

PROPOSALS FOR 2006/07 CAPITAL PROGRAMME

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

26TH JANUARY, 2006

Wards Affected

County-wide.

Purpose

To receive a report on the key issues for consideration regarding the capital funding strategy and the allocation of supported and unsupported borrowing for capital expenditure for 2006/07.

Key Decision

This is not a Key Decision.

Recommendations

THAT it be recommended to Council that:

- (a) **the basis of distributing supported borrowing for Children's Services, Transport and Housing as outlined in paragraph 6 be endorsed;**
- (b) **a minimum level of Prudential Borrowing of £5,843,000 for 2006/07 be approved as outlined in paragraph 15; and**
- (c) **£5,000,000 Prudential Borrowing be approved for each year 2007/08 and 2008/09 to enable commitments from previous years Prudential Borrowing allocations to be funded and to enable future bids to be considered.**

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

ALIGNMENT OF THE CAPITAL STRATEGY TO THE CORPORATE PLAN

1. The Council's Capital Strategy needs to be integrated with the Medium Term Financial Plan and consequently the Corporate Plan. It cannot be seen in isolation and decisions made in regard to the capital programme over the medium term need to be aligned with the priority objectives set out in the Corporate Plan.

Further information on the subject of this report is available from Steve Cameron, Principal Financial Policy Manager on (01432) 261865

2. Capital investment by its nature is very different to revenue expenditure and certain factors need to be borne in mind when making decisions on the programme. This report is set out into two parts, firstly providing a view on the broader financial constraints and service issues, and secondly providing detail on the affordability aspects and how the programme is financed.
3. Following the introduction of Prudential Borrowing the main financial constraint now is affordability in terms of the impact capital financing costs have on Council Tax levels. The significant source of capital funding is Supported Capital Expenditure (Revenue) (SCE(R)) that is provided directly by the government through the Revenue Support Grant. This is directed towards Children's Services, Transport and Strategic Housing although not formally ringfenced. The second main source of funding, which is largely the subject of this report, is Prudential Borrowing. **Appendix 1** details the 2006/07 SCE(R) allocations totalling £13,151,411. (2005/06 SCE(R) totalled £13,920,847).
4. For planning purposes Council has already indicated a limit for Prudential Borrowing of £5,000,000 per year. It is proposed that in line with previous commitments that this level of borrowing is maintained in the next three years as it creates the right balance between investment in Council assets without overburdening either the Council Tax payer or the long term indebtedness of the Council. The position will be reconsidered on an annual basis to reflect any change in circumstances.
5. The medium term budget projections currently provide for a level of borrowing at this level and members will therefore need to decide whether they want to borrow more which may have a direct impact on Council Tax. Alternatively members have the option of using some of the SCE(R) provisionally earmarked for Children's Services, Transport and Strategic Housing or extend the repayment periods for borrowing. This would be contrary to the agreed capital strategy and members will need to take this into account when making a decision in this respect.
6. The capital programmes for Children's Services, Housing and Transport are 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. The SCE(R) awarded for these areas has provisionally been ringfenced to those areas accordingly. The capital funding strategy is therefore that unsupported borrowing needs to be considered to resource projects for other areas. Non-ringfenced SCE(R) for Social Care is not earmarked for specific projects and has previously been used to supplement Prudential Borrowing capacity.

PRUDENTIAL BORROWING ALLOCATIONS 2006/07

7. Prudential Borrowing allocations were made in 2004/05 and 2005/06 and these included future year commitments which are detailed on **Appendix 2**. The future years allocations agreed in 2004/05 and 2005/06 become the first call on 2006/07 and 2007/08 allocations.
8. The Capital Scheme Selection and Prioritisation (SSP) process has been used again to collate new capital bids for 2006/07 and future years. The bids are scored against various detailed criteria to enable comparison between bids and against corporate objectives. The criteria includes alignment with the Corporate Plan, business criticality, the leveraging of external funds and revenue implications.

9. 15 bids were considered by officers in the Capital Strategy Group (CSG) and are summarised in **Appendix 3**. The total value of these exceeds the level of funding provisionally agreed. Further details of each SSP bid are provided in **Appendix 4**. The CSG has reviewed these bids and the following parts of this report are based on the Group's recommendations.
10. There are a number of major scheme bids submitted which include the replacement of Hunderton School, Rotherwas Access Road and the investment needed in Social Care ICT. Members will also be aware of other significant capital projects which may have an impact on future prudential borrowing allocations. These include the relocation of the livestock market and the corporate accommodation project. No prudential borrowing bid has been submitted for these schemes at this stage.
11. 5 schemes are recommended by the CSG for funding whilst the remaining 10 bids require further consideration. A brief summary of the reasons for recommending or deferring each bid are set out below.
12. Recommended Bids:
 - Bid 2: The Museum Resource & Learning Centre Phase 3. Significant external funding of over £1,200,000 has been committed by Heritage Lottery Fund subject to the contribution from Herefordshire Council.
 - Bid 7: Redevelop Pembridge Travellers Site. Significant positive impact and effect on diversity agenda.
 - Bid 13: Improvements to Public Toilet Facilities. Minimum funding recommended to allow a rolling programme of improvements.
 - Bid 14: DDA Compliance Work. Legal requirement.
 - Bid 22: Hunderton School replacement. New school required for September 2006. Highest service priority.
13. Bids requiring further consideration:
 - Bid 1: Phase 2 of The Children's Centre Strategy. Affordability concerns. Priority is to provide funding for Hunderton School replacement.
 - Bid 3: Resurfacing of Queenswood Car Park. This is to be considered as an Invest to Save bid.
 - Bid 5: Gas Flare, Stretton Sugwas Landfill Site. Risk assessment needs to be stronger. Possibility of alternative funding available.
 - Bid 6: Library Diversity Improvement. To be included as part of corporate DDA compliance work.
 - Bid 8: Leominster Area MTI Business Project. Stronger and more specific business case required.
 - Bid 9: Rotherwas Relief Road. Strong business case. Awaiting confirmation of regional funding allocations.
 - Bid 15: Re-roofing units at Rotherwas (Tarsmill Court). Possibility of funding

through property capital receipts.

- Bid 17: 2nd Phase of Drainage Work - Broad Street, Leominster. The allocation of funding for the first phase has not been spent.
 - Bid 20: Energy Conservation Schemes. To be resubmitted as an Invest to Save bid.
 - Bid 21: Integrated Community Equipment Store. Stronger business case to be provided.
14. The largest bid still pending is the Rotherwas Relief Road. The total cost of the scheme is in the region of £12,000,000. The outcome of the regional funding allocation process is still awaited. Should funding from the Council become necessary, then adjusting the timing of future capital allocations for other approved schemes may be necessary to accommodate this project. The capital financing costs for this scheme would be £45,000 in the first year rising to £296,000 in the final year.
15. The table below sets out the Prudential Borrowing requirements of meeting those bids recommended by the CSG. The table does not reflect slippage, which is managed and reported through the capital monitoring process. Meeting the shortfall will not impact upon the sums currently provided in the FRM.

PRUDENTIAL BORROWING REQUIREMENTS				
	Total	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000
2006/07 Bids Recommended by CSG	6,063	3,105	2,258	700
Allocations agreed in 2004/05 to be funded	1,863	813	1,050	
Allocations agreed in 2005/06 to be funded	3,850	2,050	1,800	
Non-earmarked SCE(R) able to fund SSP bids	(250)	(125)	(125)	
Net Prudential Borrowing Required	11,526	5,843	4,983	700
Indicated level of Prudential Borrowing Available	(15,000)	(5,000)	(5,000)	(5,000)
Additional Requirement / (Capacity)	(3,374)	843	(17)	(4,300)

Risk Management

This report concerns the risk management of carrying long term debt and the impact this has on the financial position of the Council.

A risk is that if SCE is diverted from Education, Transport and Housing then this might prejudice future funding from Government.

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

None identified.

APPENDIX 1

FORECAST SUPPORTED CAPITAL EXPENDITURE (REVENUE)

	Allocation	Initial Allocation	Provisional Indication		
	2005/06 £	2006/07 £	2007/08 £	2008/09 £	2009/10 £
Children's Services					
New pupil places - formulaic	435,725	470,320	477,479		
Prior basic need commitments	339,863				
Schools Access Initiative	256,623	255,583	255,583		
Targeted Capital - Sutton		304,350			
Targeted Capital - Weobley		221,350			
Modernisation – all schools need	1,064,162	985,005	1,015,611		
Modernisation – primary need	774,137	1,028,080	1,028,008		
Less – 1/3 modernisation funded through SCE(C)		(805,205)	(613,085)		
Total Education SCE(R)	1,032,211	2,459,411	2,163,596		
Environment					
Integrated Transport Allocation (Single Pot)	2,900,000	2,673,000	2,307,000	2,241,000	2,163,000
Maintenance Block Allocation (Single Pot)	7,559,000	7,802,000	7,958,000	8,356,000	8,774,000
Ross-on-Wye Broadmeadows Flood Alleviation Scheme	103,950				
	10,562,950	10,475,000	10,265,000	10,597,000	10,937,000
			<i>(figures do not include potential SCE funding sought for Rotherwas Relief Road)</i>		
Housing					
Housing (Single Pot)	1,935,500	774,200	580,650		
To be received as Capital Grant		(774,200)	(580,650)		
Private Sector Renewal Kick Start Funds (Ringfenced)	127,500	-	-	-	
	2,063,000	-	-		
			<i>Housing Allocations TBA - but there is a safety net of 40% in 2006/07 and 30% in 2007/08 of 2005/06 HIP SCE allocation</i>		
Adult Social Care					
Mental Health SCE(R)	137,686	92,000	93,000		
	137,686	92,000	93,000	-	-
Social Care - Single Pot funding used to supplement Prudential Borrowing					
Adults (Single Pot)	95,000	95,000	95,000		
Children (Single Pot)	30,000	30,000	30,000		
	125,000	125,000	125,000	-	-
Total SCE(R)	13,920,847	13,151,411	12,646,596	10,597,000	10,937,000

APPENDIX 2

2004/05 & 2005/06 PRUDENTIAL BORROWING ALLOCATIONS

	Total	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000	£'000
Approved in 2004/05					
North Herefordshire Swimming Pool	2,258	1,800	395	63	
Friar St Museum Resource & Learning Centre	140	140			
Aylestone Park	100	100			
Ross Creative Learning Centre	117	117			
Ross Library	10	10			
Hereford City of Living Crafts	120	60	60		
Hereford City Shop Front Scheme	150	50	50	50	
Hereford City Eign Gate	500	100	400		
Hereford City High Town & High St	145	145			
Hereford City Victoria Foot Bridge	300	100	100	100	
Ledbury Info	4	4			
Disabled Access	200	200			
Energy Conservation	100	100			
Crematorium Hereford	100	100			
Leominster Landfill Infrastructure	45	45			
Public Toilets Improvements	150	150			
Hereford Cemetery	100	100			
Network Enhancement	3,170	770	950	500	950
Continuity / Disaster Recovery	950	250	500	100	100
Community Equipment	200	200			
Disabled Facilities Grants	200	200			
Approved in 2005/06					
Disabled Access	200		200		
Leominster Broad Street Car Park	100		100		
Powell Croft Sewage Plant	50		50		
Restore Leominster Landfill Site	710		210	500	
Crematorium	3,050		450	800	1,800
Aylestone Park - Canal Safety	166		166		
Improvements to Toilet Facilities	215		215		
Relocation Ledbury Library	53		53		
Kington Library Refurbishment	535		535		
Info by Phone	1,500		750	750	
Hereford City Centre Enhancement	2,000		2,000		
4 x Minibuses (Soc Care)	97		97		
Holistic Resource at St. Owens	9		9		
Queenswood Car Park	137		137		
2 x Mobile Libraries	180		180		
Total	18,061	4,741	7,607	2,863	2,850

APPENDIX 3

2006/07 SCHEME SELECTION & PRIORITISATION BIDS

Ref	Total £'000	06/07 £'000	07/08 £'000	08/09 £'000
2006/07 Bids Recommended by CSG				
2 Museum Resource & Learning Centre phase 3	703	645	58	
7 Redevelop Pembridge Travellers Site	60	60		
13 Improvements to Public Toilet Facilities	600	200	200	200
14 DDA Compliance Work	600	200	200	200
22 Hunderton School replacement	4,100	2,000	1,800	300
New Prudential Borrowing Required	6,063	3,105	2,258	700
Allocations agreed in 2004/05 to be funded	1,863	813	1,050	
Allocations agreed in 2005/06 to be funded	3,850	2,050	1,800	
Non-earmarked SCE(R) able to fund SSP bids	(250)	(125)	(125)	
Total Prudential Borrowing Required	11,526	5,843	4,983	700
Indicative Prudential Borrowing Available	(15,000)	(5,000)	(5,000)	(5,000)
Shortfall / (Excess) in indicative funding	(3,474)	843	(17)	(4,300)
2006/07 Bids for further consideration				
1 Phase 2 of The Children's Centre Strategy	1,010	400	610	
3 Resurfacing of Queenswood Car Park	50	50		
5 Gas Flare, Stretton Sugwas Landfill Site	55	55		
6 Library Diversity Improvement	33	33		
8 Leominster Area MTI Business Project	240	160	80	
9 Rotherwas Relief Road	3,400	1,805	1,595	
15 Re-roofing units at Rotherwas (Tarsmill Court)	150	150		
17 2nd Phase of Drainage Work - Broad Street, Leo	75	75		
20 Energy Conservation Schemes	150	150		
21 Integrated Community Equipment Store	100	100		
Total 2006/07 Bids for further consideration	5,263	2,978	2,285	

2006/07 SCHEME SELECTION AND PRIORITY BIDS

Bid 1: Phase 2 of the Children's Centre Strategy

A critical element in the delivery of integrated services for children and families in Hereford is the development of 6 additional Children's Centres. To add to 3 which were provided in Phase 1, the DfES require a further 6 to be operational by March 31st 2008, and to that end have given a capital allocation of £940k.

Feasibility work suggests that to provide accommodation to deliver the 'core' services a budget of at least £2,000,000 is needed. There is a further DfES Sure Start Capital Grant for extended schools that can be used, but this would leave a shortfall currently estimated at £610,000. Bids are being made for European Funding, but only 2 of the projects would be eligible.

In the normal course of events further funding would be found with the Education Capital Programme. However, all available resources are being applied to the project to amalgamate Hunderton Junior and Infant Schools. Unless the funding position improves funding of £610k is sought to support the delivery of Children's Centres in 2007/08'.

Bid 2: Museum Resource and Learning Centre phase 3 (Friar Street, Hereford)

Match funding is required for a major Heritage Lottery award of £1.2 million to undertake phase 3 of the project. This will extend the building to create an interpretative display area, a learning centre, staff and volunteer accommodation, purpose build storage for the county fine and decorative art collection and future collection care and management capacity for all county collections. Phases 1 & 2 of the project have been successfully completed on time and within budget, with 63% contribution from Heritage Lottery Fund. Phase 4 of the project will create an enhanced and enlarged museum and art gallery at the Broad Street site with re-located new library.

The total budget requirement is £1,878,000 in 2006/07 and £90,000 in 2007/08. External funding from HLF towards this is £1,233,000 receivable in 2006/07 and £32,000 receivable in 2007/08. Net Prudential Borrowing is therefore sought of £645,000 for 2006/07 and £58,000 in 2007/08. Repayment of the borrowing would be over 25 years.

Bid 3: Resurfacing of Queenswood Car Park

To resurface Queenswood Country Park car park using a process that reuses waste Highway planings that would normally be disposed of as contaminated waste to landfill at considerable cost. The scheme involves the cleansing & re-use of the waste material and will be a county pilot of a process that is well established elsewhere. If the scheme works well it will lead to consideration of this application for further sites where a more natural surface is appropriate, i.e. non-black top surfaces without demarcated bays. The surface is expected to last a similar period to a blacktop finish.

A total of £100,000 is needed but £50,000 will be provided over a 5 years period from the Parks & Countryside Service resources. The asset will last 10 years.

Bid 5: Replacement Gas Flare, Stretton Sugwas Closed Landfill Site.

The existing landfill gas flare is of poor design and does not burn the gas at the correct temperature resulting in potentially harmful emissions from the various trace components in landfill gas. The current flare does not comply with the requirements of current Waste Management Licensing conditions.

Bid 6: Library Diversity Improvement

To purchase appropriate signage and equipment to improve access to services - in particular to collections targeted at priority groups identified in the Equalities Impact Assessment. This includes those with visual and hearing impairment, low literacy levels and for whom English is not their first language. 9 out of 10 libraries will benefit from this investment.

Bid 7: Pembridge Traveller Site

Redevelop site providing new access, safe dedicated parking area for Primary Care Trust, Play and Sure Start buses. Secure adjacent industrial estate access road so as to discourage unauthorised traveller encampments.

Bid 8: Leominster Area Market Towns Initiative (MTI) Business Project

Leominster Area MTI is currently funding a Leominster Area Business Feasibility Study by Dr Rick Ball Staffs University Centre for Economic and Social Regeneration. The study will propose projects that meet identified local business needs and AWM capital/economic criteria to lever up to £350k MTI funding into the Leominster Area. The indicative project will involve purchase of land or a building (possibly on the Enterprise Park) to provide sustainable, need driven business services, generate income, and support the generic development of the local economy.

Total cost of scheme would be £460,000 for 2006/07 and £230,000 in 2007/08. External funding of £300,000 and £150,000 could be levered meaning a net £160,000 2006/07 and £80,000 2007/08 is required from Prudential Borrowing.

Bid 9: Rotherwas Access Road

The Hereford Integrated Transport Strategy is set out in the Herefordshire Local Transport Plan 2001/2 - 2005/6. Maintaining the economy of Hereford City is important to achieve the overall aim of this Strategy. The Rotherwas Industrial Estate, located to the south east of Hereford provides approximately 2000 jobs and in light of the significant transport constraints the Council proposes a package of measures including the construction of a new access road to the Estate. The access road is necessary in order that the development strategy of Regional Planning Guidance and current Development Plan is implemented. The access road is also necessary in order to improve the living conditions of the residents along Holme Lacey Road and is a key element in a package of measures designed to reduce congestion and improve access to the estate for staff by sustainable modes of transport. The Provisional second LTP was published in July 2005 and covers the period 2006/7 to 2010/11. The Rotherwas Access Road is identified as the Council's top priority major transport scheme and forms an essential part of the overall transport strategy for Hereford and the County as a whole.

Total cost of scheme would be £6,290,000 for 2006/07, £4,960,000 for 2007/08 and £570,000 in 2008/09 (a total of £11,820,000). LTP funding of £4,485,000, £3,365,000 and £570,000 might be allocated by Government towards this. Confirmation of this funding will not be known until early 2006. This would leave a net £1,805,000 for 2006/07 and £1,595,000 for 2007/08 required from Prudential Borrowing.

Bid 13: Improvements to the Public Toilet Facilities in Herefordshire

Works to implement the recommendations of the Improvement Plan (appendix 1 to the Best Value report). This will provide improved facilities, reduction in anti-social behaviour associated with Public Toilets and an improved image to visitors to Herefordshire.

Bid 14: DDA Compliance Work

Upgrading council property to meet DDA requirements

Bid 15: Re-roofing of units at Rotherwas

These are major works which have resulted in claims against the Council for disruption in production. In view of the reduction in the Maintenance Budget there are no additional funds from the Revenue account to fund this type of work.

Bid 17: 2nd Phase of Drainage Work - Broad Street, Leominster

£75,000 is required to complete the drainage work in the car park.

Bid 20: Energy Conservation

Improvements to the energy conservation measures within Council property. Scheme will cost £150,000 but will ensure efficiency savings through the avoidance of using increasingly expensive energy.

Bid 21: Integrated Community Equipment Store (ICTS)

To lease and refurbish a more suitable premise for ICES, which would allow the service to grow in line with Dept of Health's ICES guidance. The capital costs would cover the infrastructure and refurbishment costs.

Bid 22: Amalgamation of Hunderton Junior and Infants Schools

In April 2004, approval was given to amalgamate Hunderton Junior and Infants schools from September 2006. The proposal is to provide a new 3-form entry primary school in new buildings. A bid for external funding from the DfES was made in March 2005, but unfortunately, this was unsuccessful. With Statutory Proposals published, the expectation is that the new building will be provided. However, the scheme costs cannot be contained within the Education Capital Programme alone, and therefore additional funding is sought for the shortfall.

Total cost over four years is £2,542k £3,084k £880k and £125k (£6,631k) totalling £from 2006/07 to 2009/10. Income from DfES Formulaic Allocations towards this is £542k, £1,284k, £500k and £125k. This leaves a net sum required from Prudential Borrowing of £2,000k, £1,800k and £300k totalling £4,180k.