

2004/05 SUPPORTED CAPITAL BORROWING AND OTHER AREAS CAPITAL PROGRAMME

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

29TH JANUARY, 2004

Wards Affected

County-wide.

Purpose

To determine the extent and allocation of supported and unsupported borrowing for capital expenditure for 2004/05.

Key Decision

This is not a Key Decision. The decision will not be taken by Cabinet but by Council at its meeting on 5th March, 2004.

Recommendations

- THAT (a) a list of preferred bids be agreed from those contained in Appendix 4 to be recommended to Council which are to be financed from Prudential Borrowing; and**
- (b) it be recommended to Council that:**
- (i) The basis of distributing supported borrowing for Transport, Education and Housing as outlined be endorsed.**
 - (iii) A capitalisation de-minimus limit of £10,000 be approved.**

Reasons

Cabinet is responsible for recommending to Council the basis for allocating supported and unsupported borrowing in line with the Council's Capital Strategy.

Considerations

Introduction

1. As Cabinet will recall from previous reports, the Prudential Code applies from 2004/05 onwards. The new system draws a distinction between "supported borrowing", where the ongoing costs of borrowing are resourced through the Revenue Support Grant mechanism, and any further prudential borrowing where the cost of the borrowing has to be fully resourced locally.

Further information on the subject of this report is available from Ian Hyson
on (01432) 260234

2. The following paragraphs deal in turn with the allocation of “supported borrowing” and the need for Cabinet to determine the extent to which it is prepared to recommend unsupported borrowing to Council for other areas.

Supported Borrowing Allocation 2004/05

3. For 2004/05, Supported Capital Expenditure (Revenue) (SCE(R)) guidelines are issued for Transport, Education and Housing by the relevant government department. These replace Credit Approvals issued in previous years.
4. The table set out on **Appendix 1** shows the 2004/05 service area SCE(R) allocations totalling £15,845,106. Basic Credit Approvals issued in 2003/04 totalled £15,343,000. There have been no discretionary or general (EPCS) approvals for 2004/05, which were previously used to fund the other areas capital programme.
5. A key component of the capital strategy developed by the Council is to support the capital programmes of Transport, Education and Housing in line with the investment plans developed by these areas. These plans are based on analysis of need and have been developed through rigorous appraisal processes in order to attract supported borrowing approvals from Government. Any significant redirection of these approvals would have an adverse effect on future years allocations. Therefore, the SCE(R) awarded for these areas has provisionally been ringfenced. A small allocation for Social Care has also been issued which will be available to support other projects.
6. The established Scheme Selection and Prioritisation (SSP) process previously used for Other Areas has been extended to include all schemes including Education, Transport and Housing. This reflects not only good practice but ensures that all major capital schemes and programmes are consistently assessed against corporate objectives and other key criteria.
7. **Appendix 2** sets out the detail of the bids received for Transport; Education and Housing (matched by SCE(R)) and these are considered below. These bids are set out in more detail in the order they were received on **Appendices 6 and 7**.

Education

8. £2,573,606 SCE(R) has been allocated for Education for 2004/05 with £2,870,511 being allocated for 2005/06. Funding for 2006/07 is not known nor how such future funding may be split between capital grants or supported borrowing.
9. A number of Education projects were started in 2003/04, which involved commitments for funding in future years for which indicative borrowing approvals were given. Funding for these has now been confirmed but the SCE(R) allocation is calculated by DFES based on estimates and does not truly reflect actual amounts that may be required to complete these schemes. Additional sums may be needed which will have to be managed within the Education Capital Programme which may affect the ability to deliver the programme. Such pressures may require the submission of additional bids for unsupported borrowing in future years.
10. Improvements for disabled access in schools are a legal requirement and SCE(R) allocated for this is considered to be the minimum required to make progress in this area.

Transport

11. The Local Transport Plan (LTP) forms the largest requirement for borrowing. £11,072,000 SCE(R) has been allocated for Transport for 2004/05. This funding is provided as a Single Capital Pot, which means the Council has discretion to spend it on plans and priorities other than the LTP. However, the Government expects authorities to spend sufficient funds on transport to meet the objectives and specific targets set out in their LTPs. Indicative funding for future years has not been announced. The Government's annual progress report into Herefordshire's LTP has rated it as 'Well Above Average'.
12. The recent announcement of the LTP settlement made it clear that the specific bids for funding towards Roman Road improvements and for the Rotherwas Access Road were unsuccessful. On the basis of this, a revised LTP programme has been constructed to enable the Roman Road project to proceed by diverting funds from road maintenance, integrated transport and safety projects.
13. The same means has been used to keep Rotherwas on track for 2004/05. Negotiations with Government are ongoing and a bid for funding for the Rotherwas Road can be resubmitted in 2004 and the projections reflected in **Appendix 2** assume this will generate extra SCE(R) support from 2005/06 onwards. If Government funding is not secured, then there is a risk that commitments could be entered into for which there is no supported funding.
14. The future years sums are indicative amounts of what will be required in those years. The only sum that would actually be committed to for future years, if the 2004/05 LTP programme is approved, is the bid for Roman Road Improvements with £1,600,000 being required in the second year.

Housing

15. £2,072,500 SCE(R) has been allocated for Housing for 2004/05. £162,500 of this relates to the Council's "You @ Home" initiative. Government support for this has been confirmed through its Kick Start programme which will enable the added value from the scheme to be realised. The remainder of funding is provided as a Single Capital Pot. Indicative funding for future years has not been announced other than £127,500 for the second year of the You @ Home initiative.
16. The Disabled Facilities Grants represent 40% of the total cost with the remaining 60% being provided by Government grant.
17. Social Housing Grants are primarily funded by the use of capital receipts reserve generated by Right to Buy sales and the transfer of the housing stock. The programme is forecast to make use of such reserves of around £2,500,000 per year. These reserves will, therefore, be exhausted around 2007/08 when alternative sources of funding will be required.
18. The future years figures are indicative of the programmes required for those years but would not be committed to if the 2004/05 programme is approved.

Other Areas - Requiring Prudential Borrowing

19. The point needs to be re-emphasised that only Transport, Education and Housing programmes receive supported borrowing. Any borrowing for Other Areas would be unsupported and financing costs will fall wholly on the Council Taxpayer.
20. The capital financing costs of borrowing consist of a principal repayment and the interest incurred on the sums borrowed. As a rough guide, every £1,000,000 borrowed costs £100,000 in financing costs or approximately 0.17% on Council Tax. Any revenue savings or extra income generated by a capital scheme can be used to offset the capital financing costs of that scheme. So £100,000 in ongoing revenue savings, foregone by a service area revenue budget, can support £1,000,000 borrowing. The capital financing costs are ongoing over the life of the asset so any equivalent revenue adjustments would also have to be ongoing.
21. The bids for 'other areas' have been subject to a rigorous review and the scores attached to individual schemes represent a weighting based on an appraisal of how each bid meets the strategic objectives of the Council and on the strength of a business case model. However it must be stressed that the scores are purely indicative of the desirability and reasonableness of the bid. These need to be considered in conjunction with other information, such as the extent of any legal requirement and what external funding leverage might be involved. It is for Cabinet to determine its priorities in making recommendations to Council.
22. Of 29 bids received, 11 have been provisionally deferred and these are set out on **Appendix 5**. There are 18 remaining bids that may be considered for funding and these are set out on **Appendix 4**. These total £6,016,587 in 2004/05, £5,783,000 in 2005/06, £2,276,000 in 2006/07 and £1,435,000 in 2007/08. These bids are set out in more detail, in the order they were received, on **Appendices 6 and 7**.
23. Pending the recent announcement by government of SCE(R) levels, estimated capital financing costs have been included in forward projections considered by Budget Panel. The budget report elsewhere on the agenda deals with the impact of borrowing for 2004/05. Set out on **Appendix 3** is a summary showing the total borrowing requirement for Transport, Education, Housing and Other Areas compared to the SCE(R) received. This highlights the shortfall to be funded from Prudential Borrowing and for future years, flowing from 2004/05 allocations assuming that Transport, Education and Housing will continue to receive their specific SCE(R) allocation in future years.
24. The effect of fully funding the Other Areas bids would be a Council Tax increase of 0.4% for 2004/05 and 0.9%, 0.6% and 0.3% for 2005/06, 2006/07 and 2007/08 respectively, or an increase of 2.2% for the four years as a whole. Cabinet will need to consider this in its recommendation to Council as to whether to undertake prudential borrowing for none, some or all of the Other Areas' bids. Any bids provisionally deferred in 2004/05 may be reconsidered in future years, and if approved, these would require further resourcing.

25. It is anticipated that the schemes provisionally deferred as detailed on **Appendix 5** will be revised and resubmitted for funding for 2005/06 or future years. It is also anticipated that new projects will emerge, such as a new Hereford Library, which may require funding in future years. Therefore, the bidding process for funding will be repeated on an annual basis and the ongoing capital financing costs of Prudential Borrowing should be considered accordingly.

Capital Receipts Reserve

26. The balance of capital reserves held by the Housing Capital Programme stands at £11,515,000, the significant proportion of which was generated by the Housing Stock transfer. It is anticipated that these reserves will be utilised at £2,500,000 per annum to support Social Housing Grants. Also, £2,000,000 is provisionally earmarked to support the Extra Care Housing Project, but this is dependent on receiving significant external funding. It is also anticipated that the Council will receive a share of Right To Buy receipts from Herefordshire Housing of over £1,000,000 per year over the next eight years. Other capital receipts amount to £4,250,000 including the non housing element of the stock transfer proceeds. Financing costs of utilising capital receipts are broadly similar to those incurred in prudential borrowing as investment income is lost.

Bid already approved and in FRM

27. The funding for the North Herefordshire Swimming Pool has already been approved by Cabinet, and the capital financing costs of this are already included in the Council Tax projections in the medium term Financial Resources Model (FRM).

Capital expenditure de-minimus limit

28. One final matter requiring approval is the requirement for the Council to have a formal remit, referred to as "de-minimus", below which expenditure is required to be treated as revenue rather than capital. It is recommended that a de-minimus limit of £10,000 also be applied to expenditure below which transactions will be treated as revenue.

Risk Management

Proposals put forward for consideration have undertaken a rigorous review process, ensuring consistency with the Council's strategic objectives, together with legal and other relevant considerations.

Consultees

None.

Background Papers

Reports to Capital Strategy and Asset Management Working Group.

APPENDIX 1

2004/05 SUPPORTED CAPITAL EXPENDITURE (REVENUE)

		BCA 2003/04 (before reallocation) £	SCE(R) 2004/05 £
Education	Modernisation - all schools need		1,946,743
	New pupil places - formulaic		217,834
	Prior basic need commitments		1,440,970
	Schools Access Initiative		254,862
	Capital investment in primary schools		819,542
	Total Education SCE		4,679,951
	Less: Funded by Capital Grants (SCE(C))		<u>(2,106,345)</u>
		2,242,000	<u>2,573,606</u>
Transport	Integrated Transport Allocation (Single Pot)		4,830,000
	Maintenance Block Allocation (Single Pot)		6,242,000
	Rotherwas Access Road bid		Nil
		10,024,000	<u>11,072,000</u>
Housing	Housing (Single Pot)		1,910,000
	Private Sector Renewal Kick Start Funds (Ringfenced)		162,500
		2,011,000	<u>2,072,500</u>
Social Care	Adults (Single Pot)		97,000
	Children (Single Pot)		30,000
		122,000	<u>127,000</u>
EPCS		176,000	Nil
Discretionary element		768,000	Nil
Total 2004/05 SCE(R)		<u>15,343,000</u>	<u>15,845,106</u>

APPENDIX 2

EDUCATION

Ref	Scheme	Capital Requirement		
		2004/05 £	2005/06 £	2006/07 £
29	Education and modernisation funding for school premises	1,946,743	1,064,162	
29	New Pupil Places	217,834	435,725	
30	Costs to cover existing commitments on Education schemes	1,440,970	339,863	
31	Improvement works for Disabled Access in Schools	254,862	256,623	
35	Capital investment in primary schools	819,542	774,137	
	Education Schemes TBA		2,182,370	
	Total Education SCE	4,679,951	5,052,880	Not known
	Less funded by Capital Grants - SCE(C)	(2,106,345)	(2,182,369)	
	Total Education SCE(R)	2,573,606	2,870,511	Not known

TRANSPORT

Ref	Scheme	Capital Requirement		
		2004/05 £	2005/06 £	2006/07 £
12	Integrated Transport Strategy + low floor bus project	1,404,009	1,127,308	3,628,397
13	Local Road Safety Strategy	620,021	655,692	778,603
14	Managing the Highway Network + bridges	5,522,970	5,843,000	6,142,000
23	Rotherwas Access Road	805,000	550,000	1,500,000
24	Roman Road Improvements	2,720,000	1,600,000	
	Total Transport SCE(R)	11,072,000	9,776,000	12,049,000

HOUSING

Ref	Scheme	Capital Requirement		
		2004/05 £	2005/06 £	2006/07 £
38	Disabled Facilities Grant	240,000	267,000	267,000
39	Housing Renewal	1,200,000	1,300,000	1,300,000
40	Social Housing Grants	560,000	533,000	733,000
47	Housing Renewal Kick Start Initiative (Ringfenced)	162,500	127,500	nil
	Reduction required to meet SCE(R) allocation	(90,000)		
		2,072,500	2,227,500	2,300,000

SUMMARY OF 2004/05 SSP BIDS RECEIVED

Para	Scheme	Capital Requirement			
		2004/05 £	2005/06 £	2006/07 £	2007/08 £
	Education	2,573,606	2,870,511	-	-
	Transport	11,072,000	9,776,000	12,049,000	-
	Housing	2,072,500	2,227,500	2,300,000	-
		15,718,106	14,874,011	14,349,000	-
	Other Areas	6,016,587	5,783,000	2,276,000	1,435,000
	Total	21,734,693	20,657,011	16,625,000	1,435,000
	Supported Borrowing	15,845,106	14,874,011	14,349,000	-
	Shortfall ('other areas' in future years) or 'Prudential Borrowing' requirement	5,889,587	5,783,000	2,276,000	1,435,000
	Cumulative Prudential Borrowing requirement	5,889,587	11,672,587	13,948,587	15,383,587
	Cumulative Capital Financing Costs to meet shortfall				
	Interest Element @ 5%	295,000	584,000	698,000	769,000
	MRP Element @ 4% in subsequent year	Nil	236,000	467,000	558,000
	Less Area Contribution to meet shortfall:-				
	Environment - Other (Crematorium)	(60,000)	(60,000)	(60,000)	(60,000)
	Net capital financing requirement	235,000	760,000	1,105,000	1,267,000
	Cumulative Council Tax increase to meet shortfall	0.4%	1.3%	1.9%	2.2%
	Annual Council Tax increase to meet shortfall	0.4%	0.9%	0.6%	0.3%
	Approved Scheme already in FRM North Herefordshire Swimming Pool	1,800,000	395,000	63,000	-
	Schemes provisionally not recommended for any funding in 04/05	3,371,625	3,816,000	414,000	-

OTHER AREAS – BIDS FOR CONSIDERATION

Ref	Scheme	2004/05 £	2005/06 £	2006/07 £	2007/08 £	Score %
P/Y	Hereford City of Living Crafts (SSP bid approved in previous year)	60,000	60,000			N/a
3	Kington Wesleyan Chapel – INFO shop and Library	550,000				93
16	Friar St Mus Res & Learning Centre phase 2 and 3	140,000	433,000	216,000		87
44	Aylestone Park	100,000				82
46	Ross Creative Learning Centre	116,587				80
19	Disabled Access	200,000	200,000	200,000		78
18	Salt Barn Provision	260,000				77
5	Crematorium Hereford	1,000,000	1,455,000			75
45	ICT The Golden Thread	2,525,000	2,035,000	1,435,000	1,435,000	75
	<i>Consisting of the following elements...</i>					
	<i>Network Enhancement</i>	<i>1,230,000</i>	<i>950,000</i>	<i>950,000</i>	<i>950,000</i>	
	<i>Flexible working</i>	<i>400,000</i>	<i>250,000</i>	<i>250,000</i>	<i>250,000</i>	
	<i>Continuity/disaster Recovery</i>	<i>250,000</i>	<i>500,000</i>	<i>100,000</i>	<i>100,000</i>	
	<i>Smartcard Technology</i>	<i>395,000</i>	<i>335,000</i>	<i>135,000</i>	<i>135,000</i>	
	<i>Corporate Document Management</i>	<i>250,000</i>				
11	Ross-on-Wye Flood Alleviation	350,000	1,300,000	275,000		72
1	Extension to Hereford Cemetery	100,000				69
22	Upcott Pool	45,000				69
17	Energy conservation	100,000				67
7	Travellers Site at Bromyard	100,000				64
20	Clearbrook Farmhouse	25,000				63
36	Rotherwas Business Centre	150,000	150,000			63
9	Leominster Closed Landfill Site Monitoring Infrastructure	45,000				61
10	Public toilets improvements	150,000	150,000	150,000		55
		6,016,587	5,783,000	2,276,000	1,435,000	

The funding for the Hereford City of Living Crafts was approved during the 2003/04 round of SSP. The main aim of the project is to help physically and economically regenerate Hereford City. The scheme is managed by the Hereford City partnership and the details surrounding the scheme and its external funding arrangements are currently under review.

Ref 3 Kington Wesleyan Chapel INFO Shop and Library has already received preliminary Cabinet approval on the basis of significant external funding of up to £950,000. Subsequent to the bid being submitted, some doubt has been thrown on about half this external funding. A separate report is being produced for Cabinet highlighting this issue, but if that funding is not received, then the Council would have to fund the shortfall. Of the bid, £150,000 is the minimum required to meet the legal requirement for disabled access but this level of spend would not generate the expected external funding. If this scheme goes ahead, it will release the existing Kington Library and area office, which should generate a capital receipt of £187,000 in 2005/06. This receipt can then be used to support further development of INFO shops. The extra revenue costs that will be incurred by this project would be in the region of £45,000 per year.

Ref 16 Friar Street Museum and Resources Centre will generate significant external

funding of over £1,500,000 over three years. This project requires a commitment for funding for a three-year period in order to obtain the external funding. A legal requirement exists to meet disabled access legislation. The minimum cost to meet the legislation would be £145,000, but this would not attract the external funding. The extra revenue costs that will be incurred by this project would be in the region of £13,000 per year.

Ref 44 Aylestone Park relates to land purchased under CPO legislation and the £100,000 required is the minimum needed to develop the land to prevent legal action by the previous owners for non-progress. External funding towards this project has been withdrawn meaning the proposed development has had to be greatly reduced.

Ref 46 Ross Creative Learning Centre will provide facilities for young people and the community of Ross. Although there is no legal need for this project, it will attract significant external funding. It is also forecast to generate revenue income that could be used to meet the capital financing charges of the project.

Ref 19 The Disabled Access for public areas programme is required to conform to the Disabled Discrimination Act that comes into force in October 2004. The sum required for 2004/05 is the minimum needed to begin addressing the issue. It is accepted that it will not be possible to fully conform to the legislation before October, so the areas of highest priority will be addressed first.

Ref 18 The provision of a replacement Salt Barn for storage at Rotherwas is required to prevent prosecution for pollution of watercourses. There is also now a specific legal requirement to grit roads and this project is needed to ensure the legislation can be complied with.

Ref 5 The bid for the Crematorium totals £2,455,000 and has already been re-profiled to move some of the funding requirement into the second year of the project. This bid will be supported by income generated from a surcharge on cremations. This surcharge is expected to generate in the region of £60,000 per year thus supporting around £667,000 borrowing – this is highlighted on **Appendix 3**. This bid has a legal requirement under the Environmental Protection Act to ensure harmful chemicals are removed from emissions.

Ref 45 The ICT Golden Thread bid is in an early stage of development. This project has no external funding or legislation issues but does have a strong business case and is needed in order to meet eGovernment targets and other business critical concerns. The bid is a composite including an upgraded corporate network, provision for flexible working, business continuity/disaster recovery, smartcard technology and corporate document management. Investment in the ICT network is likely to be a priority emerging from the Budget Panel where it has been acknowledged that previous investment in this area has been inadequate. The revenue implication for enhancing the network is a cost of £600,000 for 2004/05, with ongoing costs of £533,333 per year thereafter. These revenue costs will be met from within existing IT budgets.

Ref 11 The Ross-on-Wye flood scheme bid represents 55% of the total cost, with the remainder being funded by grants from Defra. It should be noted that approving this scheme would require a significant commitment for future years. However, if the project is not proceeded with in 2004/05, there is a risk that future grant funding may not be approved by Defra.

Ref 1 Extension to Hereford Cemetery is needed to ensure the continued use of the cemetery for the next ten years, otherwise the space will be exhausted within two

years.

Ref 22 Upcott Pool opening will provide a natural wildlife site and facility for informal recreation by the public.

Ref 17 Energy Conservation relates to meeting national energy reduction targets and falls in line with the GEM Initiative. This will result in savings in energy costs, but servicing costs for the new energy management services will be incurred.

Ref 7 The traveller site at Bromyard refurbishment and remodelling work is subject to an external funding bid of £300,000. Should the external funding bid be unsuccessful, the Council funding of £100,000 will not be required.

Ref 20 Clearbrook Farmhouse requires major structural works to ensure that the Grade 1 listed property is structurally sound, wind and watertight.

Ref 36 The Rotherwas Business Centre development will result in incubation units for lease by small and start up businesses. It will include high specification industrial units, conference room and training suite aimed at encouraging growth of hi-tech small and start up businesses. There will be external leverage of up to £1,700,000 generated by this scheme.

Ref 9 The Leominster Landfill monitoring infrastructure is needed to meet the requirements of the Waste Management Licence. The sum required is the minimum necessary to meet this, and should result in reduced annual monitoring costs. The planning permission for the site requires its complete restoration which is expected to cost around £760,000. A bid for this will be submitted for the 2005/06 round of SSP.

Ref 10 Improvements to Public Toilets represents an ongoing programme and £150,000 is the minimum necessary to progress this in 2004/05. The future years sums are indicative figures, representing the minimum need for a continual rolling programme of improvement.

BIDS PROVISIONALLY DEFERRED

Ref	Scheme	Capital Requirement		
		2004/05 £	2005/06 £	2006/07 £
4	Ledbury INFO, St Katherines Houses	75,000	1,500,000	
2	Hereford City One Stop Shop	750,000		
15	INFO Service Centre (Contact Centre)	130,000	50,000	50,000
37	Minibus for Social Care	35,000		
26	Hereford City Christmas Lighting	50,000	10,000	10,000
27	Street Light Column Replacement	250,000	250,000	250,000
28	Additional Street Lighting	30,000	15,000	10,000
8	Access to Library & Info services	59,625	39,000	
33	Sutton Primary School	600,000	1,370,000	59,000
34	Weobley High School - Sports Hall	592,000	582,000	35,000
41	Ross Library	800,000		
		3,371,625	3,816,000	414,000

Ref 4, 2, 15, 8, 41 The Ledbury Info, Hereford City One Stop Shop, Info Service Centre, Access to Library and Info Services and Ross library are not in a position to proceed in 2004/05. A staged programme for these is to be provided, and phased bids are to be considered in future years.

Ref 37 The minibus for Social Care is to be funded from the Social Care capital receipts reserve once an expected capital receipt is realised.

Ref 26, 27, 28 The Christmas lighting, column replacement and additional lighting capital bids are of a revenue nature. They have no external funding or specific legal issues to be addressed. These schemes are, therefore, provisionally rejected.

Ref 33, 34 Sutton Primary school and Weobley High School bids have been deferred for reconsideration in 2005/06.

A separate bid for overall rationalisation of administration accommodation was submitted but is not shown in the tables. It is intended that this will be self-financing over the medium term through property disposals. Further information is required and it is not considered that the scheme could be ready to proceed in 2004/05. It will be necessary to address the cash flow aspects of deferred disposals within the Capital Programme. It is not possible, however, to realistically forecast the impact at this time.