing requirement	**72.253**	**31.923**	**17.811**	**121.987**

Table 5 identifies the revenue implications of the changes in the borrowing requirements (excluding City Deal cashflow support) set out in Table 4:

Table 5	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Net Prudential Borrowing Requirement excluding City Deal per Table 4	**44.229**	**13.550**	**10.478**	
Interest Cost	0.666	1.536	1.897	2.054
Minimum Revenue Provision (Principal)	0	0.559	0.748	0.944
Total cost to revenue (interest and principal)	**0.666**	**2.905**	**2.645**	**2.998**

The interest calculations are based upon an interest rate of 3%. This is based on the current average rate used by the Public Works Loan Board (PWLB), with 6 months interest being calculated in the first year of borrowing and a full 12 months in the following year. The minimum revenue provision is one fortieth of the prior year's debt. The revenue implications of this borrowing have been included within the MTFS.

8. Risks, important issues and funding pressures

Annex 1 provides an analysis of potential risks, issues and funding pressures which may affect the capital programme moving forward.