Agenda Item No:	**9.5**	**Report No:**	**26/16**
Report Title:	**The Capital Programme 2015/2016 to 2018/2019**		
Report To:	**Cabinet**	**Date:**	**8 February 2016**
Cabinet Member:	**Councillor Bill Giles**		
Ward(s) Affected:	**All**		
Report By:	**Alan Osborne, Director of Corporate Services**		

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Purpose of Report:

To recommend to Council the revised 2015/2016 Capital Programme, the 2016/2017 Capital Programme, the outline Capital Programme 2017/2018 to 2018/2019 and the associated Prudential Indicators.

Officers Recommendation(s):

1 To approve the revised 2015/2016 Capital Programme of £25.353m at Appendix 1 and recommend it to Council.

2 To approve the 2016/2017 Capital Programme of £9.171m at Appendix 2 and recommend it to Council.

3 To approve the outline Capital Programme 2016/2017 to 2017/2018 of £35.369m at Appendix 2 and recommend it to Council.

4 To approve the Prudential Indicators in respect of the Capital Programme detailed in Section 6, and recommend to Council that they are adopted for 2016/2017.

Reasons for Recommendations

1 As part of the annual budget cycle the Cabinet considers what level of capital support to allocate to its policy programme. It also considers the medium term position in relation to likely capital needs and available resources. The Council’s Constitution requires Cabinet to make a recommendation to Council on the level of the Capital Programme budget.

2 Part 1 of the Local Government Act 2003 introduced a framework for local authority capital expenditure and financing, the ‘Prudential Capital Finance System’. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, which define this system, requires local authorities to follow the ‘Prudential Code for Capital Finance in Local Authorities’ (the Prudential Code) when taking their decisions. The Prudential Code requires authorities to set a number of ‘Prudential Indicators’ before the beginning of each financial year.

3 Background to the Capital Finance system

3.1 The Local Government Act 2003 introduced a framework for local authority capital finance. The key feature of the system is that local authorities are free to raise finance for capital expenditure where they can afford to service the resulting debt.

3.2 In the case of non-Housing Revenue Account schemes, a local authority is able to borrow to finance capital expenditure without any limit being imposed by the Government, provided that the local authority considers the borrowing to be ‘affordable’. The Secretary of State retains an overall power to intervene if the national total of intended local authority borrowing is unacceptable ‘for national economic reasons’.

3.3 In determining how much borrowing is ‘affordable’ local authorities are required to have regard to the Prudential Code. The Prudential Code does not set out in detail how authorities should calculate their own level of borrowing, but provides an overall framework within which local authorities must ensure that their capital spending plans are prudent, affordable and sustainable.

3.4 In the case of capital expenditure in respect of council housing, the Government considers that it is necessary, due to the current fiscal position, to maintain control on authorities’ debt. It exercises control by specifying for each housing authority a limit to that authority’s housing indebtedness (a Debt Cap). The Debt Cap restricts the ability of an authority to take on additional borrowing in respect of its housing stock even if that borrowing is affordable by its Housing Revenue Account (HRA). The Government set this Council’s Debt Cap at £72.931m. In 2014/2015 the Council successfully applied to the Local Growth Fund for an increase in the Debt Cap to £75.248m on the condition that the additional borrowing is used for new build schemes on 7 specified sites.

3.5 In following the framework of the Prudential Code, every local authority is required to set a number of ‘Prudential Indicators’ before the start of the financial year. These indicators cover capital expenditure plans, the impact of those plans on revenue budgets, and the link between the need to borrow to finance those plans and the Council’s overall Treasury Management strategy.

3.6 The Prudential Code makes it clear that the Prudential Indicators are not designed to be compared between authorities and explains that it would be misleading and counter-productive to treat them in this way. The system is designed to support local decision-making in a manner that is publicly accountable.

4 Financing Capital expenditure

4.1 All capital expenditure has to be financed, either in the year that it is incurred or over a period of time (recognising that capital assets have a life which extends into the future). The core sources of finance are:

- Capital receipts generated from the sale of capital assets
- Reserves
- Direct from Revenue budgets
- Third-Party Contributions e.g. from developers as required by ‘s106 agreements’
- Grants and Contributions

4.2 Capital expenditure not financed in year remains as a ‘capital financing requirement’ funded temporarily by borrowing. Annual provision is made from the revenue budgets to repay this outstanding borrowing over time. As noted above, the total amount borrowed must be affordable, when taking into account both the principal repayments required and the interest payable on outstanding loans.

4.3 Capital Receipts from the sale of houses and flats under the Right to Buy scheme are a key source of funding for capital expenditure. Regulations specify that these receipts are divided into four elements as shown in the table below. The amounts shown are for illustration and relate to the three properties sold by the Council in the first six months of 2015/2016.

	1 April to 30 Sept 2015	
	£	**%**
Core receipts retained to fund capital expenditure	68,240	18.7
Receipts retained for the repayment of HRA debt	21,631	5.9
Receipts paid to the Government	172,932	47.4
Additional receipts retained to fund new affordable housing	102,297	28.0
Total	**365,100**	**100.0**

4.4 Capital Receipts derived from the sale of non-housing assets do not have to be allocated in a specified way but can be used to pay for any kind of capital expenditure or, if the Council prefers, as provision to repay debt or meet premiums on the early repayment of debt.

5 Capital Programme

5.1 The Capital Programme is an allocation of resources to projects relating to the major repair, enhancement or purchase of long-term assets. In many cases these projects will span financial years.

5.2 Capital Programme 2015/2016

5.2.1 The approved 2015/2016 Capital Programme is set out in Appendix 1 (lines 1 to 96), with a total value of £25.353m. As noted above, for completeness, this includes the full cost of implementing new capital schemes although some of the expenditure will fall into 2016/2017 and, potentially, later years.

5.2.2 Following a review of HRA capital investment, around £2m is likely to be deferred to 2016/17. In addition, a further £3.5m in respect of the construction of new dwellings will be deferred to 2016/2017.

5.2.3 Cabinet is not asked to approve any changes to the 2015/2016 Capital Programme.

5.3 Resources to support the future Capital Programme

5.3.1 The following table sets out a projection of the resources which will be available at 1 April 2016 to fund capital expenditure.

Line		£'000
1	*Resources for the HRA Programme*	
2	- Major Repairs Reserve	5,698
3	- Capital Expenditure Financed from Revenue	-
4	Sub-total HRA	5,698
5	*Resources for the General Fund Programme*	
6	- DCLG Disabled Facilities Grant	468
7	Sub-total General Fund	468
8	*Capital Receipts*	5,689
9	Total	11,855

Note: In addition, the Council's earmarked reserves can be used to support capital expenditure (e.g. Vehicle and Equipment Reserve).

Line 2 – Major Repairs Reserve (MRR): The contribution into the Reserve each year is based on the annual depreciation charge in respect of HRA assets. The contribution in 2016/2017 will be £4.954m. At 1 April 2016, the balance of MRR received in previous years, but not yet used, is expected to be £0.744m.

Line 3 - HRA Revenue Contribution: This is the level proposed in the Housing Revenue Account budget for 2016/2017.

Line 6 - Disabled Facilities Grant from Government: This amount reflects the Government contribution towards the cost of awarding mandatory Disabled Facilities Grants.

Line 8 - Capital Receipts: These are available to support either the General Fund or Housing Revenue Account capital programmes and Cabinet has previously agreed that they should be allocated according to spending priorities. The total shown is the expected balance at 1 April 2016, with no account taken of any receipts that may be received in 2016/2017, or subsequent years. In accordance with the Key Principle number 4 of our Finance Strategy which is shown in the General Fund Revenue budget report we only include capital receipts when they "are banked".

5.3.2 Retained receipts from Council House Right to Buy Sales must be spent on new affordable housing, but can only be used to fund a maximum of 30% of the cost of the new homes. The retention scheme was implemented on 1 April 2012 and since that date receipts with a total value of £1.871m have been initially retained requiring spending of £6.236m on new affordable homes.

Of this amount, £1.470m was spent on the acquisition and commissioning of 12 flats at The Crest; £0.200m on additional units at 2 Ashington Gardens & 63 Meeching Road; and £3.817m has been committed towards the construction of 30 new dwellings on former garage sites, referred to elsewhere in this report.

5.3.3 Cabinet has previously determined that as Disabled Facility Grants are mandatory, they should be the first call on available funds, with any remaining core housing receipts used to pay for other elements within the Private Sector Housing Renewal programme (e.g. energy efficiency initiatives).

5.3.4 Cabinet will need to consider how to provide a housing capital programme that strikes a reasonable balance between maintaining the Council's own housing stock and its wider duty to provide private sector housing assistance.

5.3.5 General Fund Reserves are also available to fund either revenue or capital expenditure.

5.3.6 The table in paragraph 5.3.1 shows the main resources that are available to fund capital expenditure, other than borrowing.

5.3.7 Under the Prudential Borrowing regime the only cap on General Fund Borrowing is one of affordability to the taxpayer. The Housing Revenue Capital Programme on the other hand is constrained by a borrowing cap. There is currently £8.951m of borrowing headroom available and this will be fully utilised on the New Homes Project. This project also requires all of the available capital receipts generated to be recycled back into paying for delivery of more Council owned homes within that project.

5.4 Capital Programme 2016/2017 to 2018/2019

5.4.1 The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. The most detailed information is available for year 1, with the programme for years 2 and 3 liable to variation when more precise forecasting can be undertaken in terms of both the availability of capital resources and spending requirements.

5.4.2 The Government continues to maintain control of borrowing for local authority housing. The Council bid successfully to the Government's Local Growth Fund for additional borrowing of £2.317m to finance construction of thirty new dwellings. The additional allocation increases the Housing Revenue Account 'Debt Cap', which is now set at £75.248m. Actual HRA borrowing at 1 April 2016 is projected to be £63.980m, leaving borrowing headroom of £8.950m. There is no capped limit set by the Government for the General Fund.

5.4.3 The recommended Capital Programme for 2016/2017 to 2018/2019 is set out in Appendix 2. It should be noted that the items shown for 2017/2018 and 2018/2019 are provisional at this stage.

5.4.4 Housing Capital Programme

(a) The proposed three year Housing Capital Programme is shown at Appendix 2 (lines 2 to 15), with a total value of £5.240m in 2016/2017.

(b) The proposed programme includes £12.8m for the New Homes project, allocated to the two years 2017/18 and 2018/19 when the majority of development costs can be expected to be incurred. This is illustrative and the actual allocation of costs between years (including 2016/17) will be refined as schemes progress.

(c) Those items which relate to improving the Council's own housing stock and other works (Appendix 2 - lines 4 to 14) are consistent with the Housing Business Plan and have been discussed with Tenants' representatives. The total HRA Capital Programme is £29.104m, and is funded by borrowing (£13.379m), the Major Repairs Reserve (£15.344m) and the Revenue Account (£0.381m).

(d) The mandatory Disabled Facilities Grants programme in 2016/2017 is £0.600m (line 18) and provides aids and adaptations for disabled persons to live independently in their own homes. The programme is funded by Government grant passed down via East Sussex County Council (£0.468) and capital receipts (£0.132m).

(e) It is proposed to continue the programme of Emergency Repair Grants (£0.015m), Home Trust Loans (£0.060m) and ‘Keep Warm in Winter’ (£0.060m) (lines 19 to 21).

(f) The Council is contributing £0267m in 2016/2017 from its own resources (Capital Receipts) to deliver the General Fund Housing Capital programme.

5.4.5 General Fund Capital Programme

(a) The Non-Housing Programme (Appendix 2, lines 24 to 32) has a proposed value in 2016/2017 of £3.196m. This excludes any provision that Cabinet may make available when it agrees the General Fund Revenue Budget for 2016/2017.

(b) The Service Transformation/Integration Programme allocation (line 25) has been agreed by Cabinet, bringing the total allocation to £2.250m, spread over 2015/2016 and 2016/2017.

(c) An allocation of £0.165m (line 26) is included for the vehicle and plant replacement programme. This programme is cyclical depending on the life of individual vehicles.

(d) In July 2015, Cabinet agreed an allocation of £2.2m as funding for start-up costs associated with implementing changes to the Waste and Recycling service, including replacement vehicles and the equipping of a materials reclamation facility. This allocation is included at line 27, funded from reserves.

(e) A general provision for the replacement of computer hardware is included in the 2016/2017 capital programme at £0.050m (line 28).The funding requirement for future years will be assessed in the light of investment in new technology as part of the Service Transformation/Integration Programme.

(f) A general provision for major works to Property Assets is included in the forward three year capital programme at £0.150m (line 29).

(g) A provision of £0.050m (line 30) is included for refurbishment work to Newhaven Fort, as agreed with WAVE Leisure who will is operating the Fort under a management agreement with the Council.

(h) An allocation of £0.031m (line 31) is made for new or enhanced play areas, fully funded from planning section 106 developer contributions.

(i) The General Fund Capital Programme 2016/2017 is funded from Reserves (£3.165m) and Contributions (£0.031m).

6 Prudential Indicators

6.1 As noted in section 3 above, the Prudential Framework requires local authorities to ensure that their capital expenditure plans are affordable and sustainable in the longer term. A key element in making this judgment is the impact that the capital expenditure plans will have on the General Fund and the Housing Revenue Account. The impact is measured through a number of 'Prudential Indicators'.

6.2 The indicators derived from the capital programme at Appendix 2 are given in 6.21 to 6.24 below. The effect of the capital programme on both the General Fund and Housing Revenue Account is considered to be affordable. There will be no impact on affordability by the introduction of any new schemes in to the programme, provided that they are fully funded from external sources.

6.2.1 Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels. It is important to note that the table below includes the rephrasing of £3.5m expenditure on the Garage Sites project between 2015/2016 and 2016/2017 compared with the respective capital programmes.

No	Capital Expenditure	2015/16 Estimate £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
1a	Non-HRA	4.842	9.514	8.731	1.449	1.385
1b	HRA	5.164	4.239	8.740	9.413	14.451
	Total	**10.006**	**13.753**	**17.471**	**10.862**	**15.836**

6.2.2 Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

No	Ratio of Finance Costs to Net Revenue Stream	2015/16 Estimate %	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
2a	Non-HRA	0.95	0.88	1.64	1.64	1.64
2b	HRA	20.69	20.82	15.71	15.71	15.71

6.2.3 Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and the financing.

No	Capital Financing Requirement	2015/16 Approved £m	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
3a	Non-HRA	8.421	6.913	10.067	9.594	9.139
3b	HRA	65.613	63.980	64.982	67.381	74.818
	Total CFR	**74.034**	**70.893**	**75.049**	**76.975**	**83.957**

6.2.4 Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme. The revenue budget requirement includes the use of Reserves.

No	Incremental Impact of Capital Investment Decisions	2015/16 Approved £	2015/16 Revised £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
5a	Increase in Band D Council Tax	84.39	6.29	127.19	19.95	18.16
5b	Increase in Average Weekly Housing Rents	5.93	3.89	1.31	1.41	4.38

The above table has been calculated taking into account:

- capital expenditure directly funded from revenue
- capital expenditure funded from reserves (which could otherwise have been used for revenue purposes)
- the loss of potential investment income which could have been earned had funds not been used to finance the capital programme
- in 2016/2017 and 2017/2018 the costs shown relate to the recurring effects of the 2015/2016 programme only
- the 2016/2017 tax base has been used in the calculations for 2017/2018 onwards

Financial Implications

7 This is included in the main body of the report.

Legal Implications

8 None arising from this Report.

Risk Management Implications

9 I have completed a risk assessment in accordance with the Council's risk management methodology and the following risks and mitigating factors have been identified.

In common with all plans which necessitate major expenditure there is a risk that insufficient funds will be available. However, this risk is mitigated by ensuring that current resources match the total cost of the programme with no account taken of the proceeds of future asset sales. The programme has been developed in accordance with the Prudential Framework, which includes an assessment of affordability.

Monitoring of the projects, which comprise the programme, takes place regularly through the year and any changes are reported to Cabinet. The letting of contracts in respect of the projects contained within the programme is carried out in accordance with the contract procedure rules set out in the Council's Constitution.

Equality Screening

10 This is a budget report for which detailed Equality Analysis is not required to be undertaken. The equality implications of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports and it is not considered necessary to undertake an overarching analysis of the budget proposals as a whole..

Background Papers: None

Appendices: Appendix 1 Revised Capital Programme 2015/2016
Appendix 2 Proposed Capital Programme 2016/2017 to 2018/2019