

## 2019/20 Capital Programme

Cabinet Member(s): Cllr Mandy Chilcott - Cabinet Member for Resources  
Division and Local Member(s): All  
Lead Officer: Peter Lewis - Interim Director of Finance  
Author: Ian Trunks - Finance Manager, Capital  
Contact Details: PJLewis@somerset.gov.uk Tel: 01823 359028

### Summary:

The Council continues to invest in Somerset to provide new school places, transport infrastructure and to improve our facilities to meet the needs of the community and to support continued economic growth. However, the Council's financial position requires all capital spend projects to contribute directly to achieving the objectives set out in the Council's Business Plan and to be supported by a robust business case.

The £225m programme set out in this report is funded by various means, including ring-fenced grant from central government or other organisations, and development-related receipts such as Community Infrastructure Levy (CIL) and S106, neither of which can normally be used to run day-to-day council services. If the Council has to borrow to support capital funding (approximately £53m of the total required), then there is a revenue cost arising, which needs to be provided for in the Council's budget. Therefore, where projects are proposed to be funded by borrowing, it is preferable that they either make a positive return and/or contribute to reducing the Council's revenue costs in the longer term. However, the statutory requirement to make adequate provision for school places, which is not backed by Government grant, means that substantial borrowing is driven by this need. Further efforts will be made during 2019 to secure more Government Basic Need Grant to support the provision of school places.

There will be an overall, strategic approach to funding the capital programme, with all sources of funding other than borrowing deployed, where permitted by grant or other conditions, in a non-earmarked manner to reduce the pressure on borrowing and its consequent revenue costs.

While there are a number of block allocations set out within this programme, it should be noted that Cabinet and Council are being requested to delegate to senior officers the approval of specific schemes within the block allocations.

<p><b>Recommendations:</b></p>	<p><b>The Scrutiny Committee is asked to consider and comment on this report that asks the Cabinet to agree and recommend to Council approval of:</b></p> <ol style="list-style-type: none"> <li>1. A capital programme for the period 2019/20 to 2022/23 of £225.121m, shown in Appendix A. Full details of individual schemes are available online as background papers. It is to be noted there is an existing programme approved in 2018/19 that overlaps with this one;</li> <li>2. That the Chief Executive and the Senior Leadership Team Officer, 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 individual projects to be delivered within block allocations.</li> </ol>
<p><b>Reasons for Recommendations:</b></p>	<p>Any capital programme proposed as part of setting the annual budget, requires approval by the County Council.</p>
<p><b>Links to Priorities and Impact on Service Plans:</b></p>	<p>The capital programme describes the projects that will support the Council to identify investment and resources to help enable the delivery of the key priorities in the County Plan.</p>
<p><b>Consultations undertaken:</b></p>	<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>
<p><b>Financial Implications:</b></p>	<p>The financial implications arising from this report are all included within the detail of the report.</p>
<p><b>Legal Implications:</b></p>	<p>In determining its capital programme for the year, the Council is required to have regard to the “Prudential Code” established in the Local Government Act 2003.</p>
<p><b>HR Implications:</b></p>	<p>There are no direct HR implications arising from this report. However, staffing levels to deliver the programme, design and implementation need to be considered.</p>
<p><b>Risk Implications:</b></p>	<p>Failure to identify and deliver a funded capital programme could reduce the ability to meet the County Plan priorities as well as negatively impact the quality of the council’s assets and hence services provided.</p> <p>Similarly, being overambitious with the programme will give rise to revenue financing pressures that could require offsetting service savings elsewhere.</p>

	<b>Likelihood</b>	<b>2</b>	<b>Impact</b>	<b>4</b>	<b>Risk Score</b>	<b>8</b>
<b>Other Implications (including due regard implications):</b>	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>When formulating capital 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>					
<b>Scrutiny comments / recommendation (if any):</b>	This report was taken to the relevant Scrutiny Committees; Policies & Place and Children & Families, who met in December. The outcomes of the deliberations of Scrutiny Committees will be made available to Cabinet and Full Council.					

## 1. Background

- 1.1. This report introduces the proposed capital programme for 2019/20. The programme 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 improve the Council's financial self-reliance. This can be done through investing in infrastructure and assets that will result in lower maintenance costs or improve the local economy and create jobs/workspaces.
- 1.3. 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.
- 1.4. To date capital programme approvals have been given on an annual basis with only consideration given to future years. However, this leads to unintended consequence, with bigger projects, lasting more than one year, requiring further approvals to complete them. Hence this report now proposes to seek approval for the anticipated Capital Programme up to 2022/23. This will allow for better project planning of whole schemes and enables commissioners to procure under best value frameworks.
- 1.5. The capital programme has been prepared considering the current live schemes revised estimates and updated forecasts of capital resources, where appropriate. Bids for projects were sought from all services over the period of August / September 2018 in readiness for this budget round.

- 1.6. In order to seek to priorities the bids that have been received from services, they have been judged against set criteria. The criteria are listed below:

Key	
Grant/ contribution funded	Fully financed from external funding (i.e. No SCC requirement)
Part funded - part debt financed	Significant external funding. Some requirement for SCC debt
Contractually committed schemes	Schemes underway with contracts. Revenue cost implications to withdraw
Statutory/compliance	Subject to value for money assessment before they are undertaken
Invest to save and reduce operational costs	Full business case provided to evidence payback vs debt costs
Invest to generate a net income stream	Full business case provided to evidence payback vs debt costs
Invest in wider economic growth	Full business case provided to evidence payback vs debt costs
Response to public/partner requests	Non statutory, with no external funding or direct payback
Discretionary schemes	Non statutory, with no external funding or direct payback

## Capital Programme 2019/20

- 1.7. The Council continues to deliver significant capital investment across the region which will provide improved infrastructure and facilities whilst supporting the Somerset economy. This programme proposes spending in the following areas:

### Indicative four year Impact of 2019/20 Programme

Service Area	2019.20	2020.21	2021.22	2022.23	Total
Highways and Traffic Management	27,801,000	28,904,000	31,099,000	32,128,300	119,932,300
Highways Engineering Projects	30,949,000	5,836,000			36,785,000
Schools - Primary and Secondary Sector	13,544,700	7,118,100	5,270,400	3,800,000	29,733,200
Economic Development	6,190,000	6,790,000	1,500,000	1,500,000	15,980,000
Early Years and Community Services	3,856,600	2,868,500	2,000,000	2,100,000	10,825,100
Support Services	6,795,000	190,000			6,985,000
Schools - SEN and Access	700,000	700,000	700,000	700,000	2,800,000
Other Services	564,400	561,800	259,000	695,000	2,080,200
	90,400,700	52,968,400	40,828,400	40,923,300	225,120,800

- 1.8. Despite the level of planning of this programme, it is almost inevitable that there will be changes in year and/or additional funding opportunities. These will need to be addressed as business cases for investment as they arise throughout the year. In addition, during 2019/20 additional capital plans will be developed for subsequent years, which will be considered in the budget round for 2020/21
- 1.9. The Senior Leadership Team have 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. All bids were reviewed and challenged and only those which fulfil the above criteria are being proposed as part of the programme.

## 2. Risks Associated with the capital programme

- 2.1. The proposed capital programme requires additional borrowing. The risk to the Council is one of affordability; the revenue cost implications are highlighted below in Section 4.6.
- 2.2. As part of the process, services have been asked to identify the impacts of not proceeding with the bid. These key risks are listed below.

### 2.3. Schools Basic Need Programme

- 3.3.1 In 2018/19, the Council approved a programme to provide additional schools basic need places over four years. This was in part funded by up to £120m of borrowing. A further investment programme was proposed

for 2019/20 and the subsequent three years, but this has now been reviewed in the light of the financial pressures upon the Council. The proposed schools programme for 2019/20 and beyond is now based upon available DfE grant, S106 contributions and the existing borrowing approval given in February and May 2018. This programme has been designed to meet the needs up to 2021. Appendix B shows the basic need requirements this funding seeks to fulfil.

- 3.3.2 It should be noted that the schools and number of places required as detailed in the appendix is only our projected need at this point in time, up to 2021, and is subject to change as the programme develops over the next few years.
- 3.3.3 The Council will continue to seek further funding to support the addition of school places and avoid the requirement for borrowing. There are some bids already underway.
- 3.3.4 It should be noted the pressure on school places is anticipated to continue beyond 2021. Outline proposals for future development needs are being prepared and appropriate funding will be sought. Therefore, members may expect to receive further capital bids in future years to allow commissioning of the schemes in a timely manner. Every effort will be made to secure funding that avoids significant additional borrowing.

## **2.4. Highways**

Capital expenditure on the bulk of Highway schemes is funded through DfT grants. The value of grant is determined by our status as a highway authority. SCC is currently graded at the highest level (Band 3), which is reviewed annually. There is a risk that a reduced programme could lead to a reduction in our rating and therefore less grant being awarded.

Within the 2019/20 bid there is an element set aside for traffic signals. An ongoing programme is required to replace ageing signals. Some of the assets are more than 15 years old and are at a high risk of failing. The added risk to the Council is the responsibility of any claims for damages should a signal fail.

## **2.5. ICT Transformation**

The ICT capital bid has been revised from an initial £4.5m down to £2.535m. This is viewed as the minimum requirement in order keep services updated and secure at an acceptable level.

This level of investment does not fully optimise the ICT infrastructure nor allow for significant upgrade in certain areas.

## **2.6. Fleet Management**

The Fleet Management bid has been revised to extend the replacement programme from 7 years to 8. Whilst this saves capital expenditure in the short term there are additional revenue implications associated with this; increase in maintenance charges, higher risk of vehicles breaking down, reduced levels of receipts from selling older vehicles, etc. It has been judged that the reduction in borrowing costs will outweigh the additional running costs.

## **2.7. Small Improvement Schemes**

Small Improvement Schemes (SIS) are officer and member led applications for minor highway scheme improvements. With capital funding reduced from £2m per annum to £1m per annum, the SIS programme will be reprofiled over a longer timeframe. Schemes may therefore take longer to design, appraise and implement than

previously envisaged.

### 3. Capital Resources

- 3.1. Funding of the capital programme can come from a diverse range of resources, which includes capital grants, capital receipts, and contributions from third parties, borrowing and direct revenue funding.

The estimated funding for the 2019/20 capital programme can be seen below:

Financing	2019.20	2020.21	2021.22	2022.23	Total
Borrowing	20,879,900	8,586,200	10,960,000	12,525,300	52,951,400
Government Grants	39,964,800	39,482,300	27,648,000	27,648,000	134,743,100
3rd Party Contributions	29,556,000	4,899,900	2,220,400	750,000	37,426,300
<b>Estimated funding</b>	<b>90,400,700</b>	<b>52,968,400</b>	<b>40,828,400</b>	<b>40,923,300</b>	<b>225,120,800</b>

It is important to note that the above figures are forecasts, both in amount and timing, and are subject to change. The risk of change to our future programme increases the further into the future we try to forecast.

At present, we are estimating that we may need up to £52.951m of new borrowing to fund the capital programme as presented.

### 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 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 2019/20 will be £39.965m

	2019.20
<b>Un Ring Fenced Grant</b>	
School Basic Need	9,744,700
School Condition Allocation	3,800,000
Transport Maintenance Block	18,116,000
Integrated Transport Block	2,209,000
Highways Incentive Scheme	3,773,000
Pothole Action Fund	1,750,000
	<b>39,392,700</b>
<b>Ring Fenced Grant</b>	
Specialist Provision	572,100
<b>Total Grant</b>	<b>39,964,800</b>

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

### 3.3. 3<sup>rd</sup> Party Contributions

The Authority attracts contributions from external business such as Section 106 Agreements or the Community Infrastructure Levy (CIL).

Within the proposed programme only contributions that are either received or secured through arrangement are included. Further funding is expected but cannot be guaranteed until developments progress; in order to balance the capital programme where grant funding is not known, then borrowing is inserted instead.

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

### 3.4. Capital Receipts

The proposed capital programme does not rely on the generation of capital receipts.

As part of the investment strategy the Council continues to make full use of the 'flexible use of capital receipts' directive. This allows transformation projects which will save revenue budget to be funded from capital receipts through the flexibility permitted by Central Government.

Forecast potential receipts from the sale of assets in 2019/20 is £9.5m. This is subjective on various factors, such as the operational need for assets or market rates.

### 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. In 2019/20 £1m will be used for the cashflow of the M5 Jct25 scheme that will attract developer funding in future years.

### 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, which 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. Affordability that is the key constraint to taking borrowing.

The following provides an illustration of the potential cost of borrowing for the proposed capital programme.

	2019/20	2020/21	2021/22	2022/23
<b>Cost of borrowing for the proposed 2019/20 capital programme</b>	<b>85,891</b>	<b>1,482,377</b>	<b>1,987,906</b>	<b>2,497,168</b>
Cost of borrowing for the current 2018/19 capital programme	1,631,915	3,020,813	3,022,553	2,963,555
<b>Total cost of borrowing (MRP + interest)</b>	<b>1,717,807</b>	<b>4,503,190</b>	<b>5,010,459</b>	<b>5,460,723</b>
Current provision for the cost of borrowing associated to 2018/19 programme	1,424,000	2,112,000	2,585,000	2,585,000
<b>Impact on MTFP</b>	<b>293,807</b>	<b>2,391,190</b>	<b>2,425,459</b>	<b>2,875,723</b>

The full year effect of this will depend upon the timing and length of borrowing and the interest rate at that time. This will need to be factored into revenue estimates in due course.

#### **4. Capital Investment**

- 4.1. A number of councils have embarked on significant commercial property investment programmes, which have attracted the attention of the press and of Government. The latter has altered a number of the regulations governing local authority capital investment and borrowing in order to restrain excesses in this area.
- 4.2. However, such investment does present an opportunity for this Council to generate much needed net cash income after allowing for the cost of the schemes themselves. With this in mind, a provision of £100m additional borrowing has been included within this draft programme to purchase investment opportunities. It is expected these investments would be self-funded whilst also generating a return, hence there is no revenue provision made for the borrowing costs of the £100m.

It is essential that the Council prepares and then agrees a robust commercial investment strategy that guides this part of the programme and ensures compliance with the latest regulations in this area.

#### **5. Minimum Revenue Position**

- 5.1. The Council is required by law to make a statement on the Minimum Revenue Provision (MRP). 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.
- 5.2. The Government and the Chartered Institute of Public Finance and Accountancy (CIPFA) have developed new policy guidance on the Minimum Revenue Provision that councils will need to adopt. SCC's policy is to always provide a prudent provision for debt that meets the statutory requirements. A full MRP statement will be presented alongside the revenue budget reports in due course.

#### **6. Prudential Indicators relating to capital investment**

- 6.1. 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 indicators are described within the Capital Strategy

#### **7. Background Papers**

- 7.1. Appendix A – 2019/20 Capital Programme Overview  
Appendix B – Proposed School Places Funded Through Capital Programme