Corporate Capital Programme 2015/16 – 2017/18

Summary

To consider the Corporate Capital Programme for 2015/16, the Prudential Indicators for 2015/16 to 2017/18, and the provisional capital programme for 2016/17 to 2017/18.

Portfolio - Finance
Date signed off: 6 February 2015

Wards Affected	All

Recommendation

The Executive is advised to recommend to the Council that:

(i) the new capital bids for £525k for 2015/16, as set out at Annex A, be approved and that they be incorporated into the Capital Programme; and

(ii) the Prudential Indicators for 2015/16 to 2017/18, summarised below and explained in Annex D in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011, be approved

Prudential Indicator	**2015/16 Estimated £000**	**2016/17 Estimated £000**	**2017/18 Estimated £000**
Capital Expenditure	12.108	525	525
Capital Financing Requirement	10,152	9,934	9,741
Ratio of financing costs to net revenue stream	-3.46%	2.37%	2.26%
Incremental impact of investment decisions on Band D council Tax	£1.48	£4.47	£0.14
Operational Boundary	16,000	15,000	15,000
Authorised Limit	18,500	17,400	17,400

The Executive is also advised to note:

(i) the Capital Financing Requirement for this Council as at 31 March 2016 is estimated to be £10.152m and as such a Minimum Revenue Payment of £33k is required;

(ii) the provisional Capital Programme for 2016/17 and 2017/18; and

(iii) the available capital receipts forecast shown in Annex C.

Resource Implications

1. Executive Heads of Service were required to present capital bids for 2015/16 as part of the Star Chamber process conducted by Management Board. These have been reviewed by Management Board prior to submission to Executive. Bids were only considered if they met a statutory obligation or it could be demonstrated that they would be self-funding.

2. The 2015/16 Capital Programme as proposed is shown in Annex A and its effect on the Councils capital receipts reserves is shown in Annex C. This indicates that it will not be possible to fully fund the current Capital Programme from capital receipts and existing revenue reserves, and it has been assumed that the shortfall will be funded from borrowing.

3. Additional capital receipts could be realised from the sale of Council assets although there is a risk in the current climate that prices would be depressed or that such sales will not be realised.

4. The Revenue Capital Fund is estimated to be about £9.5m at 31 March 2015 and will be used to support the Capital Programme if required. However this reduces the amount of reserve available to support revenue expenditure and hence the General Fund in the future. It is clear that the Council will need to undertake borrowing to fund the capital programme.

5. The estimated loss of investment income as a result of the proposed capital programme is shown in the table below based on the estimated average rate of 2% for 2015/16.

	2015/16 £'000	**2016/17 £'000**	**2017/18 £'000**
Annual	21.7	5.3	5.3
Cumulative Total	21.7	27.0	32.3

6. Additional capital schemes may be brought during the year for the Executive and Council to consider. These may result in a change to the prudential indicators and the Capital Financing Requirement (CFR). If this is the case those changes will be reflected in the relevant reports for the Executive and Council to consider.

Key Issues

7. Financial Regulations state that as part of the annual budget process the Full Council, following recommendation by the Executive, is required to approve formally the Capital Programme and its revenue implications.

8. The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code, which it has done, and to approve Prudential Indicators on an annual basis.

Options

9. The Executive has the option of agreeing, amending or rejecting the proposed capital expenditure and prudential indictors. However the adoption of the prudential code and prudential indictors is statutory requirement.

Proposals

10. The Executive is advised to RECOMMEND to Council: that

    (i) the new capital bids for £10.1m in Annex A be approved for 2015/16 and that they be incorporated into the Capital Programme.

    (ii) the Prudential Indicators summarised below and explained in Annex D for 2015/16 to 2017/18 be approved in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.

Prudential Indicator	**2015/16 Estimated £000**	**2016/17 Estimated £000**	**2017/18 Estimated £000**
Capital Expenditure	12,108	525	525
Capital Financing Requirement	10,152	9,934	9,741
Ratio of financing costs to net revenue stream	-3.46%	2.37%	2.26%
Incremental impact of investment decisions on Band D council Tax	£1.48	£4.47	£0.14
Operational Boundary	16,000	15,000	15,000
Authorised Limit	18,500	17,400	17,400

11. The Executive is also advised to NOTE:

    (i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2016 is estimated to be £10.152m and as such a Minimum Revenue Payment (MRP) of £33k is required.

    (ii) The provisional Capital Programme for 2016/17 and 2017/18.

    (iii) The available capital receipts forecast shown in Annex C.

Supporting Information

12. Annex A sets out the capital schemes proposed by Executive Heads/Heads of Service and approved by the Capital Asset Working Group and the Finance and Asset Management Working Group.

13. Annex B provides brief background information for schemes.

14. Annex C sets out the impact on capital receipts of the proposed capital programme.

15. Annex D sets out the Prudential Indicators for 2015/16 to 2017/18.

Corporate Objectives and Key Priorities

16. The adoption of the capital programme and the prudential indicators supports the corporate objective of providing services efficiently, effectively and economically.

17. In addition the affordability tests of the corporate plan link to the Council's key priority of a sustainable medium term financial plan.

Legal Implications

18. The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code 2011 and produce Prudential Indicators.

Risk Management

19. There is a risk that the Council will exhaust its capital resources within the medium term. This will mean that future programmes will need to be financed by borrowing which has an impact on revenue as both the capital (MRP) and interest need to be financed.

Annexes	Annex A – 2015/16 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex D – Prudential indicators.
Background Papers	None
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Executive Head Of Service	Kelvin Menon – Executive Head of Finance

Consultations, Implications and Issues Addressed

	Required	Consulted	
Resources			
Revenue	✓	✓	
Capital	✓	✓	
Human Resources	n/a		
Asset Management	✓	✓	
IT	n/a		

Other Issues			
Corporate Objectives & Key Priorities	✓	✓	
Policy Framework	n/a		
Legal	n/a		
Governance	n/a		
Sustainability	n/a		
Risk Management	✓	✓	
Equalities Impact Assessment	n/a		
Community Safety	n/a		
Human Rights	n/a		
Consultation	n/a		
P R & Marketing	n/a		

Version:

Annex A

Capital Programme Schemes submitted by Executive Heads/Heads of Service and agreed by the Capital Asset Working Group.

TABLE 1 – ACTUAL AND ANTICPATED CAPITAL SCHEMES FROM 2015/16 to 2017/18

3 YEAR CAPITAL PROGRAMME	2015/16			2016/17	2017/18	3 Year Funding Requirement
	B/Fwd from 2014/15	New Schemes	Total	Estimated Total	Estimated Total	
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Finance						
Property Acquisition Fund	1,480		1,480			1,480
Sub Total	**1,480**	**-**	**1,480**	**-**	**-**	**1,480**
Transformation						
Pembroke House	320		320			320
Air Conditioning Units SHH & Theatre		75	75			75
New Telephony system		25	25			25
Property and Land Acquisition	-	9,500	9,500			9,500
Sub Total	**320**	**9,600**	**9,920**	**-**	**-**	**9,920**
Business						
PIC Monies	120		120			120
Camberley Park & Obelisk - C Sum	63		63			63
Sub Total	**183**	**-**	**183**	**-**	**-**	**183**
Community						
Disabled Facilities Grants	-	500	500	500	500	1,500
Renovation Grants	-	25	25	25	25	75
Sub Total	-	**525**	**525**	**525**	**525**	**1,575**
GRAND TOTAL OF ALL SCHEMES	**1,983**	**10,125**	**12,108**	**525**	**525**	**13,158**

Executive are asked to approve and recommend to Council the schemes set out in the column headed “New Schemes” for 2015/16 which total £10.100m. For the purposes of calculating the prudential indicators, it has been assumed that £9.5m property and land acquisition, which has already been to Executive, will be approved and incorporated into the 2015/16 capital programme.

Executive and Council will be asked to approve any carry forwards from 2014/15 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2015/16 CAPITAL PROGRAMME INCLUDING ANTICIPATED CARRY FORWARDS FROM 2014/15

FUNDING FOR 2015/16 CAPITAL PROGAMME	Scheme Total	Grant	Other External Contribs	External Borrowing	Other Funding Required
	£ 000's	£ 000's	£ 000's	£ 000's	£ 000's
Finance					
Property Acquisition Strategy	1,480				**1,480**
Sub Total	**1,480**	**-**	**-**	**-**	**1,480**
Transformation					
Pembroke House	320				**320**
Air Conditioning Units SHH & Theatre	75				**75**
New Telephoney System	25				**25**
Property and Land Acquisition	9,500			9,500	**-**
Sub Total	**9,920**	**-**	**-**	**9,500**	**420**
Business					
PIC Monies	120		120		-
Camberley Park & Obelisk - C Sum	63		63		-
Sub Total	**183**	**-**	**183**	**-**	**-**
Community					
Disabled Facilities Grants	500	280			**220**
Renovation Grants	25				**25**
Sub Total	**525**	**280**	**-**	**-**	**245**
GRAND TOTAL OF ALL SCHEMES	**12,108**	**280**	**183**	**9,500**	**2,145**
					-

Of the £12.108m schemes recommended for 2015/16, grant funding of £280k is available. For the purposes of calculating the prudential indicators, it has been assumed that the remainder will be funded from earmarked reserves and capital receipts (£2.145m) and borrowing (£9.5m). Executive Heads of Service have confirmed that the revenue costs (such as the repayment of principal sums (MRP) and interest) arising from borrowing (i.e.) can be funded from extra income/savings arising from the schemes

Background Notes on New Schemes

Disabled Facilities Grants
Disabled Facility Grants are mandatory grants offered to disabled persons requiring modifications to their home on the recommendation of social services. Central Government provides a cash-limited sum (£270,000 for 2013/14) but grant expenditure above this sum is funded entirely by the Council.

Renovation Grants / Home Assistance
Discretionary grants and financial assistance for the renovation and maintenance of properties.

Telephony System
The Telephone system at Surrey Heath is now becoming obsolete and is unable to support new ways of working. A new system will enable call to be directed to any location as well as being more flexible to the needs of callers and more efficient in use of resources.

Air Conditioning Units at Surrey Heath House and the Theatre
The existing units contain hydro fluro carbon refrigerant which is no longer allowed under environmental legislation. Although the systems themselves can be used they cannot be regassed should this be required and hence would have to be replaced. This may mean that air-conditioning would not be available whilst the units were ordered, commissioned and replaced. As air conditioning is vital for the operation of the server room and the theatre the decision has been taken to replace the units now before they fail so as to ensure continuity of use.

Property and Land Acquisition
This scheme relates to the purchase of strategic assets in the borough which have already been approved by Executive. These are to be funded by external borrowing.

Annex C

Forecast Available Capital Receipts and Other Contributions 2015/16 - 2017/18			
	2015/16 Estimate £'000's	**2016/17 Estimate £'000's**	**2017/18 Estimate £'000's**
Forecast Capital Receipts 1st April	391	0	0
Capital Receipts during year	0	0	0
Capital Grants (Disabled Facilities Grant)	280	280	280
External Funding and Contributions	183		
TOTAL AVAILABLE FUNDS	854	280	280
B/Fwd Capital Programme Schemes from 2014/15	(1,983)		
Proposed Capital Programme	(10,125)	(525)	(525)
TOTAL SCHEMES REQUIRING FUNDING	(12,108)	(525)	(525)
Funding From Earmarked Capital Reserve	1,754	245	245
FUNDING REQUIREMENT	(9,500)	0	0

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS

INTRODUCTION

1. The Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable.

2. In order to show it is working within these limits the Council must approve, revise and monitor at least a basic range of prudential indicators covering the forthcoming three years. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators.

3. This report sets the indicators for 2015/16 to 2017/18. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital appraisal systems.

4. Within this overall prudential framework there is a clear impact on the Council's treasury management activity either through borrowing or investment activity. The treasury management strategy for 2015/16 is included as a separate paper to this Executive.

CAPITAL EXPENDITURE PLANS AND BORROWING

1. The Council's capital expenditure plans are summarised in Annex A and this forms the first of the prudential indicators. Where total expenditure is only partially funded by resources such as capital receipts, capital grants, earmarked reserves etc any remaining expenditure, which cannot be immediately funded from these resources, will form a borrowing need.

2. The tables in Annex A detailing capital expenditure and sources of finance shows that there is an underlying financing (borrowing) need of £10.160m in the years 2015/16 to 2016/17, as it is anticipated that the Council's remaining pool of unapplied capital receipts will be fully used to fund the 2015/16 capital programme.

3. If external borrowing is undertaken to support the capital programme. The Public Works Loan Board offered a fixed rate of 0.20% (certainty rate) below the normal PWLB base rate. For illustration the interest rates on 1 5 year fixed term loan are 1.73% at the "certainty rate". This equates to £17,300 per £1 million borrowed.

4. In addition to this another cost associated with borrowing in local government is a charge to the revenue account. This is called the "Minimum Revenue Provision" (MRP). MRP is used to ensure that sufficient resources are available to repay any debt undertaken to finance capital expenditure when the asset has reached the end of it's useful life. For example a building costing £2 million with a useful life of 50 years would attract a yearly charge to the revenue account of £40,000 pa. Land

although it doesn't depreciate would attract MRP at the same rate as the building or 50 years if no building is present.

5. There are two main limiting factors, which may impact on the Council's ability to undertake unsupported capital expenditure:

   - Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and on-going running costs and;
   - The Government may use a long stop control to limit either the total of all councils' plans, or in the event of an assessment by Central Government that local plans are unaffordable at a specific council, it may implement a local control to limit its capital expenditure plans. No such control have been implemented to date.

6. The key risk to the plans is that the capital expenditure programme is subject to change. Similarly some of the estimates for other sources of funding, such as capital receipts may also be subject to change over this timescale.

THE CAPITAL FINANCING REQUIREMENT - CFR (Council's Borrowing Need)

7. The second prudential indicator is the Council's Capital Financing Requirement which represents the Council's underlying need to borrow, either using internal or external borrowing. This is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is a measure of the Council's debt position.

   The Council has financed current and historic capital expenditure out of capital receipts, other contributions and reserves, and so had no underlying borrowing need. As such the Council is currently debt free and therefore has a **Nil** Capital Financing Requirement.

8. The CFR will determine the Council's requirement to make a Minimum Revenue Provision for Debt Redemption (MRP) from within its Revenue budget.

   The table below shows the forecast capital financing requirement and Minimum Revenue Provision (MRP)for the period 2014/15 – 2016/17:

	2015/16	**2016/17**	**2017/18**
	£m	**£m**	**£m**
Forecast CFR	10.127	9.934	9.741
Forecast MRP	0.033	0.193	0.193

BORROWING LIMITS

9. The Council is required to set two Prudential Indicators for external debt:

- **the Operational Boundary** – represents the maximum amount the Council could borrow externally to fund the capital programme. The approved amount should provide sufficient latitude to fund unusual cash fluctuations, but it may not be breached on a regular basis.

- **the Authorised Limit** – represents the limit beyond which external debt is prohibited. It is a statutory limit set under S3(1) of the Local Government Act 2003.

	2015/16	2016/17	2017/18
Operational boundary – borrowing	£15.0m	£14.0m	.£14.0m
Operational boundary – other long-term liabilities	£ 1.0m	£ 1.0m	£ 1.0m
Operational boundary – TOTAL	**£16.0m**	**£15.0m**	**£15.0m**
Authorised limit – borrowing	£16.5m	£15.4m	£15.4m
Authorised limit – borrowing & long-term liabilities	£ 2.0m	£ 2.0m	£ 2.0m
Authorised limit – TOTAL	**£18.5m**	**£17.4m**	**£17.4m**

Any borrowing required for a specific project would need separate approval. This prudential indicator would need to be adjusted accordingly and approval sought from Council to increase the limit.

AFFORDABILITY PRUDENTIAL INDICATORS

10. Within the prudential framework, indictors are required to assess the affordability of capital investment plans. These provide an indication of the impact on the Council's finances overall.

10.1 Ratio of financing cost to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream (Total Budget Requirement).

	2015/16	2016/17	2017/18
Ratio of financing costs to net revenue stream	-3.46%	2.37%	2.26%

The net revenue stream figures are negative because currently Surrey Heath is a net investor and has no long term borrowing. The estimates of financing costs include current commitments and the proposals in this budget report. An increase in the ratio indicates a higher level of support to the General Fund from investment income.

10.2 Impact of capital investment decisions on Council Tax (Band D)

This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably be subject to change over the three year period.

	2015/16	2016/17	2017/18
Impact of capital investment decisions on Council Tax (Band D)	£1.48	£4.47	£0.14