Agenda Item No:	**9.4**	**Report No:**	**24/17**
Report Title:	**Capital Programme 2016/2017 to 2019/2020**		
Report To:	**Cabinet**	**Date:**	**8 February 2017**
Cabinet Member:	**Councillor Bill Giles**		
Ward(s) Affected:	**All**		
Report By:	**Alan Osborne, Deputy Chief Executive**		

Contact Officer(s):

Name(s): **Stephen Jump**
Post Title(s): **Head of Finance**
E-mail(s): **steve.jump@lewes.gov.uk**
Tel No(s): **01273 471600**

Purpose of Report:

To recommend to Council the revised 2016/2017 Capital Programme, the 2017/2018 Capital Programme, the outline Capital Programme 2018/2019 to 2019/2020 and the associated Prudential Indicators.

Officers Recommendation(s):

1 To approve the revised 2016/2017 Capital Programme of £23.819m at Appendix 1 and recommend it to Council.

2 To approve the 2017/2018 Capital Programme of £14.556m at Appendix 2 and recommend it to Council.

3 To approve the outline Capital Programme 2018/2019 to 2019/2020 of £19.612m 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 2017/2018.

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 specified former garage 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 nine properties sold by the Council in the first six months of 2016/2017.

	1 April to 30 Sept 2016	
	£	**%**
Core receipts retained to fund capital expenditure	91,060	7
Receipts retained for the repayment of HRA debt	261,870	20
Receipts paid to the Government	204,010	15
Additional receipts retained to fund new affordable housing	760,930	58
Total	**1,317,870**	**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 2016/2017

5.2.1 The approved 2016/2017 Capital Programme is set out in Appendix 1 (lines 1 to 29), with a total value of £26.160m. As noted above, for completeness, this includes the full cost of implementing new capital schemes although some of the expenditure will fall into 2017/2018 and, potentially, later years. Where it is known that projects to which budgets had been allocated in 2016/2017 will not now start until 2017/2018, those budgets are now rolled forward. Total spend at the end of Quarter 3 was £11.411m.

5.2.2 Cabinet is recommended to approve the variations to the 2016/2017 Capital Programme identified in Appendix 1, reducing the total value of the programme by £2.361m to £23.819m. Variations are as follows:

(a) Line 2 New Dwellings – residual payments on the current contract for the construction of new dwelling on former garage sites, carried forward from 2016/2107 to 2017/2018

(b) Line 14 Parks, Recreation and Play Areas– spend on some projects deferred from 2016/2017 to 2017/2018, and inclusion of Malling Skateboard Park project with a value of £0.220m fully funded from external contributions and grants

(c) Line 20 Commercial Development – deferral of approved projects into 2017/2018

(d) Line 21 Property acquisition North Street – the increase in the programme reflects costs incurred in acquiring the headlease of properties in January 2017

(e) Line 23 Change to Waste and Recycling Service – expenditure on this project is likely to be deferred until 2017/2018

(f) Line 25 Property assets major works – deferral of project into 2017/2018

5.3 Resources to support the future Capital Programme

5.3.1 The following table sets out a projection of the core resources which will be available at 1 April 2017 to fund capital expenditure, other than borrowing.

Line		£m
1	*Resources for the HRA Programme*	
2	- Major Repairs Reserve	6.983
	- Retained Right to Buy receipts	2.065
3	- Capital Expenditure Financed from Revenue	0.000
4	Sub-total HRA	9.048
5	*Resources for the General Fund Programme*	
6	- Disabled Facilities Grant – Better Care Fund	0.840
7	- Capital Expenditure Financed from Revenue	0.255
8	Sub-total General Fund	1.095
9	Capital Receipts	2.288
10	Total	12.431

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 2017/2018 will be £5.141m. At 1 April 2017, the balance of MRR received in previous years, but not yet used, is expected to be £1.842m.

Line 3 - HRA Revenue Contribution: no direct revenue funding of the HRA capital programme is proposed for 2017/2018..

Line 6 - Disabled Facilities Grant funding: This amount reflects Better Care Funding of the cost of awarding mandatory Disabled Facilities Grants made available by East Sussex County Council, ESCC. The allocation shown is provisional, pending confirmation by ESCC, and is at the 2016/2017 level.

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 2017, with no account taken of any receipts that may be received in 2017/2018, 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 £2.954m have been initially retained requiring spending of £9.847m on new affordable homes. Of this amount £2.966m has been spent to date and £2.520m has been committed to the construction of new homes. £2.0m of receipts from the sale of land at the rear of Lewes House in 2015/2016 will be used to reduce the level of General Fund borrowing and the minimum revenue provision which is charged to the General Fund budget.

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

5.3.5 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 £9.281m of borrowing headroom available to support the construction or acquisition of new Council-owned homes, up to 30% of the cost of which can be financed from retained Right To Buy receipts as explained in paragraph 5.3.2.

5.4 Capital Programme 2017/2018 to 2019/2020

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 recommended Capital Programme for 2017/2018 to 2019/2020 is set out in Appendix 2. It should be noted that the items shown for 2018/2019 and 2019/2020 are provisional at this stage.

5.4.3 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 £6.656m in 2017/2018.

(b) The proposed programme includes an annual allocation of £0.185m for the potential purchase of properties previously sold under the Right to Buy Scheme. The capital programme will be amended as specific projects are developed for the construction of new dwellings, part-financed from retained right to buy receipts with funding from borrowing to the level of the HRA debt cap.

(c) Those items which relate to improving the Council's own housing stock and other works (Appendix 2 - lines 4 to 9) are consistent with the Housing Business Plan. The allocation for improvements (line 4) is derived from the stock condition survey that was completed in 2016. The total HRA Capital Programme for this three year period, £14.695m, is funded by borrowing (£0.654m) and the Major Repairs Reserve (£14.041m).

(d) The mandatory Disabled Facilities Grants programme in 2017/2018 is £0.840m (line 13) and provides aids and adaptations for disabled persons to live independently in their own homes. The programme is wholly funded by Government grant passed down via East Sussex County Council.

(e) It is proposed to continue the programme of Private Sector Housing grants and loans for emergency repairs and energy efficiency measures, with an allocation of £0.135m in each year of the programme, funded from capital receipts.

5.4.4 General Fund Capital Programme

(a) The Non-Housing Programme (Appendix 2, lines 16 to 33) has a proposed value in 2017/2018 of £7.900m. This excludes any provision that Cabinet may make available when it agrees the General Fund Revenue Budget for 2017/2018.

(b) A recurring allocation of £0.050m (line 17) is provided for major works for which the Council is responsible as landlord at the leisure facilities which are operated by Wave leisure. This is allocation is enhanced by £0.200m in 2017/2018 for potential improvements at Seahaven Pool, Newhaven.

(c) The programme of work at parks, recreation grounds and play areas (line 18) is funded from developer (s106) contributions and the Asset Maintenance Reserve.

(d) £0.233m (line 19) is allocated for the replacement of vehicles (£0.183m) (excluding those utilised in the waste and recycling service which is subject to review) and IT equipment (£0.050m), fully funded from reserves. The funding requirement for IT replacements in future years will be assessed in the light of investment in new technology as part of the Joint Transformation Programme.

(e) A total of £0.184m is allocated across two years in respect of Flood Alleviation measures (line 21). This completes the programme of work agreed by Council in February 2016, undertaken by Ouse and Adur Rivers Trust (OART), funded from monies which were previously paid as a levy to the Environment Agency in respect of the Drainage Board which ceased in December 2016.

(f) A provision of £0.050m (line 22) is included for refurbishment work to Newhaven Fort, as agreed with WAVE Leisure which is operating the Fort under a management agreement with the Council.

(g) An allocation of £4m has been made in the programme (line 29) to enable commercial property acquisitions with the purpose of generating future rental income streams. Any specific acquisition will be subject to a detailed financial appraisal and approved by Cabinet before going ahead.

(h) The allocation for changes to the Waste and Recycling Service (line 31) is carried forward from 2016/2017.

(i) A general provision for major works to Property Assets is included in the forward three year capital programme at £0.150m (line 32).

(j) The General Fund Capital Programme 2017/2018 is funded from Borrowing (£4.970m), Reserves (£2.340m), Contributions (£0.394m), and direct revenue contributions (£0.136m).

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.

No	Capital Expenditure	2016/17 Estimate £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
1a	Non-HRA	8.731	14.102	8.875	5.323	5.275
1b	HRA	8.740	9.717	5.681	5.213	3.801
	Total	**17.471**	**23.819**	**14.556**	**10.536**	**9.076**

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	2016/17 Estimate %	2016/17 Revised %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %
2a	Non-HRA	1.64	1.61	1.62	1.76	1.81
2b	HRA	15.71	15.70	15.82	15.82	15.82

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	2016/17 Approved £m	2016/17 Revised £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
3a	Non-HRA	10.067	13.858	18.848	22.589	26.077
3b	HRA	64.982	65.722	65.168	64.512	63.853
	Total CFR	**75.049**	**79.580**	**84.016**	**87.101**	**89.930**

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	2016/17 Approved £	2016/17 Revised £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £
5a	Increase in Band D Council Tax	127.19	167.97	79.35	10.90	9.53
5b	Increase in Average Weekly Housing Rents	1.31	1.21	0.85	0.78	0.57

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 2017/2018 and 2018/2019 the costs shown relate to the recurring effects of the 2016/2017 programme only
- the 2017/2018 tax base has been used in the calculations for 2018/2019 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: 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 2016/2017
Appendix 2 Proposed Capital Programme 2017/2018 to 2019/2020