

Cabinet

12 February 2018

2018/19 Capital Investment Programme

Cabinet Member(s): Cllr David Hall - Cabinet Member for Resources and Economic Development

Division and Local Member(s): All

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	Seen by:	Name	Date
	County Solicitor	Honor Clarke	22/01/2018
	Monitoring Officer	Julian Gale	24/01/2018
	Corporate Finance	Stephen Morton	22/01/2018
	Human Resources	Chris Squire	22/01/2018
	Property / Procurement / ICT	Claire Lovett	22/01/2018
	Senior Manager	Kevin Nacey	01/02/2018
	Local Member(s)	All	
	Cabinet Member	David Hall	22/01/2018
	Opposition Spokesperson	Simon Coles	30/01/2018
	Relevant Scrutiny Chairman	Tony Locke Leigh Redman Hazel Prior-Sankey	30/01/2018
Forward Plan Reference:	FP/17/08/09		
Summary:	This report provides information to enable the Leader and Cabinet to recommend a Capital Investment Programme for 2018/19 along with indicatives to 2020/21 to Full Council in February.		
Recommendations:	<p>That the Leader and Cabinet agrees and recommends to County Council approval of:</p> <ol style="list-style-type: none"> 1. A Capital Investment Programme for 2018/19 of £91.973m shown in Appendix A. Full details of individual schemes are available online as background papers; 2. That the Chief Executive and relevant Senior Leadership Team Officer(s) following appropriate consultation and after giving due regard to the information contained within any associated impact assessments, are given delegated authority to decide on the specific individual projects to be delivered within generic approvals for their area of control 		

	<p>and to secure any necessary decisions in order to implement the projects;</p> <ol style="list-style-type: none"> 3. Prudential Code Indicators as shown in Section 5 & Appendix C. 4. That the statement on the Minimum Revenue Provision be endorsed for the 2018/19 financial year (section 4) 						
Reasons for Recommendations:	<p>As part of setting the annual budget the County Council has a statutory obligation preceding each financial year to:</p> <ol style="list-style-type: none"> 1. Approve a Capital Investment Programme; 2. Approve the Prudential Code Indicators; and 3. Approve the Minimum Revenue Provision policy. 						
Links to Priorities and Impact on Service Plans:	<p>The Capital Investment Programme is a vehicle that allows the Council to identify investment and resources to help support the delivery of the key priorities in the County Plan.</p>						
Consultations undertaken:	<p>The views of Somerset’s residents determine the priorities set out in the County Plan. This in turn determines the capital programme priorities. Relevant stakeholders should be consulted when individual schemes are being developed.</p>						
Financial Implications:	<p>The financial implications arising from this report are all included within the detail of the report.</p>						
Legal Implications:	<p>In determining its Capital Investment Programme for the year, the Council is required to have regard to the “Prudential Code” established in the Local Government Act 2003. This is addressed in the report.</p>						
HR Implications:	<p>There are no direct HR implications arising from this report. However, staffing levels to deliver the programme, design and implementation needs to be considered.</p>						
Risk Implications:	<p>Failure to identify and provide sufficient capital funding could reduce the ability to meet the County Plan priorities as well as the quality of the council’s assets and therefore services provided.</p> <table border="1"> <tr> <td>Likelihood</td> <td>2</td> <td>Impact</td> <td>4</td> <td>Risk Score</td> <td>8</td> </tr> </table>	Likelihood	2	Impact	4	Risk Score	8
Likelihood	2	Impact	4	Risk Score	8		
Other Implications (including due regard implications):	<p>It is essential that decision makers ensure that consideration is given to the legal obligations and in particular to the need to exercise the equality duty under the Equality Act 2010 to have due regard to the impacts based on sufficient evidence appropriately analysed.</p>						

	<p>When formulating Capital Investment proposals, services are required to consider the potential impact of any proposals on protected and vulnerable groups and specific cross-cutting issues-covering key areas such as Equalities, Community Safety, Sustainability, Health and Safety, Business Risk and Privacy.</p> <p>This is done with a view to identifying possible actions to mitigate negative impacts, considering whether proposals should be taken forward and identifying any opportunities to promote equality.</p>
<p>Scrutiny comments / recommendation (if any):</p>	<p>The relevant Scrutiny Committees for Policies and Place, Adults and Health and Children and Families met in January. The outcomes of the deliberations of Scrutiny Committees will be made available to Cabinet and Full Council.</p>

1. Background

- 1.1. This report introduces the proposed Capital Investment Programme (CIP) for 2018/19. The CIP primarily relates to the assets which are held or used by the Council to operate or support the services provided to Somerset residents and covers such assets as Schools and Highways. Capital expenditure involves the acquisition, creation or enhancement of fixed assets with a long term value to the Council. It does not pay for the day-to-day running costs of council services which are met from the Revenue Budget.
- 1.2. Given the financial pressures that are being faced by the Council as identified in the Medium Term Financial Plan there is a need to invest in and improve the Council's financial self-reliance. This can be done through long term investment plans which allow the right investment decisions to be made e.g. by investing in infrastructure and assets that will generate greater financial returns, result in lower maintenance costs or improve the local economy and create jobs.

With an increased focus on achieving maximum effect from capital investment, along with an increased focus on the Council's strategic priorities this will enable the Council to obtain maximum value from assets.

- 1.3. The capital programme has been prepared based on on-going reviews of the phasing of existing schemes and has been developed with an up to date forecast of capital resources and where appropriate scheme estimates have been revised.

2. Capital Investment Programme 2018/19

- 2.1. The Council continues to deliver significant capital investment across the region which will provide improved infrastructure and facilities whilst supporting the Somerset economy. It also looks to ensure the impact on debt costs within the revenue budget is managed.
- 2.2. The recommended capital investment programme includes a significant investment in our schools. There will be 14 new schools and improvements to current capacity on another 10 sites over the four year programme. In year one much of the design and planning will take place with the majority of the build in year two. The funding of this investment is subject to further announcements by government either in our

final settlement or separately as the DfE and other government departments reveal their capital allocations. It is not clear how much resource SCC will have towards funding its needs.

- 2.3. We have also submitted a bid to the Housing Infrastructure Fund in conjunction with Taunton Deane and Sedgemoor councils that would fund around £80m of infrastructure projects supported by the three councils. If this bid is successful, the resources to support the capital investment programme for SCC could be increased by £15m.
- 2.4. Despite the level of investment there remain a number of pressures facing the Council in future years and these will need to be addressed as business cases for investment as they are developed throughout the year.
- 2.5. The Asset Strategy Group has considered the level of forecast capital resources available alongside the requests from services for capital schemes. Given the current economic pressures the Council's ambition is to deliver a programme that has the optimum combination of schemes which deliver the County Plan and maximise the resources available.

3. Capital Resources

- 3.1. Funding of the Capital Investment Programme can come from a diverse range of resources, which includes Capital Grants, Capital Receipts, and Contributions from Third Parties, Borrowing and Revenue.

The estimated funding for 2018/19 and future years can be seen below:

	2018.19	2019.20	2020.21	2021.22	Total
3rd Party Contributions	(23,915,000)	(23,131,642)	0	(2,468,200)	(49,514,842)
Government Grants (Indicative Minimum)	(26,270,636)	(29,723,987)	(24,670,131)	(18,116,000)	(98,780,754)
Government Grants (Potential Additions)	(3,431,572)	(8,516,486)	(9,601,400)	(4,915,086)	(26,464,544)
Borrowing (Estimated)	(38,355,439)	(69,663,677)	(12,609,325)	0	(120,628,441)
Estimated Funding	(91,972,647)	(131,035,792)	(46,880,856)	(25,499,286)	(295,388,581)

It is important to note that the above figures are forecasts and as such are subject to change. The risk of change to our future available funding increases the further into the future we try and forecast.

At present, we are estimating that we may need up to £120m of new borrowing to fund our capital programme, predominantly building new schools.

3.2. Capital Grants

Predicting capital grants creates an element of volatility in our funding assumptions. They form a significant proportion of funding for the Capital Investment Programme. The grants are received from government departments including the Department for Education (DfE) and the Department for Transport (DfT). Whilst these government grants are allocated by specific central government departments, they are not ring-fenced.

The table below shows the estimated grants to be received from central government in 2018/19 will be £29.702m.

	2018.19
Un Ring Fenced Grant	
School Basic Need	1,600,505
School Condition Allocation	3,431,572
Transport Maintenance Block	18,116,000
Integrated Transport Block	2,209,000
Highways Incentive Scheme	3,773,000
	29,130,076
Ring Fenced Grant	
Specialist Provision	572,131
Total Grant	29,702,207

The Schools Condition Allocation is currently an estimate as no indicative figures have been provided by the DfE.

3.3. 3rd Party Contributions

For 2018/19 a sum of £23.915m is to be funded by 3rd party contributions (the 4 year Capital Investment Programme figure is £49.515m). The majority of this comes from the LEP Growth Deal funding but also includes a small amount from Section 106 and Community Infrastructure Levy (CIL) from housing developers.

Within the proposed programme the following schemes will attract significant funding from 3rd Party sources

1. M5 Junction 25
2. Yeovil Western Corridor
3. Colley Lane Southern Access Road
4. Business Growth Fund

Failure to negotiate adequate funding from developers through Section 106 Agreements or the CIL, will mean that SCC has to fund the full cost of provision.

3.4. Capital Receipts

The forward capital programme will no longer rely on the generation of capital receipts. An investment strategy alongside the Capital strategy will be developed to make better use of receipts to aid the revenue budget.

As part of the investment strategy the council is already committed to transformation projects which will save revenue budget but can be funded from capital receipts through the flexibility permitted by Central Government. (See Appendix F of the Revenue Paper.)

3.5. Capital Fund

The Capital Fund is formed from Revenue sources of income and has been set aside as a contingency in case the need arises. The benefit of doing this allows the council to fund schemes in design and feasibility stages that may not proceed.

3.6. Prudential Borrowing

Under Prudential Code rules the Council has the power to finance Capital schemes using Prudential Borrowing often from the Public Works Loans Board and is the main source of funding available to the council where external funding cannot be obtained. The costs associated with borrowing are charged to the revenue account which recognises that borrowing is not a free resource but has a cost and it is this

affordability that is the key constraint.

The use of borrowing will be focussed on the school building programme, as this is a statutory need for which there is insufficient government and 3rd party funding to deliver. We are investing in education capacity so that our statutory responsibilities for sufficiency of provision are met, even if these assets are subsequently leased to academies.

For 2018/19 the intention is to borrow up to £40m which will have revenue consequences in year of approximately £0.625m. The full year effect of this in 2019/20 will depend upon, the timing and length of borrowing, which will need to be factored into this estimate in due course.

4. Minimum Revenue Position

- 4.1. The council is required by law to make a statement on the Minimum Revenue Provision. This is the annual provision made from the Revenue Budget in line with our statutory requirements and is central to managing debt liabilities and generating the potential for headroom for new borrowing if affordable and required.

The Government and CIPFA are currently developing new policy guidance on the Minimum Revenue Provision that councils will need to adopt. SCC's policy is always to meet the statutory requirements.

5. Prudential Indicators relating to Capital Investment

- 5.1. Somerset County Council is required to monitor its overall level of debt in line with the CIPFA Prudential Code for Capital Finance under the Local Government Act 2003. This code, which is also subject to review, sets out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital schemes which meet service delivery objectives as long as they demonstrate affordability, prudence and sustainability.

In order to facilitate the decision making process and support capital investment decisions, the code requires the Council to agree and monitor a number of prudential indicators. These indicators cover affordability, prudence, capital expenditure and debt levels.

The Prudential Code Indicators at Appendix C have been based on the assumption that Cabinet will approve the proposals contained in the Capital Investment Programme.

6. Background Papers

- 6.1. County Council 30 November 2016: [Report of the Leader and Cabinet](#); Cabinet 15 November 2017: [Medium Term Financial Plan 2018/19 – Proposed Capital and Revenue Savings](#);
DCLG – 11 March 2016 - Final Guidance on flexible use of capital receipts