AGENDA MANAGEMENT SHEET

Name of Committee	**Cabinet**
Date of Committee	**8 September 2005**
Report Title	**Forecast of Available Capital Resources 2006/07 to 2008/09**
Summary	To provide members with a forecast of the likely level of capital resources available for 2006/07 to 2008/09 that can be used as a basis for developing the capital programme.
For further information please contact:	Virginia Rennie Group Accountant Tel: 01926 412239 virginia.rennie@warwickshire.gov.uk
Would the recommended decision be contrary to the Budget and Policy Framework?	No.
Background papers	Details of ODPM supported borrowing as included in the 2005/06 FSS

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees	☐	....
Local Member(s)	☐	……………………………………
Other Elected Members	☐	Cllr Mrs Tandy, Cllr Roodhouse, Cllr Booth, Cllr McCarney – for information
Cabinet Member	☒	Cllr Farnell, Cllr Cockburn – for approval
Chief Executive	☒	……………………………………
Legal	☒	David Carter - for information
Finance	☒	Dave Clarke - reporting officer
Other Chief Officers	☐	....
District Councils	☐	....
Health Authority	☐	....
Police	☐	....

Other Bodies/Individuals	☐	....

FINAL DECISION NO

SUGGESTED NEXT STEPS:		Details to be specified
Further consideration by this Committee	☐	....
To Council	☒	Council will approve the 2006/07 to 2008/09 Capital Programme at its meeting on 7 February 2006.
To Cabinet	☒	Cabinet will receive various reports updating the level of available capital resources between now and approval of the capital programme by Council in February 2006.
To an O & S Committee	☐	....
To an Area Committee	☐	....
Further Consultation	☐	....

Agenda No 4

Cabinet - 8 September 2005

Forecast of Available Capital Resources 2006/07 to 2008/09

Report of the County Treasurer

Recommendations

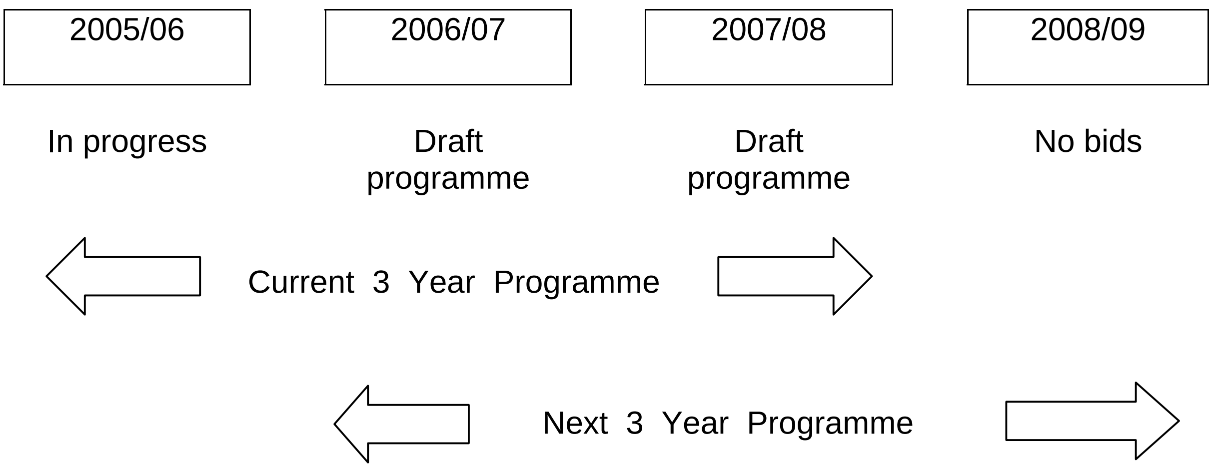
That Cabinet:

- note the likely level of capital resources available for 2006/07 to 2008/09,
- refer the report to the political groups for consideration when preparing their budget resolutions for 2006/07, and
- support the issuing of guideline limits for bids for new capital schemes of £5 million a year for each department, in addition to the government guidelines.

1 Introduction

1.1 Capital spending is spending to acquire, create and improve assets with a lasting value to the Council. The authority plans schemes over a three-year cycle because of the need to allow for design, planning permission, consultation etc. As the diagram below shows 2005/06 schemes are now in progress and the authority needs to look forward to the planning of the next three-year programme.

Figure 1: Timeframe of the Capital Programme



1.2 New schemes to include in the capital programme are agreed through a bidding process. This report aims to give members an initial forecast of the likely level of capital resources available to finance new schemes over the period 2006/07 to 2008/09. The figures in this report use the information in the capital programme review report elsewhere on this agenda.

2 Financing Capital Spending

2.1 Capital spending can be financed in several ways:

- Scheme Specific Funding:
  - Grants
  - Revenue financing
  - External contributions

- Corporate Resources:
  - Borrowing
  - Capital receipts
  - Capital Fund

2.2 All grants, revenue and external contributions and, where approved, some individual capital receipts, used to finance capital spending are scheme/service specific. Therefore whilst members play a key role in deciding priorities within these allocations they have limited flexibility to redirect these resources to fund other projects/services. As a result the initial approval for the programme of schemes funded by these resources takes place outside the budget process, as and when the resources are known about. The budget resolutions merely reaffirm the approvals already given for these schemes.

2.3 The current level of service/scheme specific funding included in the existing draft capital programme is set out in Table 1 below.

Table 1: Service/Scheme Specific Funding in the Existing Draft Capital Programme

	2006/07 £m	2007/08 £m	2008/09 £m
Education	34.2	12.5	5.3
PTES – Transport	12.5	3.6	0.1
PTES – Other	0.1	0.8	-
Social Services	0.4	-	-
Property Services	4.4	-	-
Fire and Rescue	0.7	0.1	-
CAMS	1.7	1.5	1.4
Total	**54.0**	**18.5**	**6.8**

2.4 The real scope for flexibility in the capital programme comes from the schemes funded from corporate resources – namely borrowing, corporate capital receipts and the capital fund. It is for this reason that the remainder of this report will focus specifically on these areas.

3 Borrowing

3.1 The Council is able to borrow money to finance capital spending. The constraints on the level of borrowing are the requirement for the Council to set limits for borrowing based on a range of prudential indicators and to ensure that the revenue consequences in terms of both meeting the borrowing costs and any running costs are affordable.

3.2 In practical terms the level of available borrowing is primarily determined by the resources for meeting borrowing costs members are prepared to support, or require services to fund, as part of the revenue budget resolution. However, within this overall framework there are some guidelines within which members can begin to plan. These are sketched out below.

3.3 There are two categories of borrowing:

- Supported borrowing, and
- Unsupported borrowing.

4 Supported Borrowing

4.1 Supported borrowing is the borrowing that the Government assesses the authority needs to spend as part of the capital-financing element of the Formula Spending Share (FSS). From 2006/07 borrowing at this level will attract central government support equal to approximately 28% of the annual borrowing costs. The balance is assumed to be funded by the council tax.

4.2 The allocation in the FSS for supported borrowing is broken down into a number of service related elements:

- Education
- Transport
- Social Services
- Fire, and
- Scheme Specific Allocations

4.3 In the past the Council has used the following guidelines for determining the capital programme in relation to supported borrowing:

- Total capital spending to be financed by borrowing is at least equal to the level of supported borrowing.

- The allocations to individual services, within the total supported borrowing figures are spent on those services. This is because the service/scheme specific supported borrowing levels reflect the Council's approved policies and plans and the results of any successful bids against national allocations e.g. the Local Transport Plan.

- Any supported borrowing from previous years not spent due to slippage etc. is carried forward to allow those schemes to be completed.

4.4 If it is assumed the Council continues to plan capital spending financed by supported borrowing as set out in paragraph 4.3 this would give initial programme guidelines as set out in Table 2. These figures are in addition to the scheme/service specific funding detailed in Table 1. Figures for 2006/07 and 2007/08 are derived from government announcements. 2008/09 figures are projections based on current trends.

Table 2: Estimated Levels of Supported Borrowing 2006/07 to 2008/09			
	2006/07 £m	2007/08 £m	2008/09 £m
Education	9.0	10.6	10.0
Transport	20.7	17.3	17.0
Social Services	0.4	0.4	0.5
Fire	0.4	0.5	0.5
Total	**30.5**	**28.8**	**28.0**

5 Unsupported Borrowing

5.1 Unsupported borrowing is borrowing the authority is free to undertake providing it is within the prudential limits set by Council. The authority receives no government support towards meeting the cost of repaying the loan.

5.2 Currently the financing costs of unsupported borrowing are funded in three ways:

- **Self-financing schemes** – Self-financing schemes are schemes that generate revenue savings/income at least equivalent to the borrowing costs. Providing members are satisfied that the revenue savings/income targets are achievable and the schemes are within the authority's overall policy framework, it has been practice to approve such schemes. There is no impact on the council tax from these schemes.

- **Replacement borrowing** – Each year a proportion of the authority's borrowing is repaid. As a result an equivalent level of new borrowing can be accommodated from within the existing budget for borrowing costs. Members can allocate the replacement borrowing to priority schemes without any impact on the council tax.

- **Other unsupported borrowing** – the borrowing costs of such schemes either have to be funded wholly by the council tax or, alternatively, members can require departments to make revenue savings/efficiency gains to meet all or a proportion of the costs.

5.3 The approved capital programme includes a number of schemes to be funded by unsupported borrowing in future years that have previously been approved. Details are set out in Table 3 below. Any additional unsupported borrowing approved by members will be in addition to these figures. These figures are in addition to the scheme/service specific funding detailed in Table 1 and the supported borrowing listed in Table 2.

Table 3: Unsupported Borrowing in the Draft Capital Programme			
	2006/07 £m	2007/08 £m	2008/09 £m
Self Financing			
♦ PTES - Other	1.0	-	-
Other Unsupported			
♦ Education	4.7	0.3	1.0
♦ PTES	0.2	-0.8	-0.8
♦ LHTS	0.4	-	-
♦ Property Services	0.4	-	-
♦ Fire & Rescue	-0.2	-	-
♦ Social Services	0.4	0.1	--
♦ Corporate Receipts	-2.0	-	-
Total	**4.9**	**-0.4**	**0.2**

Where the figures show negative unsupported borrowing this is to accommodate timing differences over the life of the programme between spending plans in the draft capital programme and the timing of the resources coming in.

5.4 In agreeing the capital programme for 2006/07 to 2008/09 it is assumed members will once again be willing to support any self-financing capital schemes departments propose providing they remain satisfied that the revenue savings/income are achievable and the schemes are within the authority's overall policy framework.

5.5 In terms of other unsupported borrowing the revenue cost of each £1 million capital spend is estimated to be £90,000, assuming an average useful life of the asset created or enhanced of 15 years. If the average useful life is higher the estimated annual revenue cost decreases, if the average useful life is shorter the estimated annual revenue cost increases.

5.6 The flexibility possible for undertaking schemes financed by unsupported borrowing makes it difficult to provide members with clear guidelines. However, given the tight position on the revenue budget as reported to Cabinet on 21 July 2005 it is suggested that, for planning purposes, members set departments an initial limit of £5m for bids in each of the next three years. Each £5m of these schemes approved would cost an estimated £0.450 million per annum, equivalent to a 0.25% increase on the council tax each year.

5.7 In considering whether a guideline of £5 million a year is appropriate members should note that the existing draft capital programme will result in a significant increase in borrowing costs over the next few years (excluding self-financing schemes). Table 4 details these increases. These figures will be updated as we move through the year but members will need to provide for these borrowing costs as part of the budget resolution either as a call on the council tax by requiring departments to fund them, before providing for the borrowing costs of any new schemes.

Table 4: Estimated Borrowing Costs			
	Annual Cost £m	Increase £m	Increase %
2005/06 (budgeted)	19.508		-
2006/07	19.729	+0.221	+1.1
2007/08	21.959	+2.330	+11.3
2008/09	23.472	+1.513	+6.9
2009/10	23.452	-0.020	-

6 Capital Receipts

6.1 It is current policy that all capital receipts are part of corporate resources and, unless previously set aside for specific schemes by members, are earmarked for reducing debt. This releases an equivalent level of borrowing to fund new schemes, free to be allocated in accordance with members' priorities. There is one exception to this - receipts from the sale of school assets are generally allocated one third to the school, one third to neighbouring schools and one third to corporate resources. The flexibility for members to earmark receipts (agree to use a particular capital receipt to fund a particular project) to a particular project at the time a scheme is approved remains. Normally this would only be where the receipt is directly linked to project expenditure.

6.2 The current estimate of resources available to fund 2006/07 to 2008/09 draft capital programmes reflects the latest information on the programme of disposals. Table 5 shows the forecast level of receipts and the amount already earmarked to particular projects.

Table 5: Forecast of Capital Receipts 2006/07 to 2008/09			
	2006/07 £m	2007/08 £m	2008/09 £m
Forecast Receipts	16.2	0.9	-
Already Earmarked			
♦ Education	6.5	0.1	-
♦ PTES	-	0.8	-
♦ Property Services	3.9	-	-
♦ Other	2.2		
Corporate Receipts	**3.6**	**-**	**-**

6.3 As can be seen from Table 5 there are no new capital receipts currently programmed in for members to allocate to schemes after 2006/07. There are however a number of development opportunities and potential receipts in the overall disposals programme. Further work on quantifying these figures in more detail will take place over the next few weeks. If significant additional resources are forecast then a further report will be brought.

7 Capital Fund

7.1 The Capital Fund is comprised of corporate revenue resources set aside for funding the capital programme. It is primarily used to cover timing issues at the end of each financial year between the level of expenditure and income received. As a result most resources in the capital fund at the year-end are currently already committed. Any "spare" resources will be added to the level of corporate resources available. The balance of the Capital Fund at 1 April 2005 is £3.7 million. Of this all but £0.4 million is already committed on the capital programme. This level is normally retained in the fund as a contingency.

8 Summary of Capital Resources

8.1 Table 6 summarises the latest forecast the level of capital resources available to fund the capital programme over the next three years. It separately identifies those resources that are already committed to schemes in the draft programme approved in February 2005 (updated). It shows that outside of the scheme specific and supported borrowing allocations there is no new money available for schemes without additional revenue provision being made to cover costs. Any such provision would be in addition to the figures already outlined in Table 4.

8.2 Members will have the opportunity to review the list of schemes included in the draft capital programme approved in February 2005 as part of the process of agreeing the capital programme for 2006/07 to 2008/09 including the opportunity to balance the existing draft programme against any new bids.

Table 6: Summary of Available Resources and Spending Guidelines

	2006/07 £m	2007/08 £m	2008/09 £m
Available Resources			
Scheme/Service Specific (inc. Capital Fund)	54.0	18.5	6.8
Supported Borrowing	30.5	28.8	28.0
Unsupported Borrowing approved Feb. 2005	3.9	-0.4	0.2
Self-financing Schemes	1.0	-	-
Corporate Capital Receipts	3.6	-	-
Total Available Resources	**93.0**	**46.9**	**35.0**
Less Spending Guidelines			
Education	47.9	23.5	15.5
LHTS	0.4	-	-
PTES – Transport	32.5	20.9	17.1
PTES – Other	2.0	-	-
Social Services	1.2	0.2	0.5
Property Services	4.8	-	-
Fire and Rescue	0.9	0.1	0.5
CAMS	1.7	1.5	1.4
Total Spending Guidelines	**91.4**	**46.2**	**35.0**
SURPLUS AVAILABLE	**1.6**	**0.7**	**-**

DAVE CLARKE
County Treasurer
Shire Hall
Warwick
24 August 2005