

EAST AYRSHIRE COUNCIL

POLICY AND RESOURCES COMMITTEE – 8 FEBRUARY 2006

GENERAL SERVICES CAPITAL PROGRAMME 2006/07 - 2008/09

Report by Executive Head of Finance

1 PURPOSE

- 1.1 To provide Elected Members with information to allow the setting of the general services capital programme for 2006/07, and an indicative programme for the financial years 2007/08 and 2008/09.

2. BACKGROUND

- 2.1 The General Services Capital Programme has been prepared in accordance with the Prudential Code for Capital Finance ("The Code") as set out within Part 7 of the Local Government in Scotland Act 2003. The Code allows the Council to determine the level of capital investment that it considers is most appropriate for the delivery of local services. This level should take into consideration locally assessed needs and priorities within an overall framework of affordability and sustainability.
- 2.2 As part of the general services revenue process and determination of Council Tax, the Council should ensure that the proposed capital programme is affordable over the medium to longer term, and that associated borrowing and consequential running costs can be met from annual revenues.

3 CAPITAL EXPENDITURE LEVELS

- 3.1 The prudential code allows schemes that are either self financing through efficiency savings or supported by external funding to be taken forward, without the need to remain within capped expenditure limits, as existed under the previous capital control regime.
- 3.2 Departments have identified a number of schemes that are either fully or partially supported through the expected receipt of external grant or partnership funding. These projects together with schemes which are self supporting – in that they deliver savings equal to or greater than the calculated debt charge, and for which an appropriate transfer from revenue has been identified, can now be advanced under the principles of the Prudential Code.
- 3.3 The following table sets out projects which have been identified by Departments as being financed through savings which will be at least equal to the annual debt servicing costs.

SPEND TO SAVE PROJECTS	LEAD DEPT'	SLIPPAGE				ALLOCATION	
		2005/06	2006/07	2007/08	2008/09		
		£'M	£'M	£'M	£'M		
Traffic Signal Renewal Programme	Development	-	0.110	0.220	-		
Kilmarnock Off Street Parking	Development	(0.010)	0.010	-	-		
Cumnock Parking Strategy	Development	-	0.100	-	-		
Christmas Lights	Development	-	0.025	-	-		
CCTV Monitoring Station	Corporate	(1.941)	1.941	-	-		
TOTAL SPEND TO SAVE		(1.951)	2.186	0.220	-		

- 3.4** The Executive Director of Development & Property Services has identified a number of projects which will be self financing in terms of future revenue costs. With regard to Christmas lights, there is a health & safety requirement to replace existing lights which will be met from the budget within Miscellaneous Services. The figure included for Capital would allow the replacement of existing lights with low maintenance equipment generating an annual revenue saving.
- 3.5** Slippage and carry forward schemes are those that have already been approved by Committee, but did not proceed within the original timetable due to a variety of operational reasons. These schemes are however committed and have been reallocated to the financial year shown. The estimated slippage in relation to the 2005/06 capital programme is based on the Financial Monitoring Report to Period 9 ended 11 December 2005, which was presented at the Budget Scrutiny Group on 24 January 2006.
- 3.6** There is no financial implication from these schemes as these have already been included within the original funding assumptions. They are however subject to final verification as part of the normal year end audit process and the actual amounts may change if issues are identified by the auditor. The projects are summarised in the following table.

SCHEME / PROJECT	LEAD DEPT'	SLIPPAGE		REALLOCATED	
		2005/06	2006/07	2007/08	2008/09
SLIPPAGE & CARRY FORWARD		£'M	£'M	£'M	£'M
Early Years	Education	(0.060)	0.060	-	-
Dalrymple Primary Boiler Plant	Education	(0.100)	0.100	-	-
Window Contracts – Education	Education	(0.144)	0.144	-	-
Galston Primary School New Build	Education	(1.733)	1.733	-	-
Dunlop Primary Extension	Education	(0.200)	0.200	-	-
Netherthird Community Campus	Education	(0.200)	0.200	-	-
Care Homes – Adults	Social Work	(0.400)	0.400	-	-
Cessnock Gardens	Social Work	(0.845)	0.845	-	-
Children's Homes	Social Work	(0.771)	0.771	-	-
DDA / Care Commission	Social Work	(0.055)	0.055	-	-
Dallsalloch Social Work Centre	Social Work	(1.250)	0.625	0.625	-
Palace Theatre Heating	Neighbourhood	(0.025)	0.025	-	-
Dalmellington & Bellsbank Library	Neighbourhood	(0.060)	0.060	-	-
Stewarton Community Facilities	Neighbourhood	(0.250)	0.250	-	-
Crosshouse Library & Local Office	Neighbourhood	(0.295)	0.295	-	-
One Stop Shop, Auchinleck	Development	(0.049)	0.049	-	-
A70 Welltrees Bridge	Development	(0.374)	0.374	-	-
Flood Prevention	Development	(0.070)	0.070	-	-
Galston Flood Prevention Scheme	Development	(1.160)	1.160	-	-
Town Centre Regeneration	Development	(0.500)	0.500	-	-
North West Neighbourhood Centre	Corporate	(2.600)	2.600	-	-
Total Schemes Carried Forward		(11.141)	10.516	0.625	-

- 3.7** Members are asked to note that underspends on the capital programme for 2005/06, in addition to the slippage outlined above, will be retained by departments to allow projects to be completed with expenditure to be contained within the three year budgeting process.

3.8 Those schemes for which external funding is anticipated are summarised in the following table.

EXTERNALLY FUNDED	LEAD DEPT'	ALLOCATION		
		2006/07 £'M	2007/08 £'M	2008/09 £'M
Galston Flood Prevention	Development	4.760	1.000	-
Development Projects	Development	0.080	0.080	0.080
Environmental Projects	Development	0.060	0.060	0.060
Heritage & Tourism	Development	0.120	0.120	0.120
Restoring Communities	Development	0.180	0.180	0.180
Cycling Walking & Safer Streets	Development	0.208	0.212	-
20MPH Around Schools	Development	0.264	0.271	-
Private Sector Housing Grants	Neighbourhood	0.986	0.986	-
Museum Collections On Line	Neighbourhood	0.150	-	-
Palace Theatre	Neighbourhood	0.310	-	-
Kay Park Facilities	Neighbourhood	1.973	-	-
Schools Fund	Education	2.480	1.447	-
North West Area Centre	Corporate	0.960	-	-
TOTAL EXTERNAL FUNDING		12.531	4.356	0.440

3.9 The capital allocation for 2006/07 and 2007/08 includes an estimate for Private Sector Housing Grants, which is based on the bid to Communities Scotland for funding. The capital allocation for each year will be adjusted accordingly once the funding levels are confirmed by the Scottish Executive.

3.10 The Galston Flood Prevention Scheme has been submitted to the Scottish Executive for approval, but has been delayed due to an outstanding objection. It is anticipated that if the scheme is approved, direct grant at a level of 80% will be received. The remaining costs are estimated at £1.410m and require to be funded from existing capital resources.

3.11 Funding has been confirmed in respect of the Schools Fund for 2006/07 and 2007/08 of £2.480m and £2.595m respectively. The Education Service has not yet received notification of the funding in respect of the Schools Fund for the financial year 2008/09. The Council agreed at its meeting of 9 November 2004 that a proportion of this funding should be utilised to bridge any affordability gap in relation to the proposed PPP project, which at that date was estimated to be £1.148m. The sum available from the Schools Fund for 2007/08 has been reduced by that amount. A proportion of the Schools Fund allocation for 2008/09 will similarly be applied to support the PPP Unitary Charge.

4 SERVICE PRIORITIES AND COMMITMENTS

- 4.1** Having regard to the combined restraints of the Council's Treasury Strategy and the revenue budget, it is proposed that the maximum level of capital expenditure to be supported by borrowing for the financial years 2006/07 to 2008/09 is set at £45.000m. This limit will require to be reviewed annually to ensure that it takes into account any material change that would affect the affordability and/or sustainability of the overall programme. An example of this would be a rise in interest rates.
- 4.2** At its meeting of 8 February 2005 this Committee considered and agreed capital allocations for 2006/07 and 2007/08 in respect of a number of core projects that either arise from a statutory obligation or are considered key to the deliverance of core strategic and Community Plan objectives. This funding is summarised in the following table together with further schemes that fall within this classification, and which are presented for consideration and approval.
- 4.3** It is proposed that the funding for these projects be "top sliced" from the identified borrowing in order to ensure that they can be delivered and it is further proposed that they are approved as priority projects within the 3 year investment programme. These schemes are summarised in the following table;

STRATEGIC POLICIES & SCHEMES	LEAD DEPT'	ALLOCATION			
		2006/07	2007/08	2008/09	TOTAL
Previously Approved:		£'M	£'M	£'M	£'M
Care Homes Elderly – Upgrades	Social Work	0.665	0.665	-	1.330
Children's Homes – Upgrades	Social Work	0.720	-	-	0.720
Roads – Strategic Upgrade Programme	Development	0.750	0.750	-	1.500
Galston Flood Scheme – Council Funding	Development	0.000	0.150	0.100	0.250
Energy Efficiency	Development	0.800	-	-	0.800
Town Centre Regeneration	Development	1.200	2.000	-	3.200
Stewarton Community Facilities	Neighbourhood	0.900	-	-	0.900
Crosshouse Library & Local Office	Neighbourhood	0.295	-	-	0.295
Galston Local Office	Neighbourhood	0.250	-	-	0.250
SUB – TOTAL		5.580	3.565	0.100	9.245
New Schemes for Approval					
Roads – Strategic Upgrade	Development	-	-	0.750	0.750
Town Centre Regeneration	Development	-	-	2.000	2.000
Kay Park Facilities	Neighbourhood	0.500	0.250	-	0.750
Stewarton Community Facilities	Neighbourhood	-	1.200	-	1.200
Contingency	Corporate	0.250	0.250	0.250	0.750
SUB – TOTAL		0.750	1.700	3.000	5.450
TOTAL – STRATEGIC POLICIES		6.330	5.265	3.100	14.695

- 4.4** The Committee is requested to consider the approval of the continuation of funding in relation to the Roads – Strategic Upgrade and Town Centre Regeneration allocations within the 2008/09 capital programme.
- 4.5** Following further assessment of the investment need in relation to energy efficiency, the Regeneration & Efficiency Fund has been clarified by the Executive Director of Development & Property Services and split into its component parts.

- 4.6** Work is continuing on the School Estates Strategy, the outcome of which is likely to be a capital investment plan to address the needs of Educational Services with regard to investment in school buildings. When available, this information will be fed into the proposed Option Appraisal process for consideration in future capital programmes.
- 4.7** The Committee is also requested to consider the approval of funding, subject to satisfactory project appraisal, in relation to the Kay Park Facilities project of £0.500m in respect of the 2006/07 capital programme and £0.250m in respect of the 2007/08 capital programme, and the Stewarton Community Facilities of £1.200m in respect of the 2007/08 capital programme.
- 4.8** All departments have submitted bids for capital allocations in respect of a range of projects which while having a lower Council priority than those set out above, are considered a priority in the achievement of Departmental service plans. As it is difficult to rank any of these projects other than equally with one another as each meets a number of core objectives, it is proposed for 2006/07 to allocate the balance of funding in line with previous departmental allowances and for Service Committees to rank projects within these allocations.
- 4.9** The proposed basis of allocation will allow appropriate option appraisal to be carried out in terms of meeting community planning criteria and achieving service plans, and should allow relevant service committees to consider and approve prioritised investment programmes.

5. PROPOSED SERVICE ALLOCATIONS

- 5.1** The proposed Service allocations for 2006/07 were approved by this Committee at its meeting of 8 February 2005. These have been updated to reflect anticipated changes in the expenditure profile for the Galston Primary School project. With the exception of Galston Primary School, the figures for 2007/08 and 2008/09 will depend upon the outcome of the proposed Option Appraisal process, which is the subject of a separate report to this meeting.

RECOMMENDED ALLOCATIONS	06/07 £M
Education (Excluding PPP)	1.800
Education – Galston Primary School	2.770
Social Services	0.350
Development – Operational	2.200
Development – Corporate Accommodation	0.100
Community Services	0.750
Housing – General Fund	0.200
Corporate IT	0.500
Total Proposed Service Allocation	8.670

- 5.2** The proposed Education allocation is in addition to the capital investment associated with the proposed P.P.P. scheme which is currently estimated at £70m over the 3 years.

- 5.3** The timing of the Galston Primary School project is entirely dependent on the completion of the Galston Flood scheme and so the amounts which will be spent in any individual year on the new school is unknown until the flood scheme has been scheduled. The total amount which this report commits to the primary school project is £6.483m including the £1.733m of slippage already recognised. Given that the figures were originally drafted in 1997 and the fact that there may be a requirement to revisit the design in light of the experience of the Educational Services and the PPP Schools Project Unit this figure may be subject to revision.
- 5.4** It is proposed that any work required to comply with the Disability Discrimination Act be given priority by departments and funding effectively top sliced from their individual allocations to address any issues raised.
- 5.5** It is proposed that, as previously agreed, the Executive Director of Development and Property Services should make appropriate arrangements for expenditure controls on construction and related works, whilst sponsoring departments retain the responsibility for specification and for securing the required level of resources for each project.
- 5.6** Each Executive Director should be requested to submit a detailed capital programme to the relevant Service Committee proposing how these allocations are to be utilised.
- 5.7** In order to comply with the Prudential Code all projects going forward should have been subject to a form of option appraisal. In addition, each capital project must be approved by a Qualified Valuer / Engineer as qualifying as capital expenditure under accounting guidelines. The most obvious qualifications are that expenditure creates a new asset, extends the useful life of an existing asset or increases the value of an existing asset. If a department proceeds with schemes which have not been approved by a Qualified Valuer / Engineer as qualifying expenditure, the possibility exists that the council's external auditors will require the expenditure to be charged to Revenue; which in turn may seriously affect the department's Revenue Budget outcome.
- 5.8** Directors must ensure therefore that they are able to evidence the option appraisal process for each individual project and for the departmental programme as a whole. Departments should also confirm with the Executive Director of Development and Property Services that all schemes have been approved by a Qualified Valuer / Engineer before recommending for approval by Service Committees.

6. TOTAL CAPITAL PROGRAMME

- 6.1 The total level of General Services capital expenditure together with the expected source of funding is summarised in the following table.

EXPENDITURE	06/07 £M	07/08 £M	08/09 £M	TOTAL
Self Financing/Spend to Save Schemes	2.186	0.220	-	2.406
Slippage & B/Fwd Schemes	10.516	0.625	-	11.141
Externally Supported Schemes	12.531	4.356	0.440	17.327
Strategic Priorities	6.330	5.265	3.100	14.695
Service Allocations	8.670	-	-	8.670
To Be Allocated	-	9.735	11.900	21.635
TOTAL CAPITAL EXPENDITURE	40.233	20.201	15.440	75.874
FUNDING				
Spend to Save Efficiencies	2.186	0.220	-	2.406
Slippage & B/Fwd Funding	10.516	0.625	-	11.141
Grants & Partnership Funding	12.531	4.356	0.440	17.327
External Borrowing	15.000	15.000	15.000	45.000
TOTAL FUNDING	40.233	20.201	15.440	75.874

- 6.2 Within the 2007/08 to 2008/09 capital programmes there are unallocated sums of £9.735m and £11.900m respectively. The allocation of these funds will be decided when determining the 2007/08 to 2008/09 programme. A contingency fund of £0.250m, for use across all departments, has also been included within the allocation for Corporate Support each year.

- 6.3 The total level of capital investment by each Department is shown in the following table. The distribution of the unallocated funds for 2007/08 and 2008/09 will be determined by the proposed Option Appraisal process.

DEPARTMENT	06/07 £M	07/08 £M	08/09 £M	TOTAL
Education	9.487	1.447	-	10.934
Social Services	4.431	1.290	-	5.721
Development – Operational	13.020	5.043	3.290	21.353
Development – Accommodation	0.100	-	-	0.100
Neighbourhood Services – Community	7.699	1.450	-	9.149
Neighbourhood Services – Housing	1.186	0.986	-	2.172
Corporate Support(Including Contingency)	4.310	0.250	0.250	4.810
To Be Allocated	0.000	9.735	11.900	21.635
TOTAL EXPENDITURE	40.233	20.201	15.440	75.874

- 6.4 The Council's Corporate Management Team has considered, and is supportive of, the content of this report.

7 RECOMMENDATIONS

It is recommended that Members recommend to Council;

- 7.1 approve the proposed capital investment strategy outlined in this report;
- 7.2 agree the proposed arrangements for expenditure controls on construction and related works;

- 7.3 instruct Executive Directors to submit detailed capital programmes for the utilisation of capital allocations for 2006/07 to their Service Committees for consideration and approval having satisfied the requirements in relation to option appraisal and categorisation of capital expenditure;
- 7.4 approve the Spend to Save projects highlighted within this report and
- 7.5 approve the overall proposed capital expenditure outlined in Section 6 above.

Alex McPhee
Executive Head of Finance

LIST OF BACKGROUND PAPERS
NIL

Members wishing further information should contact Alex McPhee, Executive Head of Finance, Telephone 01563 576300