Corporate Capital Programme 2018/19 – 2020/21

Summary

To consider the Corporate Capital Programme for 2018/19, the Prudential Indicators for 2018/19 to 2020/21, and the provisional capital programme for 2019/20 to 2020/21.

Portfolio - Finance
Date signed off: 24 January 2018

Wards Affected	All

Recommendation

The Executive is advised to RECOMMEND to Full Council that

(i) the new capital bids for £8.584m, as set out at Annex A to this report, for 2018/19, and that they be incorporated into the Capital Programme be approved;

(ii) the Prudential Indicators, as set out below and explained at Annex D to this report, including the MRP statement, for 2018/19 to 2020/21 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	**2018/19 Estimated £000**	**2019/20 Estimated £000**	**2020/21 Estimated £000**
Capital Expenditure	8,584	2,270	630
Capital Financing Requirement	150,000	150,000	148,000
Ratio of net financing costs to net revenue stream	5.14%	2.61%	2.65%
Incremental impact of investment decisions on Band D council Tax	1.61	9.40	0.43
Operational Boundary	185,000	185,000	185,000
Authorised Limit	190,000	190,000	190,000

The Executive is advised to note:

(i) that the Capital Financing Requirement for the Council as at 31 March 2019 is estimated to be £150m and as such a Minimum Revenue Payment of £1.369m is required;

(ii) the provisional Capital Programme for 2019/20 and 2020/21; and

(iii) the available capital receipts forecast shown, as set out at Annex C.

Resource Implications

1. Executive Heads of Service were required to present capital bids for 2018/19; these were considered by the Corporate Management Team on the 5th December 2017 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 2018/19 Capital Programme as proposed is shown in Annex A. The Council no longer holds any surplus capital receipts and hence only in year receipts can be offset against the proposed spend. These receipts, as shown in Annex C,. will be insufficient to fund the entire capital programme and so existing revenue and/or borrowing will have to be used.

3. The Council is free to borrow for capital purposes only up to the level of its Capital Funding Requirement (CFR) provided that this is below the "authorised limit". It is worth noting that for every £1m borrowed revenue of at least £40k pa will be required being £20k interest at 2% and £20k "minimum Revenue payment" (MRP) to repay debt based on an asset life of 50 years. If the life of the asset acquired is shorter than 50 then the MRP will be higher to reflect this.

4. Within the 2018/19 Capital programme there is an amount for £3.2m relating to refuse vehicles which has been transferred from the 2017/18 capital programme as the expenditure will not be incurred until Summer 2018.

5. Additional capital receipts may be realised from the sale of Council assets and if this is the case they will be applied against capital spend thereby reducing borrowing.

6. The Revenue Capital Fund is estimated to be about £9.145m at 31 March 2018 and can 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. The Council did undertake borrowing during 2017/18 to fund significant property acquisitions and is prepared to do this again should the need arise.

7. 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, the Capital Financing Requirement (CFR) and the Minimum Revenue Payment (MRP). If this is the case those changes will be reflected in the relevant reports for the Executive and Council to consider.

Key Issues

8. 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.

9. 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

10. The Executive has the option of agreeing, amending or rejecting the proposed recommendation to council in respect of the capital expenditure and prudential indictors. It is a statutory requirement that the Council adopts the prudential code and sets prudential indictors

Proposals

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

(i) The new capital bids for £8.584m in Annex A are approved for 2018/19 and that they be incorporated into the Capital Programme.

(ii) the Prudential Indicators summarised below, including the MRP statement, and explained in Annex D for 2018/19 to 2020/21 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	**2018/19 Estimated £000**	**2019/20 Estimated £000**	**2020/21 Estimated £000**
Capital Expenditure	8,584	2,270	630
Capital Financing Requirement	150,000	150,000	148,000
Ratio of net financing costs to net revenue stream	5.14%	2.61%	2.65%
Incremental impact of investment decisions on Band D council Tax	1.61	9.40	0.43
Operational Boundary	185,000	185,000	185,000
Authorised Limit	190,000	190,000	190,000

12. The Executive is also advised to NOTE:

(i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2019 is estimated to be £150m and as such a Minimum Revenue Payment (MRP) of £1.369m is required.

(ii) The provisional Capital Programme for 2018/19 and 2020/21.

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

Supporting Information

13. Annex A sets out the capital schemes proposed by Executive Heads/Heads of Service and approved by Management.

14. Annex B provides brief background information for schemes.

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

16. Annex D sets out the Prudential Indicators for 2018/19 to 2020/21.

Corporate Objectives and Key Priorities

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

18. 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

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

20. Following changes to the way Council's invest and in particular the move by council's to invest in non-financial assets the CIPFA prudential Code and DCLG Guidance are currently being revised. The final outcome has not been published as yet and may result in an updated report coming to members later in the year.

21. In the consultation paper, which has now closed, the Government proposed making the following changes:.

    - Investment in property would be treated in the same way as Treasury investments are currently treated and would fall under the Treasury and Prudential framework including Governance and reporting;

    - A consequence of this would be the prioritisation of security over liquidity over yield when investments are considered. This could be difficult to apply to property investment as generally they are not readily convertible to cash and typically have a day 1 loss position due to the costs of acquisition. This would also make it more difficult to invest in regenerate schemes where the security, liquidity and yield are challenging.

    - A concept of "Proportionality" may be introduced to ensure that Councils do not become over dependent on commercial income to fund services and in particular core services. Under treasury rules

borrowing solely for financial investment gain is not permitted. If this were to be extended to non-financial investments then this could effectively stop all property investment other than for regeneration.

- Councils are required to set aside resources out of revenue to repay debt. The amount that has to be set aside is at the moment set by Councils themselves through their Minimum Revenue Payment (MRP) policy. This states the number of years that a debt may be written off over – usually related to the life of the asset. The Government is considering setting maximum lives of 40 years for building and 50 years for land. The shorter the MRP period the more revenue the asset has to produce to pay for the MRP thereby making some investments uneconomic. It would also make some borderline regeneration schemes difficult to deliver as they would not generate enough of a surplus to pay for the MRP.

22. The Government should come back with their final conclusions in the spring and if changes are then required to the Capital Programme and MRP policy this will be then brought back for members to consider.

Risk Management

23. The Council has exhausted its capital receipts and hence all capital expenditure has to be financed from revenue or loans. 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. To put this in to context for every £1m borrowed over a 50 year period at least £40,000 of revenue is required annually to fund this debt

Annexes	Annex A – 2016/17 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex D – Prudential indicators.
Background Papers	None
Author/Contact Details	Adrian Flynn – Chief Accountant Email: Adrian.Flynn@surreyheath.gov.uk
Executive Head Of Service	Kelvin Menon 01276 707257 Email : Kelvin.menon@surreyheath.gov.uk

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.

TABLE 1 – ACTUAL AND ANTICPATED CAPITAL SCHEMES FROM 2018/19 to 2020/21

3 YEAR CAPITAL PROGRAMME	**2018/19**	**2019/20**	**2020/21**	**3 Year Funding Requirement**
	Estimated Total	**Estimated Total**	**Estimated Total**	
	£ 000's	**£ 000's**	**£ 000's**	**£ 000's**
Disabled Facilities Grants	630	630	630	1,890
Refuse Vehicles	3,200	**0**	**0**	3,200
Community Bus	40	40	0	80
Lightwater Country Park	55	0	0	55
Camberley High Street Improvements	2,500	1,600	0	4,100
ICT capital investment	22	0	0	22
Camberley Theatre Improvements	137	0	0	137
Property acquisition	2,000	0	0	2,000
GRAND TOTAL OF ALL SCHEMES	**8,584**	**2,270**	**630**	**11,484**

Executive are asked to approve and recommend to Council the schemes set out in the column headed “New Schemes” for 2018/19 which total £8.584m

Executive and Council will be asked to approve any carry forwards from 2017/18 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2017/18 CAPITAL PROGRAMME

FUNDING FOR 2018/19 CAPITAL PROGAMME	**Scheme Total**	**Grant**	**Other External Contribs**	**Other Funding Required**
	£ 000's	**£ 000's**	**£ 000's**	**£ 000's**
Disabled Facilities Grants	630	630	**0**	**-**
Refuse Vehicles	3,200	0	**0**	**3,200**
Community Bus	40	0	**0**	**40**
Lightwater Country Park	55	0	**0**	**55**
Camberley High Street Improvements	2,500	2,500	**0**	**0**
ICT capital investment	22	0	**0**	**22**
Camberley Theatre Improvements	137	0	**0**	**137**
Property Acquisition	2,000			**2,000**
GRAND TOTAL OF ALL SCHEMES	**8,584**	**3,130**	**-**	**5,454**

Of the £8.584m schemes recommended for 2018/19, grant funding of £3.130m is available. For the purposes of calculating the prudential indicators, it has been assumed that the remainder will be funded from earmarked reserves and borrowing.

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
Central Government Grant to the Better Care Fund includes an element for Disabled Facilities Grant (DFG) allocated to Surrey Heath. While Government's expectation is that this money is passported to the local housing authority it is not ring-fenced. In 2017/18 the full amount was passed to the Council but it is expected that each year will involve negotiation and the Council will have to demonstrate how delivery of the service meets health and social care priorities.

London Road Recreation Ground Disabled Access Improvements
This project will provide a fully accessible play facility close to the Town Centre, supporting objectives for improving the Town Centre for all the community.

Community Bus
The average life of a community bus is about 8 to 10 years. As buses get older they require more maintenance and consume more fuel. One of the buses in the fleet is over 11-years which will need replacement with the next 12-months. The payback period for replacement of the bus is 10-years.

Lightwater Country Park
A facility will be developed in the country park that can allow a wider variety of services to be offered to the community along with a function room that can be hired.
The current toilet provision is no longer sufficient for the demands placed on it and part of the scheme will see improvements made to the Toilets.

Refuse Vehicles
As part of the new refuse contract the Council agreed to fund of £3.2m of refuse vehicles. The payback period is 10-years from Feb 2017 to be paid from savings in the joint contract.

Camberley Theatre Improvements
Improvement programme to redecorate and modernise the conferencing facilities to ensure our facilities keep up with the market. This will assist with promoting income generation.

Camberley High Street Improvements
The Scheme will provide public realm improvements to the High Street, part of Princess way and Knoll Walk to support the regeneration of Camberley Town Centre. The Project is being part funded by a grant from EM3, the Local Enterprise Partnership.

ICT Capital Spend
Investment in IT to support a move away from paper based process and to enable greater agile working**.**

Property Acquisition

This budget is to acquire property in line with the Asset Acquisition strategy to support the regeneration of Camberley town centre.

Annex C

Movement in Available Capital Receipts

	2018/19 Estimate £'000's	2019/20 Estimate £'000's	2020/21 Estimate £'000's
Forecast Capital Receipts 1st April	0	0	0
Capital Receipts during year	50	50	50
Capital Grants (Disabled Facilities Grant)	3,130	1,330	630
TOTAL AVAILABLE FUNDS	**3,180**	**1,380**	**680**
Proposed Capital Programme	(8584)	(2270)	(630)
TOTAL SCHEMES REQUIRING FUNDING	**(5404)**	**(890)**	**0**
FUNDING REQUIREMENT	**(5404)**	**(890)**	**0**

This requirement will be funded by external borrowing

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2018/19

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure: The Authority's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the earlier part of this report.

Capital Expenditure and Financing	**2017/18 Revised £k**	**2018/19 Estimate £k**	**2019/20 Estimate £k**	**2020/21 Estimate £k**
Capital Programme	6500	8584	2270	630
Total Expenditure	**6500**	**8584**	**2270**	**630**
Capital Receipts	0	50	50	50
Government Grants	630	3130	1330	630
Reserves	50	0	0	0
Revenue	110	0	0	0
Borrowing	5710	5404	890	0
Total Financing	**6500**	**8584**	**2270**	**630**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Total CFR	**144**	**150**	**150**	**148**

The CFR is forecast to fall over the next three years as capital expenditure financed by debt is repaid and outweighs capital expenditure.

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any

additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	**31.03.18 Revised £m**	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	116	122	123	123
Finance leases	0	0	0	0
Total Debt	**116**	**122**	**123**	**123**

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	185	185	185	185
Other long-term liabilities	0	0	0	0
Total Debt	**185**	**185**	**185**	**185**

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2017/18 Revised £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
Borrowing	190	190	190	190
Other long-term liabilities	0	0	0	0
Total Debt	**190**	**190**	**190**	**190**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	5.39	5.14	2.61	2.65

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	**1.61**	**9.40**	**0.43**

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in 22nd February 2013.

Annual Minimum Revenue Provision (MRP) Statement 2018/19
Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.
In the first instance any capital expenditure incurred will be paid for with capital receipts if available.

For supported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets as the principal repayment on an annuity with an annual interest rate of equal to the rate of borrowing on the loan, starting in the year

after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined as being equal to the accounting charge for depreciation. Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £m	**2018/19 Estimated MRP £000**
Capital expenditure before 01.04.2008	**0**	0
Supported capital expenditure after 31.03.2008	**143,526**	1.323
Unsupported capital expenditure after 31.03.2008	**1,446**	0.046
Total	**143,972**	**1.369**