

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY, 18 FEBRUARY 2014**

REPORT BY: **HEAD OF FINANCE, CHIEF EXECUTIVE, DIRECTOR
OF ENVIRONMENT**

SUBJECT: **COUNCIL FUND CAPITAL PROGRAMME 2014/15
AND INDICATIVE FUNDING TO 2017/18**

1.00 PURPOSE OF REPORT

1.01 The purpose of the report is to propose the Council Fund Capital Programme for 2014/15 (with indicative funding estimates for future years), following consultation with the Corporate Resources Overview and Scrutiny Committee.

2.00 BACKGROUND

2.01 The Council plans on a 4 year capital programme timescale. Each year, the Council sets its capital programme for the coming year and provides an indication of the estimated level of resources available and has historically shown the potential allocation to service areas in future years.

2.02 Indicative amounts for 2014/15 were shown in the Capital programme 2013/14 report which was agreed by Council on 1st March 2013.

2.03 Capital programme and capital monitoring reports over recent years have highlighted the growing pressure being experienced by all councils in relation to capital. The specific background to the setting of the Council's 2014/15 capital programme was discussed with Members at the Budget Workshops on December 16th and 18th 2013, who supported the proposed approach to the capital programme for 2014/15.

2.04 A meeting hosted by Corporate Resources Overview and Scrutiny Committee was held on 3rd February to enable all Members to consider the 2014/15 capital programme. Members raised various comments and questions and responses were provided and a summary of these are detailed in Appendix 3.

2.05 This report covers the Council Fund only. The initial Housing Revenue Account (HRA) capital programme proposals were considered alongside the HRA revenue budget proposals for 2014/15 by Cabinet and the Housing Overview and Scrutiny Committee in January and the final proposals are also on this agenda.

3.00 CAPITAL STRATEGY

3.01 Flintshire, along with all Councils, has experienced significant pressure on the capital programme in recent years. This results from reduced funding available through the annual financial settlement from the Welsh government (WG) and the impact the economy has had on the generation of capital receipts. Furthermore, as WG seeks to manage its own budgets, the specific grants available to Councils for capital investment in particular services has become more limited; with WG switching its support for Highways Maintenance and 21st Century Schools to revenue support for Council borrowing in place of capital grant.

3.02 The pressure on capital resources comes at the same time as significant financial pressure on revenue budgets and is a situation which is set to continue until at least the end of the decade. The combination of the two means that it is more important than ever that the Council's revenue and capital service delivery and financial planning are fully integrated.

3.03 Against this backdrop, it was recognised, during the lead into the setting of the capital programme for 2013/14, that there was a need to review:-

- The approach to the management of assets to ensure that they meet Council priorities in terms of service delivery, community development, income generation and capital receipts; and
- The development and management of the capital programme to ensure it most effectively meets the Council's aspirations, with a Capital Financing Strategy as an integral part of the overall Medium Term Financial Strategy.

3.04 Significant work has been undertaken by officers in 2013 to review capital assets and how and where services are delivered from. The information from this review is being brought together for detailed Member consideration and public engagement in the spring of 2014.

3.05 The availability of this review information is crucial to decisions on future service delivery, prioritising investment, aligning resources and achieving value for money in the longer term.

3.06 Whilst this work on planning for the longer term is developing, it is important that the Council sets its core capital programme and puts in place funding to meet urgent needs for 2014/15 to enable the resources to be in place to:-

- Support key services e.g. schools maintenance;
- Support investment which enables change e.g. ICT networks;
- Provide funding for property related costs e.g. DDA, Health & Safety; and
- Meet essential contractual commitments and health & safety issues.

4.00 FUNDING THE CAPITAL PROGRAMME

4.01 The capital programme includes the following elements which are funded as shown below:-

(a) A core capital programme resourced by:-

- The funding mechanisms within the WG financial settlement (general capital grant and supported borrowing where WG recognise the cost of repaying the borrowing in the revenue financial settlement); and
- Capital receipts from the sale of Council assets in accordance with the disposal programme.

The Council has discretion to allocate both of these resources as it determines to meet local priorities and needs.

- (b) Capital schemes funded from specific grants which are for specific purposes as directed by WG or other grant providers;
- (c) WG supported borrowing through the Local Government Borrowing Initiative (LGBI) for highways and 21st Century schools (WG element); and
- (d) Locally determined unsupported (prudential) borrowing which is met from the Council's revenue budget without support from WG.

5.00 CORE CAPITAL PROGRAMME

5.01 The total projected core funding available over the 4 year period 2014/15 to 2017/18, by way of the sources in 4.01 (a) above, is shown in the table below and amounts to £31.898m.

ESTIMATED AVAILABLE CORE FUNDING 2014/15 - 2017/18					
	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Funding (Excluding Specific Items)					
Unhypothecated Supported Borrowing (USB) ¹	4.299	4.299	4.299	4.299	17.196
General Capital Grant (GCG) ¹	2.616	2.616	2.616	2.616	10.464
Capital Receipts	1.250	1.250	1.250	1.250	5.000
(Shortfall) / Surplus from 2013/14	(0.762)				(0.762)
Total	7.403	8.165	8.165	8.165	31.898
1 As per 14/15 Final Settlement.					

5.01.1 This shows that the total resources available in 2014/15 to fund the core capital programme are £7.403m.

Funding

5.02 The basis for the estimates of funding levels are as follows:-

USB and GCG

5.02.1 The final financial settlement received from WG in December 2013 provided a total of £6.915m, £4.299m through USB and £2.616m via GCG. This has been assumed to be consistent throughout the reporting period.

Capital Receipts

5.02.2 The issue of capital receipts continues to be a problematic one for the Council. In the current economic climate it is difficult to predict with certainty when disposals will be effected and the funds therefore realised to support the capital programme. This led to the Council's decision to withhold 20% of the core programme in the current financial year. The Month 6 report to Cabinet on 17th December recommended that this 20% continue to be held back in 2013/14.

5.02.3 As a consequence of this continued position it is considered to be imprudent to set capital budgets where the funding may not be realised. It is therefore recommended that the 2014/15 core capital programme budget be set based on a minimal capital receipts target of £1.250m, which the Council is confident can be achieved. This will have the effect of reducing the overall core programme by c30% (£3.083m) in 2014/15 from that indicated last year.

5.02.4 Any receipts generated over and above the target figure of £1.250m could either be:-

- Released in year to supplement the programme; or
- Allocated in 2015/16 by adding them to WG funding to fund the core capital programme or utilised to fund capital works arising from the asset review.

It is further recommended that any such additional receipts in 2014/15 be kept until the 2015/16 financial year, so that going forward each subsequent year's budget is based on actual receipts from the previous year, placing the Capital Programme on a more secure footing during difficult economic times.

5.02.5 As a result of the uncertainty about receipt levels, the forecast of receipts in this report is limited to four years rather than the 10 years which has been provided in reports in previous years and is forecast at a consistent level over the period.

5.02.6 Whilst it is appreciated that this approach may cause short term operational challenges, this process will allow future core capital programmes to be set based on known levels of funding and will remove the uncertainty over capital planning that has been inherent in previous years.

Shortfall from 2013/14

5.02.7 As previously reported in capital monitoring reports, the final shortfall carried into 2013/14 was £3.028m as a result of receipts in previous years not reaching anticipated levels. This was mitigated by the 20% holdback in year and the capital receipt received on the liquidation of AD Waste and increased by a shortfall in in-year capital receipts and new budget pressures, resulting in a revised shortfall of £0.762m carried into 2014/15 (Section 3.05.5 of the Month 6 monitoring report to Cabinet on 17th December 2013 refers).

Allocation of the available funding

5.03 As indicated in 5.01.1, the total amount available to fund the core capital programme in 2014/15 is £7.403m.

5.04 In taking a broadly one year approach to the capital programme, pending the longer term planning described in 3.04, it is important to adopt a risk based approach to identify any urgent capital needs which need to be addressed in 2014/15 to avoid known and unavoidable pressures arising and causing pressure on the programme in year. This has been restricted to contractual and health & safety matters only.

- 5.05 As a result, two items for inclusion have been identified and it is recommended that these be met from the core programme resources before allocating the remainder to core schemes:-

<u>CAPITAL BUDGET 14/15 - ADDITIONAL ITEMS</u>		
SCHEME	DESCRIPTION	VALUE £m
Glanrafon Centre, Queensferry	Health and safety works to roof and internal facilities	0.060
A548 Highways Works	Contractual claim re additional works	0.085
		0.145

- 5.06 This leaves £7.258m to be allocated to the remaining core schemes. Heads of Service from all three operational Directorates and Corporate Services carried out an in-depth review of the core schemes to recognise any statutory/contractual obligations and inherent risks in reducing funding from previously indicated levels. In addition, consideration has been given to the timing of programmes, client groups, links with external funding partners, the level of funding in prior years and specific funding needs for 2014/15.
- 5.07 The resulting recommended allocations for 2014/15 can be found in Appendix 1. Detailed programmes for future years will be drawn up in the light of actual levels of receipts becoming known.

6.00 ESTIMATED TOTAL COUNCIL FUND CAPITAL PROGRAMME

- 6.01 The total projected funding available (including the core programme) over the 4 year period 2014/15 to 2017/18, by way of the sources in 4.01 (a) to (d) above, is shown in the table below and amounts to £101.361m.

ESTIMATED AVAILABLE TOTAL FUNDING 2014/15 - 2017/18					
	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Funding (Total)					
<u>General Funding</u>					
Unhypothecated Supported Borrowing (USB) ¹	4.299	4.299	4.299	4.299	17.196
General Capital Grant (GCG) ¹	2.616	2.616	2.616	2.616	10.464
Capital Receipts	1.250	1.250	1.250	1.250	5.000
(Shortfall) / Surplus from 2013/14	(0.762)				(0.762)
Sub Total	7.403	8.165	8.165	8.165	31.898
<u>Specific Funding</u>					
Specific Capital Grants	5.275	0.747	0.576		6.598
Unsupported (Prudential) Borrowing	1.960	21.558	4.043	0.504	28.065
Local Govt Borrowing Initiative - Highways	2.700				2.700
Local Govt Borrowing Initiative - 21st C Schools	3.635	22.698	5.263	0.504	32.100
Sub Total	13.570	45.003	9.882	1.008	69.463
Total Funding Available	20.973	53.168	18.047	9.173	101.361
1 As per 14/15 Final Settlement.					

- 6.02 This shows that the total resources available in 2014/15 to fund the capital programme are £20.973m.
- 6.03 Appendix 2 sets out the estimated total capital programme for 2014/15, taking account of all funding sources referred to in Section 4. These are detailed below.
- 6.04 The core allocations, as funded by those sources referred to in Section 5, can be found in the column 'General'.
- 6.05 Specific allocations can be found in the column 'Specific'. In 2014/15 this adds further investment of £13.570m (See 6.06 to 6.09 below).

- 6.06 Specific grants amount to £5.275m and include £1.7m Regional Transport Grant, £1.542m Transition to 21C Schools and £0.950m for Land Drainage. The amounts included are based on historical allocations and information available at the time of writing the report, any subsequent variation in the level of individual grants will be dealt with by amending the budget as necessary in year. These allocations are for specific time durations hence the variation in amount year on year.
- 6.07 Unsupported (prudential) borrowing of £1.960m relates to funding for schemes approved in previous years.
- 6.08 A further £4m is to be made available across Wales by WG in 2014/15 under the Local Government Borrowing Initiative (on top of the £4m provided in 2012/13 and 2013/14) to support the borrowing charges (revenue) of highways capital works. This equates to £2.7m for Flintshire in 2014/15.
- 6.09 In addition to the above, WG has recently announced an extension of the LGBI to include schools; this will bring forward funding (between 2014/15 and 2016/17) of £200m across Wales, which will be used to support the borrowing charges (revenue) that fund the WG element of the 21st Century Schools Programme. This equates to £3.635m for Flintshire in 2014/15.
- 6.10 It can be seen that the indicative funding for 2015/16 includes £44.176m related to 21st C schools. Whilst preliminary expenditure on the 21st C schools programme has taken place in 2013/14, the programme is for significant expenditure to commence from 2015/16 to deliver on the £64m of investment in Flintshire schools under the 21st C programme which is funded equally by Flintshire and WG.

7.00 CONSULTATION

- 7.01 A meeting of the Corporate Resources Overview & Scrutiny Committee was held on 3rd February 2014, at which the capital programme proposals as set out in this paper were considered. The scrutiny meeting was open to all Members of the Council and the feedback from the meeting is incorporated at Appendix 3

8.00 RECOMMENDATIONS

8.01 Cabinet is asked to recommend to Council on 18th February that they:

- (a) Note the report.
- (b) Approve the allocation of funding to the core capital programme in 2014/15, as shown in Appendix 1, including the additional items referred to in Section 5.05, and note the indicative funding available for future years.
- (c) Approve the setting of a minimal capital receipts target for 2014/15 and the process whereby receipts generated in one financial year are used to fund expenditure in the next (See Section 5.02.3 and 5.02.4).

9.00 FINANCIAL IMPLICATIONS

9.01 As set out in the report.

10.00 ANTI-POVERTY IMPACT

10.01 Individual Capital Programme Schemes may have specific anti-poverty impacts.

11.00 ENVIRONMENTAL IMPACT

11.01 Individual Capital Programme Schemes may have specific environmental impacts.

12.00 EQUALITIES IMPACT

12.01 Individual Capital Programme Schemes may have specific equality impacts.

13.00 PERSONNEL IMPLICATIONS

13.01 None directly as a result of this report.

14.00 CONSULTATION REQUIRED

14.01 All Members through Overview & Scrutiny.

15.00 CONSULTATION UNDERTAKEN

15.01 Initial discussion took place at the Member workshops on 16th and 18th December, 2013.

15.02 Corporate Resources Overview & Scrutiny Committee on 3rd February.

16.00 APPENDICES

16.01 Appendix 1 – Core Capital Programme Schemes 2014/15

Appendix 2 – Total Capital Programme 2014/15

Appendix 3 – Feedback from Overview and Scrutiny

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS

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