Central Bedfordshire Council

Executive **8 January 2019**

Capital Programme 2019/20 to 2022/23

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This report relates to a Key Decision

Purpose of this report

The purpose of this report is to seek Executive agreement to the draft Capital Programme for the Medium Term Financial Plan (MTFP) period 2019/20 to 2022/23 to facilitate effective financial management and planning. It excludes the Housing Revenue Account (HRA) which is subject to a separate report.

RECOMMENDATION

The Executive is asked to:

1. **approve the draft Capital Programme for 2019/20 to 2022/23 for consultation with the Corporate Resources Overview and Scrutiny Committee and other interested parties.**

Overview and Scrutiny Comments/Recommendations

1. This report will be considered by the Corporate Resources Overview and Scrutiny Committee on 31st January 2019 and this Committee will be advised of the Overview and Scrutiny Committee's comments and recommendations in respect of the proposed Capital Programme at its meeting on 5th February 2019 when the final budget proposals are presented.

Background

2. 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.

3. The Capital Programme continues to be dominated by a few large schemes including the requirement to provide New School Places, M1/A6 link road, Highways Structural Maintenance, and integrated health and care hubs in Dunstable and Biggleswade.

4. A driving principle underlying the Capital Programme has 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.

Capital Budget Strategy

5. From the Council’s five-year plan, there are a number of broad outcomes which capital investment plays a role in delivering:

   - Improved town centres and facilities
   - Great quality, appropriate and affordable housing
   - Great infrastructure including transport and broadband
   - Improved roads and pavements, parks and leisure
   - Educational success
   - Allowing people to live independently or in suitable specialist accommodation
   - Operational efficiency.

6. In order to deliver those outcomes and in common with the General Fund Revenue MTFP, the Capital Programme was built up thematically as follows:

7. <u>Theme 1 – Creating a place where people can thrive:</u>
   Buildings, roads, IT systems and streetlights etc. have a finite life and the Council needs to have a programme to maintain, improve and replace assets used for operational delivery.
   The Council also needs to ensure that the Capital Programme is checked for relevance, statutory compliance, value for money and opportunities to deliver efficiencies at the point of renewal but also recognise that there will be a base level of need to keep services running.
   A significant capital scheme is the provision of Integrated health and care hubs in both Biggleswade and Dunstable.

8. <u>Theme 2 – Maintaining a quality environment:</u>

Growth brings opportunities to deliver new capital infrastructure alongside additional revenue through Council Tax and National Non-Domestic Rates (Business Rates). Growth is often the trigger to access Government funding for key infrastructure.

The Council needs to ensure it is capturing the full benefits of being a Council that supports growth, and critically that these are benefits for both new and existing communities.

This is key to Central Bedfordshire's investment plans for school places, transport and new leisure facilities.

9. <u>Theme 3 – Generating Income</u>

Capital investment can be the key that unlocks new income streams and capital receipts or helps manage demand.

A key example of this is the new contemporary Crematorium, for which an initial design is being consulted upon.

Upfront investment in some assets can either trigger improved income generation opportunities, or enhance the value of assets prior to sale, as in work to prepare for disposal of sites.

10. <u>Theme 4 – Enabling more effective delivery:</u>

As custodians of the public realm and significant landowners, the Council has a role to play in ensuring the environment which makes Central Bedfordshire such an attractive place to live, work and invest is protected.

An increasing population creates additional pressure on urban and rural open spaces and this requires continued capital investment to maintain, such as bridges on public footpaths. Another example is the replacement of Care Homes in both Leighton Buzzard and Flitwick.

11. The Capital Budget proposed in this report increases revenue liabilities against those previously identified in the MTFP for 2019/20 to 2021/22 by £2.2M (2022/23 was not included in last year's MTFP). The increase reflects updated assumptions in respect of the timing of interest rate movements and amendments to the Capital Programme.

12. Risks of revenue budget pressures remain, largely those associated with the realisation of capital receipts (delays would increase the overall borrowing requirement), and the timing of movements in interest rates (if increases occur earlier than assumed then interest liabilities will be greater than estimated).

13. Any capital overspends or shortfalls in capital receipts which cannot be mitigated would result in a revenue pressure as additional borrowing would be necessary.

14. A summary of the proposed Capital Programme has been included in Appendix A, and Appendix B 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 some of these schemes create future revenue liabilities as well as revenue efficiencies.

15. Capital receipts projections for the 2019/20 to 2022/23 period have been reviewed and increased. 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.

16. The Better Care Fund is a single pooled budget to support health and social care services to work more closely together in a local area. Central Government has provided significantly increased Disabled Facilities Capital Grant (DFG) since April 2016; the total grant has to be included in the Better Care Fund. The use of the Grant, as set out in BCF national planning guidance, has to be agreed with key partners including housing. Its use can extend beyond traditional disability adaptations to homes to wider social care capital projects which support health and social care integration. The amount of DFG required to support traditional adaptations is shown as financing the rolling programme. A separate capital scheme has been established for the remaining amount.

17. 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 2019/20 to 2022/23

18. 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 as well as providing revenue efficiencies.

19. 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. Based on current monitoring of the 2018/19 Capital Programme an overall slippage to 2019/20 of 30% has been assumed followed by 20% to 2020/21 and 15% per annum thereafter. The assumed slippage profile reflects the fact that a number of high value schemes are expected to complete in 2019/20 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 Appendix B.

20. **Table 1 – 2019/20 to 2022/23 Medium Term Financial Plan Capital Programme (assuming annual programme slippage)**

	2019/20	2020/21	2021/22	2022/23
	£'000	**£'000**	**£'000**	**£'000**
Gross Expenditure	117,506	104,020	77,597	44,240
Funded by:				
Grants and Contributions	(62,477)	(57,443)	(52,724)	(27,493)
Capital Receipts	(12,000)	(15,000)	(15,000)	(10,000)
Borrowing	(43,029)	(31,577)	(9,873)	(6,747)
Total Financing	**(117,506)**	**(104,020)**	**(77,597)**	**(44,240)**

21. 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

22. The revenue financing costs of the proposed Capital Programme, including what has been built into the previous MTFP are shown in Table 2 below.

23. **Table 2 – 2019/20 to 2022/23 Annual Revenue Implications of proposed Capital Programme compared to previous MTFP**

	2019/20	2020/21	2021/22	2022/23
	£'000	**£'000**	**£'000**	**£'000**
Previous MTFP	11,275	11,983	13,935	-
Additional charge / (reduction) to original MTFP	7	1,148	1,067	15,880
Revised MTFP	**11,282**	**13,131**	**15,002**	**15,880**
Year-on-year increase in the revenue consequences of the proposed programme		1,849	1,871	878

* Includes interest payable budgetary provision for the taking out of £20M long-term fixed rate debt in 2020/21

24. Estimated revenue costs are higher than the previous base budget for 2019/20 to 2021/22, reflecting updated assumptions in respect of the timing of interest rate movements and amendments to the Capital Programme.

Interest Rates

25. 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 Government lending facility, or financial markets. Cash balances derive from the Council's reserves, grants received in advance and amounts due to creditors. As at 31st March 2018, the Council had borrowed £201.0M 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.

26. 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. The Council plans to continue to source its borrowing needs from other UK local authorities, police and fire authorities, Police and Crime Commissioners, and UK public sector pension funds on a short term rolling basis. This strategy has to date achieved significant revenue cost savings over the more traditional route of long term fixed rate borrowing from the PWLB, and this is expected to continue in the near term future.

27. The rate of interest assumed is important in determining revenue implications of borrowing arising from the Capital Programme.

28. 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.

29. **Table 3 – 2019/20 to 2022/23 Additional costs over the MTFP period of an unexpected increase in the Interest Rate**

	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000
1% point higher	939	1,227	1,390	1,426
2% points higher	1,878	2,454	2,780	2,852

30. 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.

31. Following the increase in Base Rate to 0.75% in August 2018, the Council's treasury management adviser, Arlingclose Ltd, is forecasting two more 0.25% increases during 2019 to take official UK interest rates to 1.25%. No further change is expected for the remainder of the current MTFP period.

32. The Council's MTFP assumes variable interest rate forecasts as follows:

	2019/20	2020/21	2021/22	2022/23
Rate %	1.3%	1.5%	1.5%	1.5%

This forecast includes a 0.25% prudent allowance for uncertainty above the assumptions provided by Arlingclose Ltd.

33. Taking into account the assumptions on borrowing over the MTFP period, and the mix of fixed and variable rate borrowing, the weighted average interest rates for the MTFP is reduced over the plan period as new borrowing at low, short-term variable rates, becomes a larger proportion of the overall debt as follows:

	2019/20	2020/21	2021/22	2022/23
Weighted average interest rate on borrowing %	3.2%	3.1%	2.9%	2.8%

34. 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, medium term 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)

35. 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).

36. The Local Government Act 2003 requires the Council to have regard to the Ministry of Health, Communities and Local Government's *'Capital Finance: Guidance on Minimum Revenue Provision (Fourth Edition)'* (the MHCLG's guidance) most recently issued in 2018.

37. This Guidance applies for the 2019/20 financial year and has not impacted the Council's existing methodology for calculating MRP which spreads 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

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

Capital Receipts

39. 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.

40. 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.

41. **Table 4 – Capital Receipts movement between previous MTFP and current MTFP**

	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000
Previous MTFP Capital Receipts	10,000	8,000	8,000	-	26,000
Revised MTFP Capital Receipts	12,000	15,000	15,000	10,000	52,000
Total Change Increase/(Decrease) in Capital Receipts	**2,000**	**7,000**	**7,000**	**10,000**	**26,000**

Reserve List

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

43. The approval of Reserve List schemes which require Council resources may be required by the Executive. This will depend on the level of spend. This will entail the production of outline and detailed business cases and confirmation from the Director of Resources and the Deputy Leader and Executive Member for Corporate Resources that the schemes can be incorporated without exceeding the revenue budget for the financial year.

44. The Reserve List identifies a number of schemes with only £0.001M cost identified. These schemes are placed on the Reserve List as a marker to bring to the Council's attention whilst plans are being formulated. As such, they will form part of the Council's Reserve List but will require the appropriate approval (as per paragraph 43) before costs are incurred.

45. The total capital costs of schemes on the Reserve List are set out in Table 5.

46. **Table 5 – Net Capital Cost of Total Reserve List Schemes 2019/20 to 2022/23**

	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000
Net Capital Cost of Reserve List Schemes	4,709	8,700	200	200	13,809

Major Capital Schemes

New School Places - £72.5M gross (£2.3M net) expenditure over the MTFP period

47. 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/A6 Link Road - £64.0M gross (net nil) expenditure over the MTFP period

48. A new strategic route in the form of a northern Luton bypass is being created. This would run from the A6 road to junction 11a of the M1, connecting with the A5-M1 Link road. The new M1-A6 link road will be 2.75 mile (4.4km) long with a dual carriageway to a new planned rail freight interchange at Sundon Park, and then a single carriageway connecting to the A6. The road supports our priorities to enhance Central Bedfordshire by delivering improved infrastructure that will open up opportunities for employment, leisure activities and housing. The planning assumption is that all of the construction costs are externally funded, with £32.8M from the Department for Transport (subject to sign off) and the balance from the North of Luton consortium.

Highways Structural Maintenance - £25.6M gross (£8.2M net) expenditure over the MTFP period

49. This is the expenditure on highway resurfacing works, rebuilding, surface dressing and reconstruction. The Council receives a Government grant to cover the majority these costs and the level of this grant is dependent on using an asset management approach to maintenance.

Integrated Health & Care Hubs Dunstable & Biggleswade - £24.8M gross (£24.8M net) expenditure over the MTFP period

50. The Integrated health and care hubs in Central Bedfordshire will be a focal point for joining up health, social care and other council services for the delivery of care closer to people. Health and Care services will be more accessible to people in their localities, in predominantly rural areas and will meet the requirements for delivering health and care services to an expanding and ageing population.

The Integrated Health and Care Hubs will be the main centres for providing proactive and preventative care, out of hospital services and care packages for people who are vulnerable or have complex care needs.

Reason for Decision

51. To recommend to the Corporate Resources Overview and Scrutiny Committee and other interested parties the Capital Programme for the MTFP period 2019/20 to 2022/23.

Council Priorities

52. 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

53. The Capital Programme forms part of the Council's budget as defined in the Constitution. It includes funding that is required to enable the Council 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.

54. 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 Director of Resources 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. This is contained in Appendix G of the Revenue Budget report.

Financial and Risk Implications

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

Equalities Implications

56. Central Bedfordshire Council has a statutory duty to promote equality of opportunity, eliminate unlawful discrimination, harassment and victimisation and foster good relations in respect of nine protected characteristics; age disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

The Capital Programme 2019/20 to 2022/23 sets out a range of capital investment relating to regeneration, affordable housing, school places, integrated health and care hubs, independent living and highways improvement, all of which will have a positive impact in terms of improving equality outcomes.

57. Where appropriate, Equalities Impact Assessments and additional consultation will be carried out for individual proposals.

Conclusion and next Steps

58. A period of public consultation will commence from January 2019. A more detailed explanation of the Council's approach to the budget consultation is contained in the Revenue Budget paper also on this agenda.

59. The Corporate Resources Overview and Scrutiny Committee will consider the budget proposals at its 31st January 2019 meeting and comments will be included in the final Budget report to be presented to Council at its 21st February 2019 meeting.

Appendices

Appendix A – Summary of changes against previous MTFP

Appendix B – Full Capital Programme 2019/20 to 2022/23 and Reserve List

Appendix C – Reconciliation of Capital MTFP to MTFP with slippage included

Background Papers

None.

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