Meeting: **Executive**

Date: **4 February 2014**

Subject: **Capital Programme 2014/15 to 2017/18**

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 2014.

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. Procurement will be actively involved in the delivery of the programme to ensure that we maximise value for money when tendering for capital schemes and that we meet statutory and legislative requirements.

Overview and Scrutiny:

11. Detailed comments from the Overview & Scrutiny (O&S) Committee meetings will be set out in Appendix B (if required). At the time of writing this report the O&S Committees had not met. Appendix B will therefore be tabled if required at the Executive meeting on 4 February.

RECOMMENDATION:

The Executive is asked to recommend the Council to:

1. approve the Capital Programme for 2014/15 to 2017/18.

Reason for Recommendation:	*To confirm the Capital Programme for the Council's MTFP 2014 – 2018 and associated Prudential Indicators.*

Executive Summary

12. 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.

13. Capital programme development continues to be dominated by a few large projects including the requirement to provide Schools Places, the enhanced waste disposal facilities and Woodside Link. The development of Flitwick Leisure Centre has also been added to the Medium Term Financial Plan.

14. 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.

15. The budget proposed in this report reduces revenue liabilities against those already earmarked in the medium term financial plan. However risks associated with the realisation of capital receipts, the movement of interest rates and future programmes/liabilities could adversely impact future revenue financing.

16. A summary of the proposed capital programme has been included in Appendix A and shows individual schemes alongside the financing source for each scheme. 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.

17 Capital receipt projections for the 2014/15 to 2017/18 period have been reviewed in year and forecasts have been revised downwards, particularly in 2016/17 and 2017/18, due to lower anticipated Local Development Fund (LDF) receipts.

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

Summary of Capital Programme 2014/15 to 2017/18

19. 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.

20. The table below shows a summary of the capital programme reflecting revisions in year and a planning assumption of 20% per annum slippage in programme spend. The detailed programme is presented in Appendix A.

Table 1 – 2014/18 Medium Term Financial Plan Capital Programme (excluding HRA and assuming 20% annual programme slippage)

	2014/15** £000	2015/16 £000	2016/17 £000	2017/18 £000
Gross Expenditure	90,053	107,532	80,814	51,471
Funded by:				
Less: Grants & Contributions	(36,898)	(54,700)	(41,907)	(29,967)
Capital Receipts	(7,450)	(11,200)	(8,845)	(5,850)
Borrowing*	(45,705)	(41,632)	(30,062)	(15,654)
Total Funding	**(90,053)**	**(107,532)**	**(80,814)**	**(51,471)**

* Includes internal borrowing whilst cash balances permit. It is estimated that external borrowing will be required from 2014/15.
** Includes actual forecast slippage from 2013/14.

Expenditure and income in each year is reduced by 20% to exclude slippage and increased by 20% deferred from the previous year.

Specifically, the figure for 2014/15 includes an allowance for schemes approved for spend in 2013/14 which will be deferred into 2014/15. This therefore assumes that the 2013/14 capital programme will be fully delivered by the end of 2014/15.

21 By including an assumption of 20% of 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.

Financing of the Capital Programme

22 The full financing cost of the proposed Capital Programme, including what has been built into the base budget are:

Table 2 – 2014/18 Annual Revenue Implications of Capital Programme compared to Original Budget

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Base Budget b/f	14,107	15,732	17,020	-
Additional Charge	(1,061)	(1,417)	(1,007)	-
Total Charge	13,046	14,315	16,013	17,439

Estimated revenue costs are lower than the base budget from 2014-2017.

23 The table 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 cost pressures without further generation of new capital receipts and external grants and contributions.

Interest Rates

24 The Council has borrowed internally from its own cash balances to fund the capital programme, as opposed to borrowing from financial markets. Cash balances support the Council's reserves, grants received in advance and amounts due to creditors. As at 31 March 2013 the Council had borrowed £75.4m from its own balances to fund capital expenditure. It is anticipated that external borrowing will be required from 2014/15 once cash balances are fully utilised.

25 Revenue implications of the capital programme have been calculated on the assumption that any borrowing will be taken on a variable short term basis to the extent permitted by the Council's Treasury Management Strategy, taking advantage of current low interest rates.

26 The rate of interest used is important in determining revenue implications of borrowing arising from the capital programme. There is a risk that interest rates may increase or be higher than current rates when it comes to borrowing or 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, most likely beyond the current Medium Term Financial Plan period.

27 The Council reviews its Treasury Management Strategy annually 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. Fixed interest rates are higher than variable rates and any decision to fix these in the short term would adversely impact revenue implications within the Medium Term Financial Plan Period.

Capital Receipts

28 The medium term forecast includes substantial new capital receipts in respect of the LDF project. These are heavily dependant upon progress with planning and the state of the housing market with regard to timing and valuation.

29 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.

30 Capital receipt projections have been revised down from the projections included in the 2013/14 Council approved capital programme due to a reduction in forecasted LDF receipts. The table below compares the projections included in this capital programme compared to the revised figures.

Table 3 – Capital receipts movement between 2013/14 Council Approved Capital Programme and revised 2014/15 Capital Programme

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Original Forecast Receipts	(6,308)	(11,897)	(14,963)	(16,538)
Revised Forecast 13/14	(7,450)	(11,200)	(8,845)	(5,850)
Total Change	**(1,142)**	**697**	**6,118**	**10,688**

Reserve List

31 Appendix A includes a list of reserve schemes, which the Council will progress if the revenue impacts can be accommodated within the approved revenue budget.

32 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 Deputy Leader and Executive Member for Corporate Resources that the schemes can be incorporated in the revenue budget for the financial year.

33 The total costs of schemes on the reserves list are enclosed below. 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 medium term financial plan period.

Table 4 – Net Cost of Total Reserve List Schemes 2013/18

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	**Total £000**
Total Net Cost of Reserve List Schemes	17,830	20,850	10,090	6,540	**55,310**

Major Capital Schemes

34 **Enhanced Waste Disposal Facilities** The Capital Programme includes estimated expenditure on this project. Costs are currently being finalised and the project will be subject to a separate report to the Executive. The original capital programme agreed that capital receipts for 2016/17 and 2017/18 would be earmarked to fund this project. Table 3 above shows reduced forecasts for capital receipts in those years and any shortfall will have to be made up by additional borrowing.

35 **Woodside Link**
The Capital Programme includes expenditure of £36m on the Woodside Link Road over 2014 – 2017 (total project cost £42m). It was anticipated in the Capital Programme Report to the Executive in February 2013 that this would be initially funded by borrowing and the Council would explore funding sources to offset the borrowing costs of this project. The project has since been awarded £5m of external funding. The Local Transport Board for the South East Midlands has agreed an indicative allocation of a further £10m for this project, subject to an agreed business case which is currently being developed. This represents good progress in securing external funding for this project and justifies the same assumption to be held in regard to this project going forward.

36. **Flitwick Leisure Centre**
Flitwick Leisure Centre has been separately approved by the Executive and figures have been included in the Medium Term Financial Plan in Appendix A.

37. The project is to be part funded by the sale of adjoining land for residential development at the end of the project, with the remainder recovered through increased revenue income from the redeveloped leisure centre after it becomes operational in 2016/17.

Background Papers:
None

Appendices:
Appendix A – Full capital programme 2014-18 and Reserve list
Appendix B – Overview and Scrutiny comments to be table (if required)