Agenda Item No: | **Report No**:

Report Title:	**The Capital Programme 2013/2014 to 2016/2017**		
Report To:	**Cabinet**	**Date:**	**13 February 2014**
Cabinet Member:	**Councillor Andy Smith**		
Ward(s) Affected:	**All**		
Report By:	**Director of Finance**		

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Purpose of Report:

To recommend to Council the revised 2013/2014 Capital Programme, the 2014/2015 Capital Programme, the outline Capital Programme 2015/2016 to 2016/2017 and the associated Prudential Indicators.

Officers Recommendation(s):

1 To approve the revised 2013/2014 Capital Programme of £14,893,280 at Appendix 1 and recommend it to Council.

2 To recommend to Council an overall funding allocation for the UTC project.

3 To approve the 2014/2015 Capital Programme of £7,745,520 at Appendix 2 and recommend it to Council.

4 To approve the outline Capital Programme 2015/2016 to 2016/2017 of £14,031,400 at Appendix 2 and recommend it to Council.

5 To approve the Prudential Indicators in respect of the Capital Programme detailed in paragraph 7, and recommend to Council that they are adopted for 2014/2015.

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 capital planning process takes account of the Council's Capital Strategy and Asset Management Plan as these key documents have a direct influence on the allocation of 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 Prudential 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 Local authorities are able to borrow to finance capital expenditure without any limit being imposed by the Government for non-Housing Revenue Account schemes. However, the Secretary of State does have the power to intervene if the national total of intended local authority borrowing is unacceptable 'for national economic reasons'.

3.3 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. The Localism Act 2011 contains provisions to limit an 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 has set this Council's Debt Cap at £72.931m.

3.4 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.

3.5 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.

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.

3.6 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 eleven properties sold by the Council in the first nine months of 2013/2014.

	1 April to 31 Dec '13	
	£	**%**
Core receipts retained to fund capital expenditure	104,033	9.9
Receipts retained for the repayment of HRA debt	239,277	22.8
Receipts paid to the Government	245,598	23.4
Additional receipts retained to fund new affordable housing	459,872	43.9
Total	**1,048,780**	**100.0**

3.7 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.

4 Capital Programme 2013/2014

4.1 The 2013/2014 Capital Programme is set out in Appendix 1 (lines 1 to 122), with a total value of £14.893m. For completeness, this includes the full cost of implementing new capital schemes, although some of the expenditure will fall into 2014/2015.

5 Resources to support the future Capital Programme

5.1 The following table sets out a projection of the resources which will be available at 1 April 2014 to fund capital expenditure.

Line		£'000
1	*Resources for the HRA Programme*	
2	- Major Repairs Reserve	4,738
3	- Capital Expenditure Financed from Revenue	1,295
4	- Mortgage Rescue Grant	85
5	Sub-total HRA	6,118
6	*Resources for the General Fund Programme*	
7	- DCLG Disabled Facilities Grant	379
8	Sub-total General Fund	379
9	*Capital Receipts*	2,186
10	Total	8,683

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

5.2 Line 2 – Major Repairs Reserve (MRR): The contributions into the Reserve each year are based on the annual depreciation charge in respect of HRA property assets. The contribution in 2014/2015 will be £3.705m. At 1 April 2014, the balance of MRR received in previous years, but not yet used, is expected to be £1.033m.

5.3 Line 3 - HRA Revenue Contribution: This is the level proposed in the Housing Revenue Account budget for 2014/2015.

5.4 Line 7 - Disabled Facilities Grant from Government: This amount reflects the Government contribution towards the cost of awarding mandatory Disabled Facilities Grants.

5.5 Line 9 - 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 2014, with no account taken of any receipts that may be received in 2014/2015 or subsequent years. In the present economic climate it is not prudent to anticipate future capital receipts.

5.6 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 £0.82m have been retained, requiring spend of £2.73m on new affordable homes. Of this amount £1.4m was spent on the acquisition and commissioning of 12 flats at The Crest.

5.7 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).

5.8 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.

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

6 Capital Programme 2014/2015 to 2016/2017

6.1 The Prudential Code requires local authorities to plan their capital expenditure programme for at least three years ahead. This corresponds with the time scale covered by the Council's Capital Strategy. 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.

6.2 The Government continues to maintain control of local authority borrowing for the Housing Revenue Account. This Council's Housing Revenue Account borrowing is capped at £72.931m. Actual borrowing at 1 April 2014 is projected to be £67.204m, leaving borrowing headroom of £5.727m. There is no capped limit set by the Government for the General Fund.

6.3 The recommended Capital Programme for 2014/2015 to 2016/2017 is set out in Appendix 2. It should be noted that the items shown for 2015/2016 and 2016/2017 are provisional at this stage, as explained in paragraph 6.1.

6.4 Housing Capital Programme

6.4.1 The proposed three year Housing Capital Programme is shown at Appendix 2 (lines 1 to 30), with a total value of £6.418m in 2014/2015.

6.4.2 Those items which relate to the Council's own housing stock (Appendix 2 - lines 1 to 22) are consistent with the Housing Business Plan and have been discussed with Tenants' representatives. The total HRA Capital Programme is £5.683m, and is funded by borrowing (£0.273m), the Major Repairs Reserve (£4.030m), the Revenue Account (£1.295m) and grants & contributions (£0.085m).

6.4.3 The mandatory Disabled Facilities Grants programme in 2014/2015 is £0.600m (line 25) and provides aids and adaptations for disabled persons to live independently in their own homes. The Government continues to reiterate its commitment to Disabled Facilities Grants and has a ring-fenced National Budget for this programme. The Council's allocation for the forthcoming year is £0.379m.

6.4.4 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 26 to 28).

6.4.5 The Council is contributing £0.356m in 2014/2015 from its own resources (capital receipts) to deliver the Housing Capital programme.

6.5 General Fund Capital Programme

6.5.1 The Non-Housing Programme (Appendix 2, lines 31 to 37) has a proposed value in 2014/2015 of £1.328m. This excludes any provision that Cabinet may make available when it agrees the General Fund Revenue Budget for 2014/2015.

6.5.2 £0.245m (line 32) is allocated to the vehicle and plant replacement programme. The programme is under review by the Head of Waste and Recycling and the Fleet Manager.

6.5.3 A general provision for the replacement of computer hardware is included in the forward three year capital programme at £0.050m (line 33).

6.5.4 A general provision for backlog repairs to Corporate Buildings is in included in the forward three year capital programme at £0.150m (line 35).

6.5.5 A contribution of £0.883m to the University Technical College project is in included in the capital programme at (line 36). This was considered and agreed by Cabinet at its meeting on 6 January 2014.

(a) At its January meeting Cabinet requested information on the estimated cost of the Boardwalk and any other contributions that may need to be considered to see the project through to completion.

(b) An initial report by Black and Veatch on the estimated cost of various Boardwalk options has now been received. Further options are still being considered. The estimates received include a 60% optimism bias which provides a reasonable degree of contingency for a project of this nature. This estimating process follows standard Environment Agency methodology. The Boardwalk costs referred to below relate to the frontage of the proposed UTC building.

(c) The initial report prepared by Black and Veatch set out 4 traditional design options with a cost range from £0.47m to £0.83m. The range of costs varies according to the width and design of the options.

(d) Each of the options provided for essential river bank stabilisation and protection works. The report identifies the need for a marine levels and a marine obstruction survey and the cost of seeking consents. None of these are included in the cost estimate and the consent stage alone is estimated at £50,000.

(e) Black and Veatch continue to advise on lower cost but equally effective solutions for the frontage/boardwalk.

(f) The remaining area where a contribution could be considered, relates to promotion and planning for the opening of the UTC in advance of the commencement date for Department for Education revenue funding.

(g) Cabinet is requested to consider paragraphs b to f above and to recommend an appropriate budget to Council for approval. The funding for these remaining items would need to come from the Change Management and Spending Power Reserve which is augmented each year by the receipt of the New Homes Bonus grant stream. The 2014/2015 Capital programme would be updated following Council's consideration of this final request.

(h) The actual funding requirement for the whole UTC project will be reviewed when the building tenders are received. At this stage any surplus/deficit in the project funding will be identified. It may transpire that some of the funding "allocated" by the Council is not required. A statement of the funding sources and the tendered costs will be reported to Cabinet once available.

6.5.6 Other items that are intended to be wholly funded from external sources such as planning section 106 developer contributions or grants will be reported to Cabinet as they arise.

6.5.7 The Government has not made a Supported Capital Expenditure (SCE) allocation for 2014/2015. There is no intention to enter into new prudential borrowing to fund additional General Fund capital expenditure at the current time, although the position will be kept under review as opportunities arise.

6.5.8 The General Fund Capital Programme 2014/2015 is funded from the Vehicle Replacement Reserve (£0.245m), the Revenue Equalisation and the Asset Management Reserve (£0.200m) and the Change Management & Spending Power Reserve (£0.883m).

7 Prudential Indicators

7.1 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.

7.2 The impact of the proposed Capital Programme set out in Appendix 2 is shown in the table below. The effect 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.

	Total Cost General Fund £'000	Impact on Council Tax Band D £	Total Cost HRA £'000	Impact on Rents per week £
2013/14	822	23.87	1,269	7.53
2013/14 (Revised)	3,200	92.93	2,549	15.10
2014/15	1,328	38.30	1,403	8.31
2015/16	905	25.95	1,419	8.41
2016/17	430	12.26	1,892	11.21

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 2014/2015 and 2015/2016 the costs shown relate to the recurring effects of the 2013/2014 programme only
- The 2014/2015 tax base has been used in the calculations for 2015/2016 onwards

7.3 The Prudential Code requires the Council to set a number of 'Prudential Indicators' in respect of its proposed capital programme, including those referred to in 7.2 above. The indicators derived from the capital programme at Appendix 2 are as follows.

7.3.1 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.

No	Capital Expenditure	2013/14 Estimate £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
1a	Non-HRA	1.557	8.827	2.063	1.640	1.165
1b	HRA	4.595	6.066	5.683	5.426	5.800
	Total	**6.152**	**14.893**	**7.746**	**7.066**	**6.965**

7.3.2 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	2013/14 Estimate %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
2a	Non-HRA	0.20	1.12	0.95	0.78	0.68
2b	HRA	11.45	18.69	21.51	21.51	21.51

7.3.3 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	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
3a	Non-HRA	4.693	4.676	4.512	4.370	4.235
3b	HRA	68.559	67.204	65.779	64.081	62.383
	Total CFR	**73.252**	**71.880**	**70.291**	**68.451**	**66.618**

7.3.4 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.

No	Incremental Impact of Capital Investment Decisions	2013/14 Approved £	2013/14 Revised £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
5a	Increase in Band D Council Tax	23.87	92.93	38.30	25.95	12.26
5b	Increase in Average Weekly Housing Rents	7.53	15.10	8.31	8.41	11.21

Financial Implications

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

Legal Implications

9 None arising from this Report.

Sustainability Implications

10 I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a budget/financial monitoring report.

Risk Management Implications

11 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

12 The equality screening process for this Report took place in January 2014. No potential negative impacts were identified.

Background Papers: None

Appendices: Appendix 1 Revised Capital Programme 2013/2014
Appendix 2 Proposed Capital Programme 2014/2015 to 2016/2017