Corporate Capital Programme 2019/20 – 2021/22

Summary

To consider the Corporate Capital Programme for 2019/20, the Prudential Indicators for 2019/20 to 2021/22, and the provisional capital programme for 2019/20 to 2021/22.

Portfolio - Finance
Date signed off: 11 February 2019

Wards Affected	All

Recommendation

The Executive is advised to RECOMMEND to the Council that:

(i) the new capital bids for £2.348m in Annex A for 2019/20 be approved, and that they be incorporated into the Capital Programme;

(ii) The Prudential Indicators summarised below and explained in Annex C, including the MRP statement, for 2019/20 to 2021/22 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	**2019/20 Estimated £m**	**2020/21 Estimated £m**	**2021/22 Estimated £m**
Capital Expenditure	2.348	0.64	0.6
Capital Financing Requirement	183	181	179
Ratio of net financing costs to net revenue stream	12.36%	11.65%	11.44%
Financing Costs	1.342	1.306	1.306
Operational Boundary	185	185	185
Authorised Limit	190	190	190

The Executive is also advised to note:

(i) that the Capital Financing Requirement for this Council as at 31 March 2020 is estimated to be £183m and as such a Minimum Revenue Payment of £2.014m is required

(ii) the provisional Capital Programme for 2019/20 to 2021/22; 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 2019/20; these were considered by the Corporate Management Team on the 20th November 2018 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 2019/20 Capital Programme as proposed is shown in Annex A. The Council holds surplus capital receipts and these receipts, as shown in Annex C, will be sufficient to fund the entire capital programme and therefore no 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 at current interest rates revenue of at least £36k pa will be required to cover the costs of interest and loan repayments over a 50 year period. If the life of the asset acquired is shorter then more revenue will be required to cover the shorter repayment period of the loan. Councils must by law make a revenue provision each year for repayment – they cannot rely on selling the asset to repay debt.

4. 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.

5. The Revenue Capital Fund is estimated to be about £10m at 31 March 2019 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 2018/19 to fund significant property acquisitions and is prepared to do this again should the need arise.

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, 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

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 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

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

    (i) The new capital bids for £2.348m in Annex A are approved for 2019/20 and that they be incorporated into the Capital Programme.

    (ii) the Prudential Indicators summarised below, including the MRP statement, and explained in Annex C for 2019/20 to 2021/22 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	**2019/20 Estimated £m**	**2020/21 Estimated £m**	**2021/22 Estimated £m**
Capital Expenditure	2.348	0.64	0.6
Capital Financing Requirement	183	181	179
Ratio of net financing costs to net revenue stream	12.36%	11.65%	11.44%
Financing Costs	1.342	1.306	1.306
Operational Boundary	185	185	185
Authorised Limit	190	190	190

11. The Executive is also advised to NOTE:

    (i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2020 is estimated to be £183m and as such a Minimum Revenue Payment (MRP) of £2.014m is required.

    (ii) The provisional Capital Programme for 2019/20 to 2021/22.

    (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 Management.

13. Annex B provides brief background information for schemes.

14. Annex C sets out the impact on available capital receipts and the Prudential Indicators for 2019/20 to 2021/22.

Corporate Objectives and Key Priorities

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

16. 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

17. The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code 2018 and produce Prudential Indicators.

Risk Management

18. If the Council exhausts 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 £36,000 of revenue is required annually to fund this debt.

Annexes	Annex A – 2019/20 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex C – Prudential indicators.
Background Papers	None
Author/Contact Details	Adrian Flynn 01276 707181 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	**2019/20**	**2020/21**	**2021/22**	**3 Year Funding Requirement**
	Estimated Total	**Estimated Total**	**Estimated Total**	
	£m	**£m**	**£m**	**£m**
Disabled Facilities Grants	0.600	0.600	0.600	1.800
Community Bus	0.040	0.040	0.000	0.080
FME Server Replacement	0.010	0.000	0.000	0.010
Filer Storage Replacement	0.021	0.000	0.000	0.021
Switch Replacement	0.057	00000	0.000	0.057
Members ICT Equipment Replacement	0.020	0.000	0.000	0.020
Public Realm Improvements (Camberley High Street)	1.600	0.000	0.000	1.600
GRAND TOTAL OF ALL SCHEMES	**2.348**	**0.640**	**0.600**	**3.588**

Executive are asked to approve and recommend to Council the schemes set out in the column headed 2019/20 which total £2.348m.

Executive and Council will be asked to approve any carry forwards from 2018/19 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2019/20 CAPITAL PROGRAMME

FUNDING FOR 2019/20 CAPITAL PROGAMME	Scheme Total	Grant	Other External Contribs	Other Funding Required
	£m	£m	£m	£m
Disabled Facilities Grants	0.600	0.600	0.000	**0.000**
Community Bus	0.040	0.000	0.000	**0.040**
FME Server Replacement	0.010	0.000	0.000	**0.010**
Filer Storage Replacement	0.021	0.000	0.000	**0.021**
Switch Replacement	0.057	0.000	0.000	**0.057**
Members ICT Equipment Replacement	0.020	0.000	0.000	**0.020**
Public realm Improvements (Camberley High Street)	**1.600**	**0.700**	**0.000**	**0.900**
GRAND TOTAL OF ALL SCHEMES	**2.348**	**1.300**	**0.000**	**1.048**

Of the £2.348m schemes recommended for 2019/20, grant funding of £1.3m 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.

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.

ICT Capital Spend
Investment in IT equipment to replace various items of hardware that are coming to the end of their useful lives.

Members ICT Equipment Replacement

After the 2019 local elections, we will need to provide 35 councillors with iPads to enable them to work electronically using office 365 for email and Modern Gov for committee administration and meetings. This equipment is essential to ensure councillors provide an efficient and effective support to their constituents, and can communicate and prepare and attend meetings.

Public Realm Improvements (Camberley High Street)

The payment represents the final instalment of the £4.4m project of which £3.5m has been funded by the EM3, the Local Enterprise Partnership with the remaining £900k coming from CIL contributions. This 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.

Movement in Available Capital Receipts

	2019/20 Estimate £m	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Forecast Capital Receipts 1st April	5.200	4.152	4.112
Capital Receipts during year	0.000	0.000	0.000
Capital Grants (Disabled Facilities Grant)	1.300	0.600	0.600
TOTAL AVAILABLE FUNDS	**6.500**	**4.752**	**4.712**
Proposed Capital Programme	(2.348)	(0.640)	(0.600)
TOTAL SCHEMES REQUIRING FUNDING	**0.000**	**0.000**	**0.000**
FUNDING REQUIREMENT	**0.000**	**0.000**	**0.000**

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	**2018/19 Revised £k**	**2019/20 Estimate £k**	**2020/21 Estimate £k**	**2021/22 Estimate £k**
Capital Programme	46,410	2,348	640	600
Total Expenditure	**46,410**	**2,348**	**640**	**600**
Capital Receipts	0	1,048	40	0
Government Grants	3,312	1,300	600	600
Reserves	0	0	0	0
Revenue	0	0	0	0
Borrowing	43,098	0	0	0
Total Financing	**46,410**	**2,348**	**640**	**600**

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	**31.03.19 Revised £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**
Total CFR	**184**	**183**	**181**	**179**

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	**31.03.19 Revised £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**
Borrowing	147	147	147	147
Finance leases	0	0	0	0
Total Debt	**147**	**147**	**147**	**147**

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	**2018/19 Revised £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 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	**2018/19 Revised £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**
Borrowing	190	190	190	190
Other long-term	0	0	0	0

liabilities				
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	**2018/19 Revised %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
General Fund	2.44	12.36	11.65	11.44

Financing costs of Capital Investment Decisions: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure.

Financing Costs	**2019/20 Estimate £**	**2020/21 Estimate £**	**2021/22 Estimate £**
General Fund (£M)	**1.342**	**1.306**	**1.306**

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 2019/20

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 2019/20 will not be subject to a MRP charge until 2020/21.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2020, the budget for MRP has been set as follows:

	2019/20 Estimated MRP £000
Capital expenditure before 01.04.2008	0
Supported capital expenditure after 31.03.2008	1.952
Unsupported capital expenditure after 31.03.2008	0.062
Total	**2.014**