Meeting:	**Executive**
Date:	**6 November 2012**
Subject:	**Capital Programme Review**
Report of:	**Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**

Summary: The report outlines amendments to the revised General Fund Capital Programme for 2012/13 onwards following the completion of a review of the programme approved by Council in February 2012. The financial implications of the proposals made through the review as well as the Woodside Link and Bedfordshire Energy and Recycling project are outlined. Proposals are made to progress the development of a Capital Programme for inclusion within the Medium Term Financial Plan 2013 - 2017.

Advising Officer:	Charles Warboys, Chief Finance Officer and Section 151 Officer
Contact Officer:	Charles Warboys, Chief Finance Officer and Section 151 Officer
Public/Exempt:	Public Exempt Appendices B and C under category number 3.
Wards Affected:	All
Function of:	Council
Key Decision	No
Reason for urgency/ exemption from call-in (if appropriate)	N/A

CORPORATE IMPLICATIONS

Council Priorities:

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

Financial:

1. 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.

Legal:

2. 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.

3. 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.

Risk Management:

4. The affordability and sustainability of the proposed Capital Programme is particularly dependent on the generation of capital receipts, external grants and contributions, the level of interest rates and the Council's ability to access external borrowing. The Council seeks to manage the various risks associated with funding its capital plans through a number of regularly updated strategies and policies (e.g. the Medium Term Financial Plan, the Treasury Management Strategy and prudential indicators etc). Performance against the capital plan is regularly monitored and reviewed and the Council aims to maintain a prudent level of General Balances and liquidity.

Staffing (including Trades Unions):

5. Not Applicable.

Equalities/Human Rights:

6. Not Applicable.

Public Health:

7. Not Applicable.

Community Safety:

8. Under section 17 of the Crime and Disorder Act 1998 the Council has a duty to consider community safety issues across all of its functions. In developing and implementing the detailed business cases supporting the various Capital Programme projects officers have considered relevant community safety issues.

Sustainability:

9. Schemes include works to promote more sustainable modes of travel and improve the lifespan of assets and reduce energy consumption.

Procurement:

10. The delivery of the programme is reliant on a number of external suppliers to successfully deliver the capital schemes to a sufficient standard whilst ensuring value for money within statutory and legislative requirements.

Overview and Scrutiny:

11. The proposed Capital Programme with all other budget proposals will be considered by Overview and Scrutiny as part of the development of the Medium Term Financial Plan (MTFP) in line with the budget and policy framework requirements of the Constitution.

RECOMMENDATIONS:

The Executive is asked to :

1. **recommend to Council the changes to the Capital Programme 2012/13 to 2015/16 as outlined at paragraphs 33 to 37, tables 3 and 4;**

2. **recommend Council to include in the Capital Programme a maximum of £35m to support the Bedfordshire Energy and Recycling (BEaR) Project from 2013/14 to 2015/16 as outlined in the exempt Appendix B to this report. It is anticipated this will be funded by Prudential Borrowing, with its associated revenue implications as set out in this report;**

3. **note the forecast for capital receipts at paragraphs 48 to 50 and table 7 and recommend to Council that the estimated receipts for the periods 2016/17 and 2017/18, be earmarked to repay any Prudential Borrowing undertaken in respect of the BEaR Project;**

4. **recommend to Council that the Woodside Link scheme be included in the Capital Programme from 2012/13 to 2017/18 with the consequential impact for Prudential Borrowing and associated revenue implications as set out in this report, whilst noting that officers continue working to confirm the extent of external contributions to the scheme;**

5. **note that Officers are preparing a full Capital Programme for the period of the MTFP (2013-2017) as part of the budget setting process in February 2013.**

Reason for Recommendations:	*To progress the development of a Capital Programme for the Council's MTFP 2013 – 2017 and revise capital budgets for 2012/13.*

Executive Summary

12. The Council’s Capital Programme and estimated capital receipts have been reviewed for the purposes of revising the 2012/13 capital budgets and influencing the development of a Capital Programme for the Medium Term Financial Plan (MTFP) period April 2012 to March 2017.

13. The estimated financial impact of a change in capital receipt forecasts has been offset by amendments to Minimum Revenue Provision (MRP) methodology and borrowing assumptions.

14. The capital review has proposed the addition of a number of new projects through reductions in existing projects. The review of past performance supports the use of a 20% Capital Programme slippage factor in forecasting for the MTFP period.

15. The Capital Programme under development for the 2013 – 2017 MTFP includes the funding of capital works associated with the BEaR Project and Woodside Link. Various assumptions have been made about the potential funding sources for these projects and further work is ongoing to establish the potential external contributions with greater certainty. As currently modelled, the significant revenue costs associated with the two projects are not incurred until 2015/16 and would peak in 2016/17.

16. The assumption that the Council would not need to incur any new borrowing before the first half of 2014 is based on past experience and any significant adverse changes to cash flows would require external borrowing to take place before that date. The borrowing strategy is based upon maintaining a minimum prudent level of balances and stable interest rates which will need to be monitored closely.

CBC CURRENT CASH POSITION

17. At 31 August 2012, CBC held cash balances of £65.6m. The sum of future commitments including those below exceeds the current cash balance of the Council because funds have been internally borrowed to maximise the benefit from the uncertain timing of payments and to delay external borrowing where possible.

18. These cash balances may at first appear available to partially finance the Capital Programme, as an alternative to external borrowing. However, as a complex organisation the money flows and liquid resources (cash, cash equivalents and investments) of a local authority represent a wide range of internal and external decisions, strategies and future commitments. The Balance Sheet at 31 March 2012 contains a number of balances that, to varying extents, represent the future expenditure of resources. This includes General Fund and Earmarked Reserves, Capital Grants and contributions received in advance and S106 and S278 contributions amongst others.

19. The above list is not exhaustive and timings of payments are uncertain, particularly in relation to earmarked reserves and provisions. The two largest earmarked reserves, Insurance (£4m) and Redundancy costs (£3m) are dependant on the number of insurance claims and redundancies in the organisation.

20. In addition, £38.3m of the Council's General Fund borrowing portfolio (£150.5m at 31 March 2012) matures over the 4 years from 2012 which, in the absence of other liquid resources, will need to be replaced with new borrowing.

21. **Table 1 : General Fund Debt maturity profile**

2012/13	2013/14	2014/15	2015/16
£5m (repaid)	£7.6m	£16.3m	£9.4m

22. It is estimated that by 31 March 2013 the Council's cash balances will have reduced to £30m - £40m reflecting amongst other variables progress on the Capital Programme and the impact of the pattern of Council Tax income. The current strategy is to reduce liquid balances to a minimum prudent level.

CBC CURRENT BORROWING POSITION

23. At 31 August 2012, CBC had external borrowings of £315.5m and £38.3m of this debt will have to be repaid using cash balances or refinanced within the next 5 years.

24. Borrowing is split between the General Fund and HRA:
    - £150.5m General Fund
    - £165m HRA

25. No new General Fund debt has been incurred since the inception of the Council and indeed £5m has been repaid in 2012/13.

26. In addition to paying interest on debt, local authorities are required by law to annually set aside cash to repay the principal General Fund debt balance (Minimum Revenue Provision (MRP)). The Council utilises this by ensuring any new borrowing/refinancing is taken out net of any amounts set aside. An authority increases its borrowing requirement when incurring any capital expenditure which is not financed by grants, contributions, capital receipts or revenue contributions. The borrowing requirement is reduced annually by the amount of any in year MRP.

27. Interest payable in 2012/13 is estimated to be £5.9m and for MRP the current forecast for 2012/13 is £5.7m. In total therefore the financing cost of the current Capital Programme is forecast to be £11.6m in 2012/13.

CAPITAL FUNDING AND THE APPROVED CAPITAL PROGRAMME

28. Capital expenditure is financed by external funding, revenue contributions or capital receipts. The Council is allowed to borrow to finance any shortfall in funding, provided the level of borrowing is prudent and sustainable.

29. The Capital Programme approved in February 2012 included capital expenditure of £255m over the four years 2012 – 2016 and anticipated an additional borrowing requirement of £12.9m.

30. Expected levels of capital receipts were reviewed in August 2012 and forecasted receipts have been reduced from £74.2m to £28.2m over the 4 year period April 2012 to March 2016. This follows an updated detailed analysis of timing and value of potential receipts. The £46m reduction in capital receipts, assuming no reduction in the Capital Programme and no other available internal resources, will need to be funded by external borrowing in addition to the £12.9m already assumed.

31. The annual revenue cost of the approved (February 2012) Capital Programme, inclusive of capital expenditure deferred from prior years and adjusting for the change in forecast capital receipts, is estimated to increase from £11.6m in 2012/13 to £14.1m by 2015/16 as set out in table 2 below. The estimated revenue cost at 2015/16 is unchanged from the current MTFP estimate despite the reduction in forecast capital receipts. This is because of revisions to the methodology for calculating the MRP as well as revised assumptions on estimated borrowing costs. Estimated revenue costs are lower in earlier years than the current MTFP estimates.

32. **Table 2 – Capital Expenditure and Financing forecast – adjusted for revised capital receipts**

	2012/13	**2013/14**	**2014/15**	**2015/16**
	£'000	£'000	£'000	£'000
Capital Expenditure*	102,235	61,317	54,603	48,999
Grants/ Contributions	-58,076	-38,869	-32,291	-29,680
Capital Receipts	-8,535	-1,450	-6,308	-11,897
Interest Payable on Borrowing	5,850	5,850	6,163	6,402
Statutory Minimum Revenue Provision (MRP)	5,728	7,145	7,682	7,737
Total Revenue Cost	**11,578**	**12,995**	**13,845**	**14,139**
Annual Increase in Revenue Impact		1,417	850	294
Existing MTFP Figures	12,582	14,020	14,721	14,125
Variance of Revenue Cost to MTFP	-1,004	-1,025	-876	14

* Includes capital expenditure deferred from prior years

Assumptions

Revenue impact is based on:

- Interest rate 3.87% (20 year (Public Works Loan Board (PWLB) maturity rate)
- Interest on new borrowing is calculated as being taken at the mid-point of the year
- MRP 4%
- No new borrowing until 2014/15 (there will be an impact on interest received as cash reduces)

CAPITAL REVIEW 2012

33. The Capital Programme was reviewed in August and September 2012 and included the re-profiling of capital schemes and reductions to the Capital Programme, taking into account the latest position with each scheme. Proposals for additions to the Capital Programme were also put forward, with the associated revenue costs of borrowing to fund these projects.

34. The programme reflects the following reductions, relating to the whole period under review.

35. **Table 3 – Programme reductions resulting from capital review 2012-2016**

Scheme Title	Reduction			Annual		
	Gross Budget	External Funding	Net Budget	MRP	Interest	Revenue Saving
	£'000	£'000	£'000	£'000	£'000	£'000
Customer Relationship Management (CRM)	-507	0	**-507**	-20	-20	**-40**
Schools Access Initiative	-550	0	**-550**	-22	-22	**-44**
Etonbury Middle School additional places. (New School Places)	-834	834	**0**	0	0	**0**
Schools Capital Maintenance (Formerly New Deal for Schools Modernisation)	-7,014	7,014	**0**	0	0	**0**
New School Places	-44,401	44,401	**0**	0	0	**0**
Replacement of Adult Social Care Case Management System	-800	0	**-800**	-32	-32	**-64**
Timberlands and Chiltern View Gypsy and Traveller Sites	-901	679	**-222**	-9	-9	**-18**
Dunstable Town Centre Regeneration Phase 1	-1,500	0	**-1,500**	-60	-60	**-120**
CBC Corporate Property Rolling Programme	-2,680	0	**-2,680**	-107	-106	**-214**
Other Reductions	-2,534	-2,678	-5,212	-208	-207	-415
Total Reduction	**-61,721**	**50,250**	**-11,471**	**-459**	**-455**	**-914**

* Schemes with gross budget reductions in excess of £500k are shown individually, budget reductions below this threshold are shown cumulatively as other reductions. All scheme changes are detailed at Appendix D.

36. The following new schemes and additions to previously approved schemes (excluding BEaR and the Woodside Link, see further below) have been put forward during the recent review as set out in table 4.

37. **Table 4 - List of capital additions proposed 2012-16**

Scheme Title	**Addition**			**Annual**		
	Gross Budget	**External Funding**	**Net Budget**	**MRP**	**Interest**	**Revenue Cost**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Highways Fixed Cost Services [Lump Sums]	2,896	0	**2,896**	116	115	**231**
Stratton Street Railway Bridge	2,500	0	**2,500**	100	99	**199**
West Street Car park Leighton Buzzard	1,500	0	**1,500**	60	60	**120**
Section 278 Schemes	7,500	-7,500	**0**	0	0	**0**
University Technology College – Children's Services	6,301	-6,301	**0**	0	0	**0**
A1 South Roundabout (Biggleswade)	5,000	-5,000	**0**	0	0	**0**
Local Sustainable Transport Fund (LSTF)	1,995	-1,995	**0**	0	0	**0**
Local Broadband Infrastructure	1,240	-1,240	**0**	0	0	**0**
Ivel Medical Centre (Biggleswade)	1,000	0	**1,000**	40	40	**80**
South of High Street Leighton Buzzard- Acquisition of Cattle Market and Parkridge Land.	1,000	0	**1,000**	40	40	**80**
Highways Integrated Schemes	1,313	-691	622	25	25	50
Other Increases	3,565	438	**4,003**	160	159	**319**
Total Increase	**35,810**	**-22,289**	**13,521**	**541**	**537**	**1,078**

* Schemes with gross budget increases in excess of £500k are shown individually, budget increases below this threshold are shown cumulatively as other increases. All scheme changes are detailed at Appendix D.

The Revenue and borrowing implications of all the proposed changes are summarised in Table 5 overleaf.

38. **Table 5 Draft MTFP Capital Programme as amended following capital review**

The table below is based on the assumptions detailed at Table 2 and includes an additional assumption that 20% of Capital Income and Expenditure will be deferred to the next financial year. This 20% factor for slippage is based on historic performance.

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£000
Capital Expenditure	63,751	74,517	47,083	40,034	35,424
Grants/ Contributions	-34,902	-41,351	-22,963	-20,591	-16,117
Capital Receipts	-8,535	-1,450	-6,308	-11,897	*0
Interest Payable on Borrowing	5,850	5,850	6,201	6,444	6,273
Statutory Minimum Revenue Provision (MRP)	5,728	6,533	7,523	7,656	7,652
Total Revenue Cost	**11,578**	**12,383**	**13,724**	**14,100**	**13,924**
Annual Increase in Revenue Cost		805	1,341	375	-176
Existing MTFP Figures	12,582	14,020	14,721	14,125	N/A
Difference between Revenue Cost and existing MTFP	-1,004	-1,637	-997	-25	

- Capital Receipts 2016/17 are shown as nil as they have been earmarked to finance additional schemes (see below).

39. **Major Capital Schemes Proposed**

The financial impact of additions identified in the 2012 Capital Programme Review was largely offset by reductions. To establish a proposed Capital Programme for the MTFP period April 2013 to March 2017 rolling programme schemes have been reflected in 2016/17 and two additional projects as outlined in Appendices B and C have been included. The two new projects are the:

1. BEaR project supported by prudential borrowing (Appendix B exempt);
2. Woodside Link project;

40. The BEaR project has been under development since 2009 and has now reached the stage where detailed tenders will be required. One funding option that is proposed to be available for tenderers is the availability of financial support using the Council's prudential borrowing facilities.

41. The BEaR project will be initially funded from borrowing with the forecast Local Development Framework related capital receipts in the two years 2016/17 and 2017/18 being earmarked for the specific purpose of redeeming the majority of any BEaR related prudential borrowing.

42. The actual borrowing requirement for BEaR, if any, will be determined only when final tenders are received in June 2013.

43. The Woodside Link is a crucial piece of transport infrastructure needed to promote employment, facilitate development and improve the quality of life and the environment in Central Bedfordshire. The road will support the delivery of the improved infrastructure, in particular the M1-A5 link road and de-trunking of the A5, thereby underpinning the regeneration of Dunstable town centre. The Executive agreed on 2 October 2012 to consult on this scheme prior to an application being made for development consent from the Planning Inspectorate, to add £450,000 to the 2012/13 Capital Programme for the costs of design and planning application development, to include the scheme in the review of the Capital Programme and instruct officers to do all they can to secure funding for the scheme.

44. External contributions to the Woodside Link development will be achieved, but it is likely that there will be a lag between expenditure on the project and the receipt of these contributions. The Council will therefore need to forward fund part of the scheme costs before full recovery takes place. There will therefore be an element of funding by prudential borrowing to bridge this gap.

45. The two schemes have been included within the draft Capital Programme summarised in Table 6 based on the estimates and profiles set out in Appendix C (exempt). The financing and funding assumptions are set out in this report.

46. **Table 6 Proposed MTFP Capital Programme as amended following capital review and including BEaR and Woodside Link.**

	2012/13	2013/14	2014/15	2015/16	2016/17
	£'000	£'000	£'000	£'000	£000
Capital Expenditure	64,351	78,437	59,067	75,231	52,064
Grants/ Contributions	-34,902	-41,351	-22,963	-20,591	-22,517
Capital Receipts	-8,535	-1,450	-6,308	-11,897	-14,963
Interest Payable on Borrowing	5,850	5,850	6,430	7,341	7,039
Statutory Minimum Revenue Provision (MRP)	5,728	6,557	7,703	8,308	9,685
Total Revenue Cost	**11,578**	**12,407**	**14,133**	**15,649**	**16,724**
Annual Increase in Revenue Cost		829	1,726	1,516	1,075
Existing MTFP Figures	12,582	14,020	14,721	14,125	N/A
Difference between Revenue Cost and exisitng MTFP	-1,004	-1,613	-588	1,524	

47. The inclusion of the projects in table 6 would increase the annual revenue cost of financing to a total of £16.7m by 2017/18 (i.e. an increase of £4.1m over the 2012/13 budgeted figure).

Capital Receipts

48. Forecasts for Capital Receipts to 2017/18 as at September 2012 are detailed in Appendix A. These are summarised in table 7 below:

49. **Table 7 Capital Receipts Forecast**

	2012-2016	2016/17	2017/18
Capital Receipts	£28.2m	£15m	£16.5

The effect of the capital receipts forecast being revised down from £74.2m in the approved Capital Programme to £28.2m is discussed above.

50. Receipts for 2016/17 and 2017/18 are related to the Local Development Framework (LDF). These are based on desktop valuations of the land and disposals require a Master plan, with input required from a planning specialist and a tax advisor.

Borrowing Strategy implications, options and risks (comments of S151 Officer)

51. Since inception the Council's approved borrowing strategy has been to use balances and reserves to defer the need for new external borrowing. By borrowing internal funds the Council is seeking to minimise borrowing costs and reduce overall treasury risk by reducing the level of the Council's external investment balances. The estimates outlined in the sections above would indicate a need to use new external debt from the first half of 2014 onwards.

52. The forecast that no external borrowing will need to be arranged before 2014 is dependent on a wide range of factors but importantly an assumption that the past pattern of grants and contributions paid in advance of expenditure will be repeated in the future. If the level of grants and contributions paid in advance declines the effect would be to unwind the internal borrowing and consequently bring forward the date at which new external borrowing would be required.

53. The risks of deferring any new external borrowing until 2014 centre on the uncertainty about the interest rates available at that point in time and the degree of availability of sources of finance.

54. Assuming interest rates and finance sources are similar to current levels, then in 2014 the difference between short and long term interest rates will mean that longer term fixed rate borrowing, whilst offering certainty of financing costs, could present significant affordability issues. Shorter term and variable rate borrowing and/or PWLB debt taken on an equal instalment of principal or annuity basis would provide lower interest rates. Such approaches whilst allowing lower costs of interest would increase the Council's refinancing risk by skewing the maturity profile of the Council's debt portfolio to the very short term and increase the financial risk due to movements in interest rates.

55. The proposals in this paper represent a very significant increase in the Council's prudential borrowing with attendant exposure to financial risk.

56. The paper indicates how it is proposed to mitigate these risks and keep borrowing to the lowest level and shortest term possible by allocating future capital receipts to repay borrowing as soon as possible and maximising external contributions to schemes such as the Woodside Link.

57. If Council is minded to pursue all the options contained in this report then it must do so in recognition of the implications for the General Fund revenue account and the continuing commitment to repay any borrowing taken out in support of these schemes.

58. Whilst as set out the Capital Programme appears affordable on the basis of the assumptions made, these may in reality not be delivered as planned e.g. timing and value of capital receipt and external contributions.

59. Therefore the Council should develop an alternative strategy for mitigating the financial impact that may arise. This should include consideration of Council funding streams and additional asset disposals not currently planned.

Conclusion

60. The 2012 review of the Capital Programme has not significantly altered the current overall expenditure or profiling as reductions and deferrals were almost matched by new proposed additions to the programme.

61. The review of projected capital receipts has significantly deferred the phasing of anticipated income although the financial impact has been offset by amendments to MRP methodology and borrowing assumptions.

62. The inclusion of the BEaR Project and the Woodside Link, assuming the earmarking of specific capital receipts and significant external contributions, would significantly impact on revenue costs associated with capital expenditure from 2015/16 (peaking in 2016/17).

63. By extending the forecast period to 2017/18 significant additional capital receipts become likely, and if earmarked specifically to fund the BEaR Project, could almost neutralise the revenue impact of this project, after some initial timing delays.

64. Work is ongoing to ascertain the level of external funding possible for Woodside. It is believed this will significantly reduce the CBC funding required, potentially to zero, if other possible uses of S106 monies are foregone. The level of uncertainty over this makes it very difficult to model the financial impact with any degree of precision.

Appendices:
Appendix A – Capital Receipts Forecasts 12/13 – 17/18
Appendix B – Exempt – Prudential Borrowing Proposal BEaR project
Appendix C – Exempt – BEaR, Woodside Link, Capital Programme profiles
Appendix D – Capital Review 2012 All scheme changes
Background Papers: (open to public inspection) None