Agenda Item No:	**10.4**	**Report No:**	**20/15**
Report Title:	**The Capital Programme 2014/2015 to 2017/2018**		
Report To:	**Cabinet**	**Date:**	**12 February 2015**
Cabinet Member:	**Councillor Andy Smith**		
Ward(s) Affected:	**All**		
Report By:	**John Magness, Director of Finance**		

Contact Officer(s):

Name(s): **Stephen Osborne**
Post Title(s): **Principal Accountant**
E-mail(s): **stephen.osborne@lewes.gov.uk**
Tel No(s): **01273 471600**

Purpose of Report:

To recommend to Council the revised 2014/2015 Capital Programme, the 2015/2016 Capital Programme, the outline Capital Programme 2016/2017 to 2017/2018 and the associated Prudential Indicators.

Officers Recommendation(s):

1 To approve the revised 2014/2015 Capital Programme of £16.594m at Appendix 1 and recommend it to Council.

2 To approve the 2015/2016 Capital Programme of £15.666m at Appendix 2 and recommend it to Council.

3 To approve the outline Capital Programme 2016/2017 to 2017/2018 of £15.031m at Appendix 2 and recommend it to Council.

4 To approve the Prudential Indicators in respect of the Capital Programme detailed in paragraph 7, and recommend to Council that they are adopted for 2015/2016.

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 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, with an increase to £75.248m permitted if new build schemes on 7 sites proceed as planned.

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.

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.

3.7 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 five properties sold by the Council in the first six months of 2014/2015.

	1 April to 30 Sept 2014	
	£	**%**
Core receipts retained to fund capital expenditure	77,777	17.2
Receipts retained for the repayment of HRA debt	91,325	20.1
Receipts paid to the Government	179,784	39.6
Additional receipts retained to fund new affordable housing	104,614	23.1
Total	**453,500**	**100.0**

3.8 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 2014/2015

4.1 The Capital Programme is an allocation of resources (principally capital receipts from the sale of assets, grants or contributions received with specific conditions attached, and reserves) to projects relating to the major repair, enhancement or purchase of long-term assets. In many cases these projects will span financial years.

4.2 The 2014/2015 Capital Programme is set out in Appendix 1 (lines 1 to 104), with a total value of £16.594m. As noted above, for completeness, this includes the full cost of implementing new capital schemes although some of the expenditure will fall into 2015/2016 and, potentially, later years.

4.3 Five amendments are proposed to the 2014/2015 Capital Programme:

4.3.1 The Government supported Mortgage Rescue Scheme (Line 20 Col [f]) has now ceased and the provision of £175,700 can be removed from the Capital Programme.

4.3.2 The Coastal Defence Works Implementation Plan (Newhaven Western Arm to Brighton Marina) has been approved by the Environment Agency in the sum of £73,000 (Line 59 Col [f]). This is fully funded by Environment Agency grant.

4.3.3 To align the budget with available resources, the Computer and IT Replacement Programme (Line 67 Col [f]) has been reduced by £65,000, with £50,000 being deferred to 2015/2016. This programme is funded from the Revenue Equalisation & Asset Management Reserve.

4.3.4 A recent survey has indicated that significant structural works are required to Southover Grange Depot. The estimated cost of emergency remedial works is £20,000 (Line 78 Col [f]), which can be funded from the general budget provision for Asset Backlog Repairs (Line 75 Col [f]).

4.3.5 The ageing water and heating system at the Stanley Turner Pavilion requires renewal to comply with modern standards. The estimated cost is £40,000 (Line 79 Col [f]), which can be funded from the general provision for Asset Backlog Repairs (Line75 Col [f]).

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 2015 to fund capital expenditure.

Line		£'000
1	*Resources for the HRA Programme*	
2	- Major Repairs Reserve	4,525
3	- Capital Expenditure Financed from Revenue	820
4	Sub-total HRA	5,345
5	*Resources for the General Fund Programme*	
6	- DCLG Disabled Facilities Grant	379
7	Sub-total General Fund	379
8	*Capital Receipts*	3,592
9	Total	9,316

Note: In addition, the Council's earmarked reserves can be used to support capital expenditure (e.g. Vehicle Renewals 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 2015/2016 will be £4.421m. At 1 April 2015, the balance of MRR received in previous years, but not yet used, is expected to be £0.727m.

Line 3 - HRA Revenue Contribution: This is the level proposed in the Housing Revenue Account budget for 2015/2016.

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 2015, with no account taken of any receipts that may be received in 2015/2016 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".

5.2 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 £1.427m have been initially retained requiring spending of £4.757m on new affordable homes.

Of this amount, £1.419m was spent on the acquisition and commissioning of 12 flats at The Crest; £0.246m on additional units at 2 Ashington Gardens & 63 Meeching Road; and £3.092m has been committed towards the construction of 30 new dwellings on former garage sites, referred to elsewhere in this report.

5.3 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).

5.4 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.

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

5.6 The table in paragraph 5.1 shows the main resources that are available to fund capital expenditure, other than borrowing.

5.7 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 £8.1m of borrowing headroom available and this will be fully utilised on the Property and Regeneration project (known as the 49 sites). 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.

5.8 The Property and Regeneration Project will be built into the Capital Programme following signing of the Development Agreement.

6 Capital Programme 2015/2016 to 2017/2018

6.1 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.

6.2 The Government continues to maintain control of borrowing for local authority housing. The Council's bid for additional borrowing of £2.317m, to finance construction of thirty new dwellings, was successful. The additional allocation increases the Housing Revenue Account 'Debt Cap'

6.3 Following the Council's successful bid for additional borrowing (£2.317m), the Housing Revenue Account borrowing limit is now capped at £75.248m.

Actual borrowing at 1 April 2015 is projected to be £64.790m, leaving borrowing headroom of £8.141m. There is no capped limit set by the Government for the General Fund.

6.4 The recommended Capital Programme for 2015/2016 to 2017/2018 is set out in Appendix 2. It should be noted that the items shown for 2016/2017 and 2017/2018 are provisional at this stage, as explained in paragraph 6.1.

6.5 Housing Capital Programme

6.5.1 The proposed three year Housing Capital Programme is shown at Appendix 2 (lines 1 to 35), with a total value of £10.082m in 2015/2016.

6.5.2 Those items which relate to the construction of new dwellings (Appendix 2 - lines 3 to 10) are consistent with Council's successful bid to Government to construct thirty new dwellings.

6.5.3 Those items which relate to improving the Council's own housing stock and other works (Appendix 2 - lines 11 to 26) are consistent with the Housing Business Plan and have been discussed with Tenants' representatives. The total HRA Capital Programme is £9.347m, and is funded by borrowing (£2.502m), Capital Receipts (£1.500m), the Major Repairs Reserve (£4.525m) and the Revenue Account (£0.820m).

6.5.4 The mandatory Disabled Facilities Grants programme in 2015/2016 is £0.600m (line 30) 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 estimated at £0.379m.

6.5.5 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 31 to 33).

6.5.6 The Council is contributing £0.356m in 2015/2016 from its own resources (Capital Receipts) to deliver the General Fund Housing Capital programme.

6.6 General Fund Capital Programme

6.6.1 The Non-Housing Programme (Appendix 2, lines 36 to 44) has a proposed value in 2015/2016 of £5.584m. This excludes any provision that Cabinet may make available when it agrees the General Fund Revenue Budget for 2015/2016.

6.6.2 The Photovoltaic Panel Housing Installation Programme, as agreed by Cabinet, is included at £2.700m (line 37).

6.6.3 The New Service Delivery Model Technology Programme, as agreed by Cabinet, is included at £2.250m (line 38), spread over 2015/2016 and 2016/2017. This project is at the pre-tender stage, and the total cost and phasing is likely to change.

6.6.4 An allocation of £1.334m (line 39) is included for the vehicle and plant replacement programme. This programme is cyclical depending on the life of individual vehicles.

6.6.5 A general provision for the replacement of computer hardware is included in the 2015/2016 capital programme at £0.050m (line 40).The funding requirement for future years will be assessed in the light of investment in new technology shown in line 38.

6.6.6 A general provision for backlog repairs to Corporate Buildings is included in the forward three year capital programme at £0.150m (line 42).

6.6.7 A provision of £0.050m (line43) is included for refurbishment work to Newhaven Fort, as agreed with WAVE Leisure who will be operating the Fort under a management agreement with the Council.

6.6.8 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.

6.6.9 The General Fund Capital Programme 2015/2016 is funded from new borrowing (£2.700m), Vehicle Replacement Reserve (£1.334m), Revenue Equalisation and Asset Maintenance Reserve (£0.200m), Change Management & Spending Power Reserve (£1.300m) and the Newhaven Fort Refurbishment Reserve (£0.050m).

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 £
2014/15	1,328	38.30	1,403	8.31
2014/15 (Revised)	3,439	99.19	688	4.10
2015/16	2,952	84.39	996	5.93
2016/17	1,875	53.60	938	5.59
2017/18	626	17.90	938	5.59

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 2015/2016 and 2016/2017 the costs shown relate to the recurring effects of the 2014/2015 programme only
- the 2015/2016 tax base has been used in the calculations for 2016/2017 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	2014/15 Estimate £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
1a	Non-HRA	2.063	10.714	6.319	2.610	1.361
1b	HRA	5.683	5.880	9.347	5.530	5.530
	Total	**7.746**	**16.594**	**15.666**	**8.140**	**6.891**

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	2014/15 Estimate %	2014/15 Revised %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
2a	Non-HRA	0.95	0.95	0.95	1.58	1.50
2b	HRA	21.51	21.21	20.69	20.69	20.69

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	2014/15 Approved £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
3a	Non-HRA	4.512	5.919	8.421	8.123	7.837
3b	HRA	65.779	64.790	65.613	64.119	62.624
	Total CFR	**70.291**	**70.709**	**74.034**	**72.242**	**70.461**

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. The revenue budget requirement includes the use of Reserves.

No	Incremental Impact of Capital Investment Decisions	2014/15 Approved £	2014/15 Revised £	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
5a	Increase in Band D Council Tax	38.30	99.19	84.39	53.60	17.90
5b	Increase in Average Weekly Housing Rents	8.31	4.10	5.93	5.59	5.59

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 2015. No potential negative impacts were identified.

Background Papers: None

Appendices: Appendix 1 Revised Capital Programme 2014/2015
Appendix 2 Proposed Capital Programme 2015/2016 to 2017/2018