Meeting:	**Executive**
Date:	**5 February 2013**
Subject:	**Capital Programme 2013/14 to 2016/17**
Report of:	**Cllr Maurice Jones, Deputy Leader and Executive Member for Corporate Resources**

Summary: The report proposes the Capital Programme (excluding HRA) for the four years from 1 April 2013.

Advising Officer:	Charles Warboys, Chief Finance Officer
Contact Officer:	Ralph Gould, Head of Financial Control
Public/Exempt:	Public
Wards Affected:	All
Function of:	Executive
Key Decision	No
Reason for urgency/ exemption from call-in (if appropriate)	Not applicable

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). Performance against the capital plan is regularly monitored and reviewed and the Council aims to maintain a prudent level of General Fund Reserves and liquidity.

Staffing (including Trades Unions):

5. Not Applicable.

Equalities/Human Rights:

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

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 draft Capital Programme was considered by the Overview and Scrutiny Committees in the January cycle of meetings. The Social Care, Health and Housing Overview & Scrutiny Committee meeting was postponed until 29 January, so it has not been possible to include feedback from that Committee in this report. Comments from this Committee will be provided at the Executive meeting. Comments from the three Committees that have met are included at Appendix L of the Revenue Budget report elsewhere on this Agenda.

All three Committees recommended that Draft Capital Programme be endorsed as set out.

RECOMMENDATION:

That Executive recommends Council to:

1. approve the 2013/14 to 2016/17 Capital Programme (as per Appendix A);

2. approve the Capital Programme Reserve List 2013/14 to 2016/17 (As per Appendix B); and

3 approve the revised capital, treasury and borrowing Prudential Indicators contained within Appendix C.

Reason for Recommendation:	*To approve the Capital Programme for the Council's MTFP 2013 – 2017 and associated Prudential Indicators.*

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 developing a Capital Programme within the MTFP for the period April 2013 to March 2017.

13. The financial impact of a reduction in capital receipt forecasts has been offset by decreases in the estimated Minimum Revenue Provision (MRP) following amendments to the calculation methodology. A review of borrowing requirements has also reduced the estimated revenue costs of borrowing.

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

15. The Capital Programme proposed for the 2013 – 2017 MTFP includes the funding of significant capital works associated with the Bedfordshire Energy and Recycling (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. It is proposed that a review of the Capital Programme is carried out during the summer of 2013 when more certainty regarding the financial requirements of both the BEaR and Woodside Link projects has been established.

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 and this position will continue to be monitored closely.

Background Information

17. The Council's capital programme was reviewed during the 2012/13 financial year and a number of changes to profiles, reductions and additions were recommended to Council by the Executive on 6 November 2012.

18. In particular Council on 29 November 2012 agreed to a number of additions with specific funding requirements and these have been carried forward to the new programme. These are :

(a) to include in the Capital Programme a maximum of £35m to support the BeaR Project from 2013/14 to 2015/16 as outlined in the Capital Review report. It is anticipated this will be funded by Prudential Borrowing, with its associated revenue implications as set out in the report;

(b) that the estimated capital receipts for the periods 2016/17 and 2017/18 be earmarked to repay any Prudential Borrowing undertaken in respect of the BeaR project; and

(c) 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 the Capital Review report, whilst noting that officers continue working to confirm the extent of external contributions to the scheme.

19. Council on 29 November also agreed the addition of the Central Bedfordshire Alternative Provision Free School scheme within the Capital Programme. The amount approved was £3m in 2013/14 all of which will be externally funded.

Summary of Capital Programme 2013/14 to 2016/17

20. 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 over the longer term by incurring additional capital financing costs.

21. The table below shows a summary of the Capital Programme reflecting the revisions agreed by Council on 29 November 2012, including a Central Bedfordshire Alternative Provision Free School scheme, provision for recurring programme items in 2016/17 and a planning assumption of 20% per annum deferral in programme spend. The detailed Programme is presented in Appendix A.

22. **Table 1 – 2013/17 Medium Term Financial Plan Capital Programme (Excluding HRA and assuming 20% annual programme deferral)**

	2013/14 £000	**2014/15 £000**	**2015/16 £000**	**2016/17 £000**
Gross Expenditure	**84,169**	**55,552**	**80,549**	**44,332**
Deferral b/f from prior year	16,088	20,051	15,121	19,134
Estimated Deferral in year	(20,051)	(15,121)	(19,134)	(12,693)
Gross Expenditure after deferral	**80,205**	**60,483**	**76,536**	**50,773**
Funded by:				
Grants & Contributions	(43,768)	(24,065)	(16,920)	(20,338)
Capital Receipts	(1,450)	(6,308)	(11,897)	0**
Borrowing*	(34,987)	(30,110)	(47,719)	(30,434)
Total Funding	**(80,205)**	**(60,483)**	**(76,536)**	**(50,773)**

* Includes internal borrowing whilst cash balances permit. It is estimated that some external borrowing will be required by 2014.
** Estimated capital receipts of £14,963k in 2016/17 are earmarked to repay external debt incurred in respect of the BEaR project.

23. By including an assumption of 20% of expenditure on capital schemes being deferred, there is recognition that dependencies within the capital programme exist (for example on third parties, including external funders) and often capital schemes are deferred from one year to the next as delivery is delayed. Excluding assumed scheme deferral, gross expenditure in 2013/14 would be £84,169k and can be broken down into the following ranked criteria:

24. **Table 2 – 2013/14 Capital Programme by Ranked Criteria (Excludes 20% slippage)**

	Gross Expenditure	Grants & Contributions	Net Expenditure
	£000	**£000**	**£000**
A. Externally funded schemes.	39,222	(39,202)	20
B. Schemes which are statutory.	6,011	(1,981)	4,030
C. Schemes where choice exists.	26,995	(4,802)	22,193
D. Schemes which are invest to save.	11,941	0	11,941
Total	**84,169**	**(45,985)**	**38,184**

Financing of the Capital Programme

25. The full financing cost of the proposed Capital Programme, assuming 20% scheme deferral, is set out in Table 3 below. Estimated revenue costs are lower in 2013 – 2014 than the previous year's MTFP estimates. This is because of revisions to the methodology for calculating the MRP as well as revised assumptions on estimated borrowing costs.

26. **Table 3 – Estimated General Fund Capital Financing costs – interest and Minimum Revenue Provision**

	2013/14 £'000	**2014/15** £'000	**2015/16** £'000	**2016/17** £'000
MTFP 2012 – 2016 (February 2012)	14,020	14,721	14,125	N/A
Increase or (reduction)	(1,613)	(614)	1,607	N/A
Capital Finance revenue costs MTFP 2013 - 2017	**12,407**	**14,107**	**15,732**	**17,020**

27. Table 3 above 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 additional cost pressures without further generation of new capital receipts and external grants and contributions.

28. The medium term forecast includes substantial new capital receipts in 2015/16 and 2016/17 in respect of the Local Development Framework project. However, these capital receipts are heavily dependant with regard to timing and valuation upon progress with planning and the state of the housing market. Forecast Capital Receipts are summarised in Table 4 below.

29. **Table 4 Forecast Capital Receipts 2013 - 2018**

£000	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	£'000	£'000	£'000	£'000	£'000
Surplus Land	200	3,000	1,500		
LDF		3,308	9,797	14,963	16,538
Potential for Disposal	1,250		600		
Total	**1,450**	**6,308**	**11,897**	**14,963**	**16,538**

Major Capital Projects included in the draft Capital Programme

30 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 such as Highways, property and ICT capital renewals have been reflected in 2016/17 and two additional major projects have been included. The two new projects are the:

- BEaR project
- Woodside Link.

31. 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 available for tenderers is the availability of financial support using the Council's prudential borrowing facilities.

32. 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.

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

34. 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 on 2 October 2012 agreed 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.

35. 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.

Capital Programme Reserve List 2013 - 2017

36. The purpose of the Reserve List is to provide Council with an early indication of potential additions to the Capital Programme. It outlines additional capital expenditure which is not included in the Capital Programme but which may be incorporated into the programme in-year by the Executive, provided the cost of these changes can be accommodated within the approved revenue budget, as confirmed by the Chief Finance Officer and the Executive Member for Corporate Resources.

37. Each scheme will be subject to the production of outline and detailed business cases. The Reserve List is detailed in Appendix B.

Prudential Indicators

38. The CIPFA Prudential Code for Capital Finance in Local Authorities requires all local authorities to arrange their affairs to remain within prudential limits for borrowing and capital investment. The Council on 24 January 2013 approved a series of Prudential Indicators based on the draft Capital Programme considered by the Council's Executive on 8 January 2013. The Capital Programme proposed in this report differs from that draft programme on which various prudential indicators were based. Over the period April 2013 to March 2017 planned gross capital expenditure has reduced by £125k, from £264.727m to £264.602m and external funding expectations have increased by £2.126m. Overall the planned net capital expenditure position has reduced by £2.251m. The relevant prudential indicators that need to be adjusted to reflect the changes have been included at Appendix C.

Appendices:
Appendix A – Capital Programme 2013 – 2017
Appendix B – Capital Programme Reserve List 2013 - 2017
Appendix C – Revised Prudential Indicators 2013 - 2016

Background Papers: (open to public inspection)