Central Bedfordshire Council

EXECUTIVE 9 January 2018

Draft Capital Programme 2018/19 to 2021/22

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This report relates to a non-Key Decision

The purpose of this report is to seek Executive approval for a Capital Programme for the Medium Term Financial Plan (MTFP) period 2018/19 to 2021/22 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 2018/19 to 2021/22 for consultation with the Corporate Resources Overview and Scrutiny Committee and other interested parties.**

Overview and Scrutiny Comments/Recommendations

1. The Corporate Resources Overview and Scrutiny Committee will consider the budget proposals at its January 2018 meeting and comments will be included in the final Budget report to be presented to Council at its February 2018 meeting.

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/A421 Junction 13 – Milton Keynes Magna Park dualling, M1/A6 Phase 1 and 2, Highways Structural Maintenance Block, Dunstable Leisure Centre and Library, IT Digitisation, Purchase of Waste Fleets and Integrated health and care hubs in Biggleswade and Dunstable.

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. Theme 1 - Replacing and renewing operational assets:

    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.

8. Theme 2 - Investing to save:

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

    Managing demand, through the Managing the Needs of Older People (MANOP) programme for instance, is key to the Council's strategic thinking to contain costs and offer better outcomes.

Upfront investment in some assets can either trigger improved income generation opportunities, as in CCTV I thought this was now out? or enhance the value of assets prior to sale, as in work to prepare for disposal of sites .

9. Theme 3 - Capturing the benefits of growth for all:

   Growth brings opportunities to deliver new capital infrastructure alongside additional revenue through Council Tax, NNDR and the New Homes Bonus. 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.

10. Theme 4 - Protecting and enhancing Central Bedfordshire:

    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.

11. Theme 5 - Responding to new opportunities:

    As an effective and resilient authority the Council is in a position to respond to change proactively and to investigate and take opportunities.

    Examples include the provision and delivery of Health and Care hubs; working with health providers to create a more seamless service. This will be put into practice in Dunstable and Biggleswade.

    New opportunities to make the most of our assets, whether it is a rural exception site for key worker housing or building our own care homes also warrant investigation.

12. The Capital Budget proposed in this report reduces revenue liabilities against those previously identified in the MTFP for 2018/19 to 2020/21 by £5.7M (2021/22 was not included in last years MTFP).

The reduction is due to revised assumptions in respect of the amount and timing of fixed interest rate borrowing, amendments to the draft Capital Programme and changes to the methodology for calculating Minimum Revenue Provision (MRP), as approved by Council in February 2017. 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). Any capital overspends or shortfalls in capital receipts which cannot be mitigated would result in a revenue pressure as additional borrowing would be necessary.

13. A summary of the proposed Capital Programme has been included in Appendix A and Appendix B which 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.

14. Capital receipts projections for the 2018/19 to 2021/22 period have been reviewed. 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.

15. 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.

16. 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 draft Capital Programme 2018/19 to 2021/22

17. 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.

18. Table 1 below shows a summary of the draft 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 2017/18 Capital Programme an overall slippage to 2018/19 of 30% has been assumed followed by 20% to 2019/20 and 15% per annum thereafter. The assumed slippage profile reflects the fact that a number of high value schemes are expected to complete in 2018/19 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 draft programme is presented in Appendices A and B.

19. **Table 1 – 2018/19 to 2021/22 Draft Medium Term Financial Plan Capital Programme (assuming annual programme slippage)**

	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000
Gross Expenditure	101,889	75,448	88,929	70,860
Funded by:				
Grants/Contributions	(38,434)	(31,047)	(57,977)	(50,929)
Capital Receipts	(10,000)	(10,000)	(8,000)	(8,000)
Borrowing	(53,455)	(34,401)	(22,952)	(11,931)
Total Funding	(101,889)	(75,448)	(88,929)	(70,860)

20. 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

21. The revenue financing costs of the proposed Capital Programme, including what has been previously built into the previous MTFP are:

22. **Table 2 – 2018/19 to 2021/22 Annual Revenue Implications of proposed Capital Programme compared to Previous MTFP**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Previous MTFP	15,370	16,580	17,680	-
Additional Charge / (Reduction) to original MTFP	(5,243)	(5,305)	(5,697)	13,935
Revised MTFP	10,127	11,275	11,983	13,935
Year on Year Increase in the revenue consequences of the proposed programme		1,148	708	1,952

23. See paragraph 12 for an explanation of the reduction in MRP.

24. Estimated revenue costs are lower than the previous base budget for 2018/19 to 2020/21 reflecting updated assumptions in respect of the timing of interest rate movements and amendments to the draft Capital Programme and changes to the methodology for calculating Minimum Revenue Provision (MRP).

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 2017, the Council had borrowed £159.3M 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 and the inclusion of these rates coupled with revised assumptions in respect of future increases in UK base rates has lowered the projected revenue implications of the Capital Programme over the previous MTFP 2017/18 to 2020/21 period.

27. 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. Table 3 below demonstrates the impact on the MTFP of interest rates above those assumed in the Plan.

28. **Table 3 – 2018/19 to 2021/22 Additional costs over the MTFP period of an unexpected increase in the Interest Rate**

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
1% point higher	940	1,520	1,580	1,710
2% points higher	1,880	3,040	3,160	3,420

28. 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 draft Capital Programme over the longer term, within and beyond the current MTFP period.

29. The Council's treasury management advisers, Arlingclose Ltd, do not expect the Bank of England to raise its Base Rate from its current level of 0.50% over the next three years.

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

	2018/19	**2019/20**	**2020/21**	**2021/22**
Rate %	0.75%	0.75%	0.75%	0.88%

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

31. 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:

	2018/19	**2019/20**	**2020/21**	**2021/22**
Weighted average interest rate on borrowing %	2.94%	2.51%	2.42%	2.41%

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)

32. 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).

33. DCLG guidance outlines different options that local authorities can use to calculate a prudent provision. The method used by the Council for the MTFP 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.

34. The DCLG is currently consulting with local authorities on proposed changes to its existing guidance for calculating MRP, expected to be implemented in full for the 2018/19 financial year but that is not yet certain. The consultation makes it clear that an overpayment of MRP cannot be calculated retrospectively. Importantly, where a local authority has changed the methodology that it uses to calculate prudent provision and generated what the current guidance calls an 'overpayment' it can continue to incorporate that overpayment into future calculations of prudent provision. This means that this proposed change would not have an impact on the Council's existing methodology for calculating MRP.

37. Another proposed change is to include a maximum useful economic life of 50 years for freehold land and 40 years for other assets. This would have the effect of increasing the Council's annual MRP charge in respect of capital expenditure incurred on new buildings which are currently charged MRP over 50 years, as MRP would need to be charged over a shorter 40 year period.

Example Asset Category	**MRP Life (years)**
Land and buildings	50
Highways, roads, bridges	30
IT systems/equipment, fleet	10

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

Capital Receipts

38. 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.

39. The Council has historically not achieved approved estimates for capital receipts within the MTFP but 2017/18 has seen a substantial over achievement.

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**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Previous MTFP Capital Receipts	10,000	10,000	8,000	-	28,000
Revised MTFP Capital Receipts	10,000	10,000	8,000	8,000	36,000
Total Change Increase/(Decrease) in Capital Receipts	**-**	**-**	**-**	**8,000**	**8,000**

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

Table 5 – Net Capital Cost of Total Reserve List Schemes 2018/19 to 2021/22

45.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Net Capital Cost of Reserve List Schemes	8,662	12,920	3,502	210	25,294

46. **Major Capital Schemes**

New School Places - £48M gross (£0M 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/A421 Junction 13 - Milton Keynes Magna Park - £18M gross (£3M net) expenditure over the MTFP period

48. The Council is improving the A421 between Junction 13 of the M1 and Magna Park in Milton Keynes. This involves dualling the remaining section of single carriageway road in order to remove this bottleneck in an important east –west route. This scheme will be largely funded through Department of Transport grants with the remaining cost met by Central Bedfordshire Council and Milton Keynes Council according to a cost sharing agreement which has been adopted by both Councils.

M1/A6 Phase 1 and 2 - £55M gross (-£3m net) expenditure over the MTFP period

49. The proposed M1-A6 Link is a new 4.4km long dual 2-lane carriageway link between the M1 in the west (at the newly opened M1 Junction 11a) and the A6 in the east, to effectively form a northern bypass for Luton and open up land for the potential development of up to 4,000 dwellings, up to 60 hectares of employment land, and provision of a new sub-regional rail freight interchange. It is anticipated that this scheme will be largely funded through developer contributions and Department of Transport grant.

Highways Structural Maintenance - £24M gross (£8M net) expenditure over the MTFP period

50. 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 dependant on using an asset management approach to maintenance.

Dunstable Leisure Centre and Library - £14M gross (£11M net) expenditure over the MTFP period

51. The current Dunstable Leisure Centre and Library buildings reached the end of their lives and became increasingly expensive and difficult to maintain. The Council is taking the opportunity to invest in a new building that combines these services, provides a leisure and library offer that is fit for the future and acts as a catalyst for future investment in the centre of Dunstable. This work will trigger the release and redevelopment of further sites in Dunstable which will, in turn, add further to the creation of a more vibrant town centre. There are annual efficiencies of c£0.6M pa by the end of the MTFP resulting from this investment.

IT Digitisation - £10M gross (£10M net) expenditure over the MTFP period

52. The Digitisation Capital Programme for FY18-19 and following years is designed to accelerate change in four significant Council improvement areas while maintaining sufficient additional capacity to support general development needs.

- Upgrade and modernisation of the Adults Social Care System: Modernisation of the social care offering, improved mobile working, reduced administration and enhanced management information to better focus service delivery.

- Replacement of the Acolaid/iDox planning, registration and administration system serving 30 some work teams in the Council, with a clear focus on improved efficiency, better delivery of service to the community, mobile and on line working.

- SAP Financial upgrade and modernization to improve management information, streamline work flows, and create internal efficiencies.

- Elimination/reduction of paper archives and paper workflows in the Council in terms of reduced paper storage and the introduction of electronic processes.

The planned five year approach that would have seen mostly flat investment levels during the MTFP was enhanced by bringing much of the investment forward into 2018-19 and 2019-20 to accelerate the rate of change and to create related efficiencies and service improvements earlier. c£2M of efficiencies have been built into the Revenue MTFP.

Purchase of Waste Fleet - £8M gross (£8M net) expenditure over the MTFP period

53. An £8M provision has been made in the capital MTFP for the purchase of fleet for waste collection and street cleansing services. This is an estimate based on current fleet requirements and costings. This investment will deliver significant efficiencies of £1.1M pa to the Council's General Fund revenue.

Integrated Health & Care Hubs Biggleswade & Dunstable - £28m gross (£28M net) expenditure over the MTFP period

54. 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. £1.5M of efficiencies have been built into the Revenue MTFP.

55. New Homes Bonus will be used to help fund the Integrated Health & Care Hubs to the extent that the reserves are available.

Reason for Decision

56. To approve the Council's Capital Programme for the MTFP period 2018/19 to 2021/22 to facilitate effective financial management and planning.

Council Priorities

57. 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

58. 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.

59. 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. This is contained in Appendix G of the Revenue Budget report.

Financial Implications

60. 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.

Risk Management

61. The financial implications of the proposed changes to the Capital Programme are set out within the body of the report.

Equalities Implications

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

Conclusion and next steps

63. A period of public consultation will commence from January 2018. A more detailed explanation of the Council's approach to the budget consultation is contained in the Revenue Budget paper also on this agenda.

64. The Corporate Resources Overview and Scrutiny Committee will consider the budget proposals at its January 2018 meeting and comments will be included in the final Budget report to be presented to Council at its February 2019 meeting.

Appendices

Appendix A – Summary of changes against previous MTFP
Appendix B – Full Capital Programme 2018/19 to 2021/22 and Reserve List
Appendix C – Reconciliation of Capital MTFP to MTFP with slippage included

Background papers

None.