Central Bedfordshire Council

EXECUTIVE 9 February 2016

CAPITAL PROGRAMME 2016/17 TO 2019/20

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This report relates to a non-Key Decision

Purpose of this report

1. The report proposes the Capital Programme for the four years from April 2016. It excludes the Housing Revenue Account (HRA) which is subject to a separate report.

RECOMMENDATION

The Executive is asked to:

1. recommend to Council the Capital Programme for 2016/17 to 2019/20 for approval.

Overview and Scrutiny Comments/Recommendations

2. Overview and Scrutiny Committees considered the budget proposals in their January 2016 cycle of meetings. Comments are included in Appendix K of the Revenue MTFP paper.

Background Information

3. The Council’s Capital Programme has been reviewed during the current financial year and there have been a number of changes to profiles, reductions and additions.

4. The Capital Programme continues to be dominated by a few large schemes including the requirement to provide New School Places, M1/A421 Junction 13 – Magna Park, Highways Structural Maintenance, New Depots and Household Waste Recycling Centres, the Woodside Link road and Dunstable Leisure Centre and Library.

5. A driving principle underlying Capital Programme development has always been to minimise the revenue impact in future years arising from interest payments and the Minimum Revenue Provision (MRP) or alternatively, to identify future revenue resources to facilitate borrowing for capital purposes in a sustainable and prudent manner.

6. The Capital Budget proposed in this report reduces revenue liabilities against those previously identified in the Medium Term Financial Plan (MTFP) for 2015/16 to 2018/19. The reduction is partly due to revised cost of borrowing assumptions discussed within the Interest Rates section of this report. Risks of revenue budget pressures remain, largely those associated with the realisation of capital receipts (delays would increase the overall borrowing requirement), the timing of movements in interest rates (if increases occur earlier than assumed then interest liabilities will be greater than estimated). There can be additional capital expenditure pressures in respect of the Capital Programme and where mitigating actions cannot offset all or any pressures there would be an increase in the overall borrowing requirement with a pressure on the associated revenue costs of debt financing.

7. A summary of the proposed Capital Programme has been included in Appendix A and Appendix B which shows a breakdown by individual schemes. Particular attention is drawn to schemes that require the use of the Council’s own resources, i.e., capital receipts or unsupported borrowing, as it is these schemes that create future revenue liabilities.

8. Capital receipts projections for the 2016/17 to 2019/20 period have been reviewed. These represent a key source of funding for the Capital Programme over the MTFP period without which the affordability and sustainability of the Capital Programme could be at risk.

9. The Housing Revenue Account (HRA) Capital Programme is included as part of a separate report to the Executive and is therefore excluded from this report.

Summary of Capital Programme 2016/17 to 2019/20

10. Capital investment is required to ensure the delivery of the Council's priorities but the programme needs to be both affordable and sustainable. Capital expenditure that is not financed through existing capital resources (e.g., grants, developer contributions and capital receipts) will reduce revenue resources available for other services over the longer term by incurring additional capital financing costs.

11. Table 1 below shows a summary of the Capital Programme reflecting revisions in year and a planning assumption of varied slippage in programme spend across the years. Expenditure and income in each year has been adjusted by an overall estimate of slippage in the Capital Programme for the purposes of calculating the revenue implications. An annual slippage assumption of 20% has been applied in previous MTFPs. Based on current monitoring of the 2015/16 Capital Programme an overall slippage to 2016/17 of 25% has been assumed followed by 15% from 2016/17 and 10% per annum thereafter. The assumed slippage profile reflects the fact that a number of high value schemes are expected to complete in 2016/17 and the proposed programmes for later years are reducing in overall value. A reconciliation to the MTFP, excluding slippage, is provided in Appendix C. The detailed programme is presented in Appendices A and B.

Table 1 – 2016/17 to 2019/20 Medium Term Financial Plan Capital Programme (assuming annual programme slippage)

	2016/17	**2017/18**	**2018/19**	**2019/20**
	£000	**£000**	**£000**	**£000**
Gross Expenditure	105,354	92,239	68,751	47,973
Funded by:				
Grants/Contributions	(55,438)	(58,491)	(34,394)	(28,046)
Capital Receipts	(10,500)	(9,500)	(7,500)	(6,000)
Borrowing	(39,416)	(24,248)	(26,857)	(13,927)
Total Funding	(105,354)	(92,239)	(68,751)	(47,973)

12. By including an overall slippage assumption for the capital schemes there is recognition that dependencies within the Capital Programme exist (for example on third parties, including external funders) and often, as a result, capital schemes are deferred from one year to the next as delivery is delayed.

Financing of the Capital Programme

13. The revenue financing costs of the proposed Capital Programme, including what has been previously built into the previous MTFP are:

Table 2 – 2016/17 to 2019/20 Annual Revenue Implications of proposed Capital Programme compared to Previous MTFP

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Previous MTFP	15,506	17,360	19,146	-
Additional Charge / (Reduction) to original MTFP	(1,623)	(1,210)	(1,410)	-
Revised MTFP	13,883	16,150	17,736	19,103
Year on Year Increase in the revenue consequences of the proposed programme		2,267	1,586	1,367

Estimated revenue costs are lower than the previous base budget for 2016/17 to 2018/19 reflecting updated assumptions in respect of the timing of interest rate movements and amendments to the Capital Programme.

14. Table 2 sets out the position over the medium term. Although there is less certainty in determining future spend and financing, the table shows that the Capital Programme will continue to produce cost pressures without further generation of new capital receipts and external grants and contributions.

Interest Rates

15. Since inception the Council, (excluding HRA refinancing), has borrowed internally from its own cash balances to fund the Capital Programme, as opposed to taking on debt from the Public Works Loan Board (PWLB), a Central Government lending facility, or financial markets. Cash balances support the Council's reserves, grants received in advance and amounts due to creditors. As at 31st March 2015, the Council had borrowed £118.0M from its own balances to fund capital expenditure. Where required by the actual cash flow position, the Council obtains short term borrowing from other public authorities.

16. Revenue implications of the Capital Programme have been calculated on the assumption that any borrowing, required by actual cash flows, will be obtained on a short term basis taking advantage of current low interest rates. Council borrowing has traditionally been obtained from the PWLB for longer periods. However in the current market, public authorities are lending to each other at rates below the PWLB rate for short term periods and the inclusion of these rates coupled with revised assumptions in respect of future increases in UK base rates has lowered the projected revenue implications of the Capital Programme over the previous MTFP 2015/16 to 2018/19 period.

17. The rate of interest assumed is important in determining revenue implications of borrowing arising from the Capital Programme. Importantly, the assumed borrowing costs over the period of the MTFP are particularly sensitive to any unexpected increases in interest rates. Table 3 below demonstrates the impact on the MTFP of interest rates above those assumed in the Plan.

Table 3 – 2016/17 to 2019/20 Additional costs over the MTFP period of an unexpected increase in the Interest Rate

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
1% point higher	1,411	1,608	1,652	1,663
2% points higher	2,821	3,217	3,304	3,327

18. There is a risk that interest rates may be higher than current rates when it comes to refinancing debt taken out on a short term basis. This would lead to higher revenue implications arising from the Capital Programme over the longer term, within and beyond the current MTFP period.

19. The Council’s treasury management adviser, Arlingclose Ltd, forecasts the first rise in official interest rates in September 2016 and a gradual pace of increases thereafter, with the average for 2016/17 being around 0.63% compared to 0.50% in 2015/16.

20. The Council’s MTFP assumes variable interest rate forecasts as follows:

	2016/17	2017/18	2018/19	2019/20
Rate %	0.78%	1.28%	1.78%	2.03%

This forecast includes a 0.1% prudent allowance for uncertainty above the assumptions provided by Arlingclose Ltd.

21. Taking into account our assumptions on borrowing over the MTFP period, and the mix of fixed and variable rate borrowing, the weighted average interest rates for the MTFP period are as follows:

	2016/17	2017/18	2018/19	2019/20
Weighted average interest rate on borrowing %	2.62%	2.70%	2.93%	3.05%

22. The Council reviews and approves annually its Treasury Management Strategy and monitors financial markets on an on-going basis. It is possible that, based on market conditions, the Council may choose to borrow at a fixed rate of interest to reduce exposure to variable debt. However, fixed interest rates are higher than variable rates and any decision to fix debt in the short term would adversely impact revenue implications within the MTFP period.

Minimum Revenue Provision (MRP)

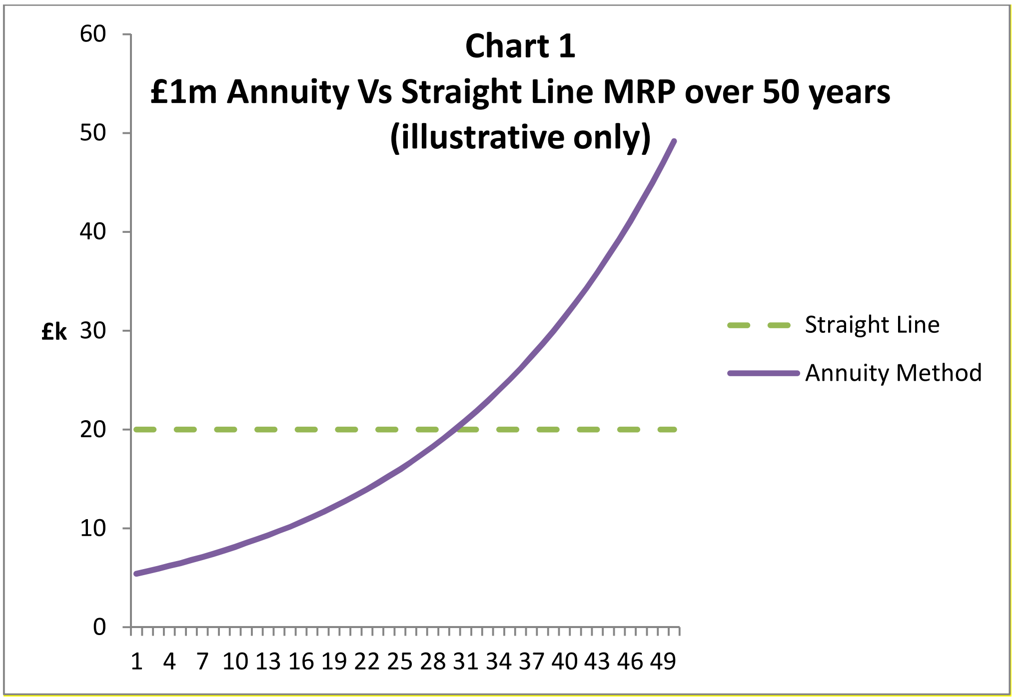
23. Regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) Regulations 2008 require Local Authorities to set aside a prudent amount annually from revenue towards the Council's Capital Financing Requirement (CFR).

24. DCLG guidance outlines different options that local authorities can use to calculate a prudent provision. The method used by the Council for the MTFP period is to spread MRP over 10 years, 30 years or 50 years depending on the approximate useful economic life of the asset upon which expenditure is being incurred.

Example Asset Category	MRP Life (years)
Land and buildings	50
Highways, roads, bridges	30
IT systems/equipment, fleet	10

The MRP is spread over the useful economic life on an annuity basis.

25. The annuity method means that the principal sum used to finance the asset is repaid slowly in earlier years and more rapidly in later years, demonstrated graphically overleaf, in a similar manner to which principal is repaid on a repayment mortgage. This method reflects assets deteriorating more rapidly in later years than earlier years and ties in with asset management planning. The annuity method also enables MRP financing of the Capital Programme to be minimised over the medium term, but with significantly higher MRP costs in future years beyond the current MTFP period. The Council will need to ensure that these costs are sustainable in the long term.



Capital Receipts

26. The medium term forecast includes substantial new capital receipts. The generation and timing of new capital receipts is critical to the Capital Programme over the medium term and represent a specific risk as to its sustainability and affordability.

27. The Council has historically not achieved approved estimates for capital receipts within the MTFP. Currently £3.0M of capital receipts are forecast for 2015/16 compared to an approved estimate of £13.1M. The current forecast for 2015/16 reflects delays in two major anticipated receipts, specifically Stratton Park and specific receipts under the terms of the disaggregation agreement with Bedford Borough Council in respect of Bell Farm and County Hall.

28. Any shortfalls in capital receipts over the MTFP period will lead to increased revenue costs from the Capital Programme where the borrowing requirement increases as a result of any shortfall in receipts, unless capital projects are themselves delayed or re-phased.

Table 4 – Capital Receipts movement between previous MTFP and current MTFP

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Previous MTFP Capital Receipts	10,186	9,606	1,500	-	21,292
Revised MTFP Capital Receipts	10,500	9,500	7,500	6,000	33,500
Total Change Increase/ (Decrease) in Capital Receipts	**314**	**(106)**	**6,000**	**6,000**	**12,208**

Reserve List

29. Appendix B includes a list of reserve schemes, which the Council may progress if the revenue impacts can be accommodated within the revenue budget.

30. Approval of Reserve List schemes which require Council resources would be required by the Executive, following the production of outline and detailed business cases and confirmation from the Chief Finance Officer and the Executive Member for Corporate Resources that the schemes can be incorporated without exceeding the revenue budget for the financial year.

31. The total capital costs of schemes on the Reserve List are set out in Table 5. Inclusion of any of the Reserve List schemes without removing the equivalent amount of net expenditure from the Capital Programme would increase the impact on revenue over the MTFP period.

Table 5 – Net Capital Cost of Total Reserve List Schemes 2016/17 to 2019/20

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Net Capital Cost of Reserve List Schemes	7,970	13,670	6,989	7,081	35,710

Major Capital Schemes

New School Places - £75M gross (£4M net) expenditure over the MTFP period

32. The New Schools Places programme provides the capital investment to deliver new school places required by population growth in areas of limited surplus capacity within our schools. The Council's School Organisation Plan is the evidence base that supports the commissioning of these new school places over a rolling five year period. The programme is funded by a combination of sources including Department for Education basic need grant, developer contributions and Council borrowings and capital receipts.

M1/A421 Junction 13 - Milton Keynes Magna Park - £18M gross (£60K net) expenditure over the MTFP period

33. We are improving the A421 between Junction 13 of the M1 and Magna Park in Milton Keynes. This involves dualling the remaining section of single carriageway road in order to remove this bottleneck in an important east –west route. It is anticipated that this scheme will be largely funded through Department of Transport grants.

New Depots and Household Waste Recycling Centres - £11M gross expenditure (£11M net) over the MTFP period

34. In order to deliver effective services we are investing in the infrastructure required to provide these, as previously these were operated from old County Council facilities based in Bedford Borough that are no longer suitable or available. This includes highways depots and salt storage that give us the bases from which to maintain the highway network and a waste transfer station that will allow us to manage the disposal of our residents' waste in the most efficient way.

35. We are also currently rebuilding all four of our Household Waste recycling centres. This will allow us to provide a better and safer customer experience with reduced queueing, same level tipping and more options for recycling. It will also allow us to address a number of potential environmental problems at the existing sites.

Woodside Link - £18M gross expenditure (£4M net) over the MTFP period

36. This is the gross cost of building the Woodside Link Road from the M1 to the Woodside industrial area of Dunstable. This road will help unlock significant investment in the area, both in terms of housing but also employment and will allow HGVs to avoid Dunstable town centre. Much of the cost will be recovered through Government funding and from developer contributions.

Highways Structural Maintenance - £24M gross (£7M net) expenditure over the MTFP period

37. This is the expenditure on repairs to the highway: mainly resurfacing works but also rebuilding, surface dressing and reconstruction. We receive a government grant to cover the majority these costs and the level of this grant is dependant on using an asset management approach to maintenance.

Dunstable Leisure Centre and Library - £20M gross (£18M net) expenditure over the MTFP period

38. The current Dunstable Leisure Centre and Library buildings are reaching the end of their lives and are becoming increasingly expensive and difficult to maintain. We are taking the opportunity to invest in a new building that combines these services, provides a leisure and library offer that is fit for the future and acts as a catalyst for future investment in the centre of Dunstable. This work will trigger the release and redevelopment of further sites in Dunstable which will, in turn, add further to the creation of a more vibrant town centre.

Reason for Decision

39. To recommend to Council the Capital Programme for the MTFP period 2016/17 to 2019/20 to facilitate effective financial management and planning.

Council Priorities

40. As a key part of the Council's overall financial plan the Capital Programme supports the delivery of all the organisation's priorities.

Corporate Implications

Legal Implications

41. The Capital Programme forms part of the Council's budget as defined in the Constitution. It includes funding that is required to enable the authority to discharge its statutory obligations and failure to approve the Capital Programme may therefore have implications on the Council's ability to comply with these obligations.

42. The Local Government Act 2003 (as amended) emphasises the importance of sound and effective financial management. In relation to capital financing, there is a statutory requirement for each local authority to set and arrange their affairs to remain within prudential limits for borrowing and capital investment. There is a statutory duty on the Chief Finance Officer to report to the Council, at the time the Budget is considered and the council tax set, on the robustness of the budget estimates and the adequacy of financial reserves.

Financial Implications

43. As a component of the Council's Medium Term Financial Plan (MTFP) the financial implications of the proposed changes to the Capital Programme are set out within the body of the report.

Equalities Implications

44. Where appropriate, Equalities Impact Assessments will be carried out for individual proposals.

Next Steps

45. A period of public consultation commenced from January 2016.

46. Overview and Scrutiny Committees considered the budget proposals in their January/February 2016 cycle of meetings. Comments are included in Appendix K of the Revenue MTFP paper.

Appendices

Appendix A – Summary of changes against previous MTFP
Appendix B – Full Capital Programme 2016/17 to 2019/20 and Reserve List
Appendix C – Reconciliation of Capital MTFP to MTFP with slippage included

Background papers

None.