

Corporate Capital Programme 2020/21 – 2022/23

Summary

To consider the Corporate Capital Programme for 2020/21, the Prudential Indicators for 2020/21 to 2022/23, and the provisional capital programme for 2020/21 to 2022/23.

Portfolio - Finance

Date consulted: 3 February 2020

Wards Affected

All

Recommendation

The Executive is advised to RECOMMEND to Full Council that:

- (i) new capital bids for £1.479m in Annex A for 2020/21 be approved, and that they be incorporated into the Capital Programme;
- (ii) The Prudential Indicators summarised below and explained in Annex C to this report, including the MRP statement, for 2020/21 to 2022/23 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	2020/21 Estimated £m	2021/22 Estimated £m	2022/23 Estimated £m
Capital Expenditure	1.479	1.0	1.0
Capital Financing Requirement	224	221	219
Ratio of net financing costs to net revenue stream	19.18%	18.75%	18.25%
Financing Costs	2.067	2.077	2.079
Operational Boundary	230	230	230
Authorised Limit	235	235	235

The Executive is also advised to note that:

- (i) the Capital Financing Requirement for this Council as at 31 March 2021 is estimated to be £224m and as such a Minimum Revenue Payment of £2.2m is required
- (ii) the provisional Capital Programme for 2020/21 to 2022/23; 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 2020/21; these were considered by the Corporate Management Team on the 12th November 2019 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 2020/21 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 £39k 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 £11m at 31 March 2021 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.
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 indicators. It is a statutory requirement that the Council adopts the prudential code and sets prudential indicators

Proposals

10. The Executive is advised to RECOMMEND to Council: that
- (i) The new capital bids for £1.479m in Annex A are approved for 2020/21 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 2020/21 to 2022/23 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	2020/21 Estimated £m	2021/22 Estimated £m	2022/23 Estimated £m
Capital Expenditure	1.479	1.0	1.0
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Operational Boundary	230	230	230
Authorised Limit	235	235	235

11. The Executive is also advised to NOTE:
- (i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2021 is estimated to be £224 m and as such a Minimum Revenue Payment (MRP) of £2.2 m is required.
 - (ii) The provisional Capital Programme for 2020/21 to 2022/23.
 - (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 2020/21 to 2022/23.

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 £39,000 of revenue is required annually to fund this debt.

Annexes	Annex A – 2020/21 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex C – Prudential indicators.
Background Papers	None
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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:

Capital Programme Schemes submitted by Executive Heads/Heads of Service.

TABLE 1 – ACTUAL AND ANTICIPATED CAPITAL SCHEMES FROM 2020/21 to 2022/23

3 YEAR CAPITAL PROGRAMME	2020/21	2021/22	2022/23	3 Year Funding Requirement
	Estimated Total	Estimated Total	Estimated Total	
	£m	£m	£m	£m
Disabled Facilities Grants	1.000	1.000	1.000	3.000
CRM System Replacement	0.030			0.030
MFD printer Replacements	0.024			0.024
Laptop and Monitor Refresh	0.060			0.060
Civica cloud upgrade	0.016			0.016
Theta 2 nd Floor	0.049			0.049
Frimley Lodge Refurbishment	0.040			0.040
HR/Payroll System	0.030			0.030
Footfall Sensors	0.050			0.050
Car park Resurfacing	0.155			0.155
New Boiler for Travelex unit	0.025			0.025
GRAND TOTAL OF ALL SCHEMES	1.479	1.000	1.000	3.479

Executive are asked to approve and recommend to Council the schemes set out in the column headed 2020/21 which total £1.479 m.

Executive and Council will be asked to approve any carry forwards from 2019/20 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2020/21 CAPITAL PROGRAMME

FUNDING FOR 2020/21 CAPITAL PROGRAMME	Scheme Total	Grant	Other External Contribs	Other Funding Required
	£m	£m	£m	£m
Disabled Facilities Grants	1.000	1.000	0.000	0.000
CRM System Replacement	0.030	0.000	0.000	0.030
MFD printer Replacements	0.024	0.000	0.000	0.024
Laptop and Monitor Refresh	0.060	0.000	0.000	0.060
Civica Cloud upgrade	0.016	0.000	0.000	0.016
Theta 2 nd Floor	0.049	0.000	0.000	0.049
Frimley Lodge Refurbishment	0.040	0.000	0.000	0.040
HR/Payroll System	0.030	0.000	0.000	0.030
Footfall Sensors	0.050	0.000	0.050	0.000
Car park Resurfacing	0.155	0.000	0.000	0.155
New Boiler for Travelex unit	0.025	0.000	0.000	0.025
GRAND TOTAL OF ALL SCHEMES	1.479	1.000	0.050	0.429

Of the £1.479m schemes recommended for 2020/21, grant & other external contributions funding of £1.050m 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.

Customer relationship Management System Replacement (CRM)

The existing CRM system has been in use for over 15 years and is no longer fit for purpose due to advances in technology. Modernisation of our CRM system will assist in meeting corporate objectives relating to accessing new digital services which will improve the customer experience for residents and staff.

MFD Printer Replacements

Investment in six new generation MFD printers to replace the current seven printers, which have come to the end of their useful lives. The new printers support the corporate objective to deliver effective services better and faster.

Footfall Sensors

Installation of Internet of things (IOT) sensors within Camberley, which will allow greater understanding of footfall and traffic movements to enable the Council to evaluate interventions required and to identify trends in road uses and the impacts of road works, diversions on traffic movement.

Frimley Lodge Window Refurbishment

The existing windows and glazed doors in Frimley Lodge park pavilion are in excess of 30 years old and have now reached the end of their useful serviceable lives.

Replacement of the windows will allow the standard of accommodation provided in the pavilion to be improved, which would generate increased rental opportunities and reduced revenue costs due to savings in heating during the winter months.

HR/Payroll System

The current HR payroll has been in use since 2002 and due to advances in technology is no longer fit for purpose, furthermore it also has poor business continuity as it is not based in the cloud. The aim of the project is either to procure enhancements to the current system or procure a brand new system, either choice would lead to greater efficiencies in staffing levels, resilience and allowing improved agile working access to the system.

Car Park & Access Road Resurfacing

The current surfaces of the following car parks and access road are at the end of their useful life and require replacing, Watchetts Road car park, Watchetts Recreation ground access road and car park and Chobham car park.

New Boiler

The tenancy of Units 2 & 3 at Albany Park industrial estate is coming to an end and the existing tenants will be reinstating the premises at their own cost. In order to help re-let the building, a new boiler will be required to heat the office part of the two units and this falls on the Landlord. .

Theta 2nd Floor Refurbishment

The Theta building is a Council owed investment property. This project will spilt the existing open plan accommodation into smaller suites that should be more attractive in the current rental market.

Laptop and Monitor Refresh & Civica Cloud upgrade

A number of departments will be moving to more agile working in future and users will be given laptops and new monitors where required so that they will not be tied to Surrey Heath House. In addition, the Civica financials system will move to the cloud to allow greater resilience and improved remote access by all staff.

Movement in Available Capital Receipts

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Forecast Capital Receipts 1st April	3.680	3.201	3.201
Capital Receipts during year	0.000	0.000	0.000
Capital Grants (Disabled Facilities Grant)	1.000	1.000	1.000
TOTAL AVAILABLE FUNDS	4.680	4.201	4.201
Proposed Capital Programme	(1.479)	(1.000)	(1.000)
TOTAL SCHEMES REQUIRING FUNDING	0.000	0.000	0.000
FUNDING REQUIREMENT	0.000	0.000	0.000

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2020/21

The Local Government Act 2003 requires the Council 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 Council 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 Council'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	2019/20 Revised £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
Capital Program	39.040	1.479	1.0	1.0
Total Expenditure	39.040	1.479	1.0	1.0
Capital Receipts	0.250	0.479		
Government Grants	0.750	1.000	1.0	1.0
Reserves				
Revenue				
Borrowing	38.040			
Total Financing	39.040	1.479	1.0	1.0

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

Capital Financing Requirement	31.03.20 Revised £m	31.03.21 Estimate £m	31.03.22 Estimate £m	31.03.23 Estimate £m
Total CFR	225	224	221	219

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 Council 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	31.03.20 Revised £m	31.03.21 Estimate £m	31.03.22 Estimate £m	31.03.23 Estimate £m
Borrowing	164	163	160	158
Finance leases	0	0	0	0
Total Debt	164	163	160	158

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 Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council'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 and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Borrowing	230	230	230	230
Other long-term liabilities	0	0	0	0
Total Debt	230	230	230	230

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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2019/20 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Borrowing	235	235	235	235
Other long-term liabilities	0	0	0	0
Total Debt	235	235	235	235

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	2019/20 Revised %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
General Fund	19.08	19.18	18.75	18.25

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 Revised £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General Fund	2.063	2.067	2.077	2.079

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 2020/21

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 2020/21 will not be subject to a MRP charge until 2021/22.

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:

	2020/21 Estimated MRP £M
Capital expenditure before 01.04.2008	0
Supported capital expenditure after 31.03.2008	2.006
Unsupported capital expenditure after 31.03.2008	0.061
Total	2.067