Corporate Capital Programme 2016/17 – 2018/19

Summary

To consider the Corporate Capital Programme for 2016/17, the Prudential Indicators for 2016/17 to 2018/19, and the provisional capital programme for 2017/18 to 2018/19.

Portfolio - Finance
Date signed off: 19 January 2016

Wards Affected	All

Recommendation

The Executive is advised to recommend to the Council that:

(i) the new capital bids for £670k in Annex A for 2016/17 be approved, and that the be incorporated into the Capital Programme;

(ii) the Prudential Indicators summarised below and explained in Annex D, including the MRP statement, for 2016/17 to 2018/19 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	**2016/17 Estimated £000**	**2017/18 Estimated £000**	**2018/19 Estimated £000**
Capital Expenditure	1,045	525	525
Capital Financing Requirement	20,357	20,057	19,752
Ratio of financing costs to net revenue stream	4.29%	7.20%	7.24%
Incremental impact of investment decisions on Band D council Tax	£11.46	£6.63	-£0.16
Operational Boundary	24,000	24,000	24,000
Authorised Limit	26,000	26,000	26,000

The Executive is also advised to note:

(i) that the Capital Financing Requirement for this Council as at 31 March 2017 is estimated to be £19,982m and as such a Minimum Revenue Payment of £202k is required;

(ii) the provisional Capital Programme for 2017/18 and 2018/19; 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 2016/17 and these have been reviewed by Management 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 2016/17 Capital Programme as proposed is shown in Annex A and its effect on the Councils available capital receipts is shown in Annex C. This indicates that it will not be possible to fund the current Capital Programme from capital receipts and existing revenue and/or borrowing will have to be used.

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 £9.0m at 31 March 2016 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. The Council did undertake borrowing during 2015/16 to fund significant property acquisitions and is prepared to do this again should the need arise.

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.

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**
Annual	3	1	1
Cumulative Total	3	4	5

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 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 £670k in Annex A be approved for 2016/17 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 2016/17 to 2018/19 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	**2016/17 Estimated £000**	**2017/18 Estimated £000**	**2018/19 Estimated £000**
Capital Expenditure	1,045	525	525
Capital Financing Requirement	20,357	20,057	19,752
Ratio of financing costs to net revenue stream	4.29%	7.20%	7.24%
Incremental impact of investment decisions on Band D council Tax	£11.46	£6.63	-£0.16
Operational Boundary	24,000	24,000	24,000
Authorised Limit	26,000	26,000	26,000

11. The Executive is also advised to NOTE:

    (i) The Capital Financing Requirement (CFR) for this Council as at the 31st March 2017 is estimated to be £20.357m and as such a Minimum Revenue Payment (MRP) of £202k is required.

    (ii) The provisional Capital Programme for 2017/18 and 2018/19.

    (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 of the proposed capital programme.

15. Annex D sets out the Prudential Indicators for 2016/17 to 2018/19.

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. 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.

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
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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 ANTICPATED CAPITAL SCHEMES FROM 2016/17 to 2018/19

3 YEAR CAPITAL PROGRAMME	2016/17	2017/18	2018/19	3 Year Funding Requirement
	Estimated Total	Estimated Total	Estimated Total	
	£ 000's	£ 000's	£ 000's	£ 000's
Property Development	375			375
Wifi for Surrey Heath house	35			35
Theatre seating	90			90
Disabled Facilities Grants	520	500	500	1,520
Renovation Grants	25	25	25	75
GRAND TOTAL OF ALL SCHEMES	**1,045**	**525**	**525**	**2,095**

Executive are asked to approve and recommend to Council the schemes set out in the column headed “New Schemes” for 2016/17 which total £1.045m

Executive and Council will be asked to approve any carry forwards from 2015/16 later in the year under a separate report.

TABLE 2 – FUNDING OF THE 2016/17 CAPITAL PROGRAMME

FUNDING FOR 2016/17 CAPITAL PROGAM	Scheme Total	Grant	Other External Contribs	Other Funding Required
	£ 000's	£ 000's	£ 000's	£ 000's
Property Development	375			**375**
Wifi for Surrey Heath house	35			**35**
Theatre seating	90			**90**
Disabled Facilities Grants	520	315		**205**
Renovation Grants	25			**25**
GRAND TOTAL OF ALL SCHEMES	**1,045**	**315**	**-**	**730**

Of the £670k schemes recommended for 2016/17, grant funding of £315k 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
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 (£315,000 for 2016/17) but grant expenditure above this sum is funded entirely by the Council. This expenditure used to be funded from Capital receipts but as these have now expired this will now need to be funded from revenue reserves and/or Council Tax payers as an on-going pressure on the budget. It is not possible to borrow against this expenditure nor is there an income stream to repay it

Renovation Grants / Home Assistance
Discretionary grants and financial assistance for the renovation and maintenance of properties. These were funded out of capital receipts but as these have now run out they will need to be funded from Council Tax and revenue reserves as an ongoing budget pressure

Wifi for Surrey Heath House
The current wifi system cannot now support the number of users and hence needs to be upgraded. The life of the new system is estimated to be 5 years and will be paid for from savings in the original equipment and more flexible working. This will be funded by internal borrowing

Theatre Seating
The existing theatre seating is old and worn. This is beginning to have an impact on customers perception as to the theatre experience and hence their wish to return. Although the seating rake can be replaced for £120k it is recommended that it is refurbished at a cost of £88k. This will give it an extra life of at least 12 years. It is proposed that the investment is paid for with a ticket levy of £1 per ticket. This will mean that the investment can be repaid in 3 years. This will be funded by internal borrowing

Property Development
This represents the costs to enable planning permission and a development scheme to be delivered for the development of housing at Ashwood House and Pembroke House.

Movement in Available Capital Receipts

	2016/17 Estimate £'000's	2017/18 Estimate £'000's	2018/19 Estimate £'000's
Forecast Capital Receipts 1st April	0	0	0
Capital Receipts during year	50	50	50
Capital Grants (Disabled Facilities Grant)	315	315	315
TOTAL AVAILABLE FUNDS	**365**	**365**	**365**
Proposed Capital Programme	(1,045)	(525)	(525)
TOTAL SCHEMES REQUIRING FUNDING	**(1,045)**	**(525)**	**(525)**
FUNDING REQUIREMENT	**(680)**	**(160)**	**(160)**

This will be funded by internal borrowing from revenue reserves

CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2016/17

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	**2015/16 Revised £k**	**2016/17 Estimate £k**	**2017/18 Estimate £k**	**2018/19 Estimate £k**
Capital Program	21,272	1,045	525	525
Total Expenditure	**21,272**	**670**	**525**	**525**
Capital Receipts	903	50	50	50
Government Grants	280	315	315	315
Reserves	183			
Revenue				
Borrowing	17,900			
Total Financing	**2,006**	**355**	**160**	**160**

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	**31.03.16 Revised £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
Total CFR	**19.879**	**20.357**	**20.057**	**19.752**

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	**31.03.16 Revised £m**	**31.03.17 Estimate £m**	**31.03.18 Estimate £m**	**31.03.19 Estimate £m**
Borrowing	17.9	17.9	17.9	17.9
Finance leases	0	0	0	0
Total Debt	**17.9**	**17.9**	**17.9**	**17.9**

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	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	22	22	22	22
Other long-term liabilities	1	2	2	2
Total Debt	**23**	**24**	**24**	**24**

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	**2015/16 Revised £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Borrowing	23	24	24	24
Other long-term liabilities	2	2	2	2
Total Debt	**25**	**26**	**26**	**26**

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	2015/16 Revised %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-.0.12	4.29	7.20	7.24

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	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual band D Council Tax	**11.46**	**6.63**	**-0.16**

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 Statement 2016/17

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 2016/17 will not be subject to a MRP charge until 2017/18.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31st March 2016, the budget for MRP has been set as follows:

	31.03.2016 Estimated CFR £m	**2016/17 Estimated MRP £000**
Capital expenditure before 01.04.2008	**0**	0
Supported capital expenditure after 31.03.2008	**17.9**	162
Unsupported capital expenditure after 31.03.2008	**1.6**	40
Total	**19.5**	**202**