Central Bedfordshire Council

EXECUTIVE - 10 February 2015

CAPITAL PROGRAMME 2015/16 TO 2018/19

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This report relates to a non-Key Decision

Purpose of this report

1. The report proposes the Capital Programme (excluding HRA) for the four years from 1 April 2015.

RECOMMENDATIONS

The Executive is asked to:

1. recommend to Council the Capital Programme for 2015/16 to 2018/19.

Overview and Scrutiny Comments/Recommendations

2. Overview and Scrutiny Committees considered the Capital Programme in their January 2015 cycle of meetings and comments are included at Appendix K of the Revenue Budget report.

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 projects including the requirement to provide Schools Places, Enhanced Waste Disposal Facilities, Flitwick Leisure Centre and the Woodside Link. The development of Dunstable Leisure Centre has also been added to the Medium Term Financial Plan.

5. A driving principle underlying capital investment has always been to minimise the revenue impact over the period of the MTFP 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 earmarked in the Medium Term Financial Plan (MTFP) for 2015-2018. The reduction is due to revised borrowing assumptions discussed within the Interest Rates section of this report. Risks associated with the realisation of capital receipts, the movement of interest rates and future programmes/liabilities could adversely impact future revenue financing.

7. A summary of the proposed Capital Programme has been included in Appendix A and Appendix B shows 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 financing liabilities.

8. Capital receipt projections for the 2015/16 to 2018/19 period have been reviewed in year. 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.

Changes to Draft Capital Programme 2015/16 to 2018/19

10. **Highways**
On the 23rd December 2014 the Department of Transport announced that additional funding would be made available to English Councils for a six year period to tackle potholes. As a result the Council's Highways Maintenance allocation is higher in each financial year of the MTFP period than previously anticipated: £957k in 15/16, £586k in 16/17, £462k in 17/18 and £86k in 2018/19. The Council's contribution, which is funded by borrowing, to the Highways Structural Maintenance block scheme has been reduced by a corresponding amount in each year.

11. **Disabled Facilities Grant**
Since the draft report, additional external funding has been provided for the Disabled Facilities Grant scheme, as a result of an increase to the Council's grant allocation and client contributions. External funding for the scheme has therefore increased for each year of the MTFP period: £200k in 2015/16, £80k in 2016/17, £80k in 2017/18 and £80k in 2018/19.

Summary of Capital Programme 2015/16 to 2018/19

12. 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.

13. 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 Appendices A and B.

Table 1 – 2015/19 Medium Term Financial Plan Capital Programme (excluding HRA and assuming 20% annual programme slippage)

	2015/16	**2016/17**	**2017/18**	**2018/19**
	£000	**£000**	**£000**	**£000**
Gross Expenditure	113,770	117,162	85,006	54,432
Funded by:				
Grants/Contributions	(59,496)	(57,741)	(38,888)	(18,910)
Capital Receipts	(13,101)	(10,186)	(9,606)	(1,500)
Borrowing	(41,173)	(49,235)	(36,512)	(34,022)
Total Funding	**(113,770)**	**(117,162)**	**(85,006)**	**(54,432)**

Expenditure and income in each year is reduced by 20% to exclude slippage and increased by 20% deferred from the previous year. A reconciliation to the MTFP excluding slippage is provided in Appendix C.

14. 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

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

Table 2 – 2015/19 Annual Revenue Implications of proposed Capital Programme compared to Previous MTFP

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Previous MTFP	14,315	16,013	17,439	-
Additional Charge / (Reduction)	(895)	(507)	(79)	-
Revised MTFP	**13,420**	**15,506**	**17,360**	**19,146**
Year on Year Increase		2,086	1,854	1,786

Estimated revenue costs are lower than the previous base budget over 2015-2018. 2018/19 was not included in the previous Medium Term Financial Plan.

16. 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

17. Since inception the Council, (excluding Housing Revenue Account (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 31 March 2014 the Council had borrowed £93.2m from its own balances to fund capital expenditure. However, external borrowing is anticipated from December 2014 as cash balances are expected to have been reduced to a minimum level.

18. Revenue implications of the Capital Programme have been calculated on the assumption that most borrowing will be taken 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, local authorities are lending to each other at rates below the PWLB rate for short term periods and the inclusion of these rates has lowered the projected revenue implications of the Capital Programme over 2015-17.

19. 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. The table below demonstrates the impact on the MTFP of interest rates above those assumed in the Plan.

Table 3 – 2015/19 Additional costs over the Medium Term Financial Plan period of an unexpected increase in the Interest Rate

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
1% point higher	805	1,385	1,816	2,158
2% points higher	1,610	2,770	3,632	4,316

20. There is a risk that interest rates may increase or 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, beyond the current Medium Term Financial Plan period.

21. 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. A small amount of new fixed debt has already been included within the revenue implications. Fixed interest rates are higher than variable rates and any decision to fix more debt in the short term would adversely impact revenue implications within the Medium Term Financial Plan Period.

Minimum Revenue Provision (MRP)

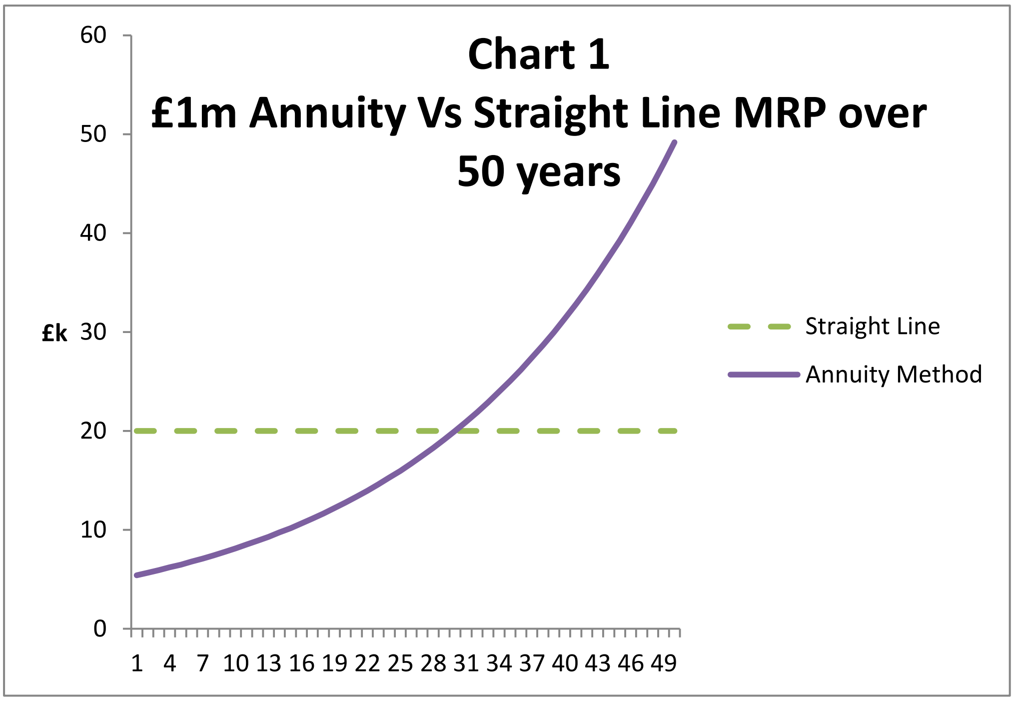
22. Regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) Regulations 2008 require Local Authorities to set aside a prudent amount annually from revenue towards the council's Capital Financing Requirement (CFR).

23. DCLG guidance outlines different options Councils can use to calculate a prudent provision. The method used by the Council for the Medium Term Financial Plan 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
Land and Buildings	50
Highways, Roads, Bridges	30
IT Systems/Equipment, Fleet	10

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

24. 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 below, in a similar manner to which principal is repaid on a mortgage. This 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, with higher MRP costs in future years beyond the current Medium Term Financial Plan period.



Capital Receipts

25. 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.

26. The Council has historically not achieved approved estimates for capital receipt within the Medium Term Financial Plan. Currently £1.3m of capital receipts are forecast for 2014/15 compared to an approved estimate of £7.5m.

27. Any shortfalls in capital receipts over the MTFP period will lead to increased revenue costs from the Capital Programme.

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

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Original Estimates 13/14	(11,200)	(8,845)	(5,850)	-
Proposed estimates 14/15	(13,101)	(10,186)	(9,606)	(1,500)
Total Change	**(1,901)**	**(1,341)**	**(3,756)**	**(1,500)**

Reserve List

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

29. 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.

30. The total costs of schemes on the reserve list are set out 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 5 – Net Cost of Total Reserve List Schemes 2015/19

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Total Net Cost of Reserve List Schemes	3,150	2,425	90	85	**5,750**

Major Capital Schemes

School Places

31. A separate report was submitted to the Executive on 9 December 2014 refreshing the schools places programme. The Medium Term Financial Plan includes £106.8m to be spent on school places of which £67.3m is to be funded externally and £39.5m from council resources (i.e. borrowing). The figures for years 2-4 of the MTFP will be subject to further review as the details of Government grants and other funding becomes available.

32. The Executive report approved the extension of Roecroft Community Lower School from 300 places to 450 places by 1 September 2015. Commencement of consultations with the governing bodies of Leedon Community Lower School and Clipstone Brook Community Lower School for expanding the provision of school places within the same timescales was also approved.

33. The Council's school organisation plan for 2014-2019 has been published on the Council's website: http://www.centralbedfordshire.gov.uk/Images/School%20Organisation%20Plan%202014_tcm6-58059.pdf#False

The Plan indicates specific pressure on places over the next five year period in each of the school place planning areas in Central Bedfordshire with need over the next two years in Stotfold, Shefford, Leighton Buzzard, Ampthill, Biggleswade, Cranfield and Silsoe to be met through new school place projects that have already received Executive approval or will be subject of reports in early 2015.

M1/A421 Junction 13 - Milton Keynes Magna Park

34. The Capital Programme includes a proposed upgrade to the existing A421, to a dual carriageway, between the section of Eagle Farm Roundabout and the M1 Junction13. Central Bedfordshire Council was successful in securing £1m from the Local Transport Board for a feasibility study and advanced work and £22.5m of Local Growth Area Funding from 2015 with a minimal net impact on the Council. The scheme is a joint Central Bedfordshire Council and Milton Keynes project.

35. The topographical work was undertaken in September 2014 and the feasibility report is expected in a draft form by end December 2014 and final March 2015. It is expected that planning, CPO, design and tender process will take place during 2015/16

Enhanced Waste Disposal Facility

36. The Enhanced Waste Disposal Facility line in the MTFP refers to the provision of a waste park at Thorn Turn near Dunstable. This will provide a Waste Transfer Station (WTS), a new Household Waste Recycling Centre (HWRC) to replace the Dunstable site at Frenches Avenue and also a 5,000t capacity Salt Barn.

37. The Project is currently in the Design stage, the Council having engaged Atkins to provide design and planning advice. A feasibility study has just been undertaken and a Detailed Business Case is currently being finalised for approval. The Project was presented to the Executive on 9 December 2014 and delegated authority to award a construction contract was approved.

Woodside Link

38. The Capital Programme includes expenditure of £24m on the Woodside Link Road over 2015 – 2019 (total project cost £42m). It is anticipated that this will be fully externally funded with £20m of this expected over the MTFP period. The Secretary of State granted development consent for the project on 30 September 2014 and the tender process is currently underway with the PQQ process completed. Construction is expected to commence in early 2015.

Flitwick Leisure Centre

39. The redevelopment of Flitwick Leisure Centre is in progress and the 2013/14 Medium Term Financial Plan included total project expenditure of £12.4m to be partially funded by £2.5m of capital receipts.

40. On 14 October 2014 Executive approved the increased gross expenditure budget of £12.4m to £14.7m with £2m of the increase funded by a new grant from Sport England, the remainder to be met by virements within existing Leisure Centre approved capital budgets.

Dunstable Leisure Centre

41. The redevelopment of Dunstable Leisure Centre is anticipated to have a net cost of £13m over 2015-2018. There is an associated income stream built into the MTFP from 2017/18. The figures have been included in the Medium Term Financial Plan in Appendix B.

Council Priorities

42. 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

43. 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.

44. 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

45. 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

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

Background Papers

47. None

Appendices

Appendices:
Appendix A – Summary of changes against previous MTFP.
Appendix B – Full Capital Programme 2015-19 and Reserve list.
Appendix C – Reconciliation of detailed Capital MTFP to MTFP with slippage included