

## Corporate Capital Programme 2017/18 – 2019/20

### Summary

To consider the Corporate Capital Programme for 2017/18, the Prudential Indicators for 2017/18 to 2019/20, and the provisional capital programme for 2018/19 to 2019/20.

### Portfolio - Finance

Date signed off: 18 January 2017 (by the Leader)

### Wards Affected

All

### Recommendation

The Executive is advised to recommend to the Council that:

- (i) the new capital bids for £3,871k in Annex A for 2017/18 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 2017/18 to 2019/20 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	2017/18 Estimated £000	2018/19 Estimated £000	2019/20 Estimated £000
Capital Expenditure	3,871	600	600
Capital Financing Requirement	140,653	138,901	137,112
Ratio of financing costs to net revenue stream	35.17%	38.52%	41.36%
Incremental impact of investment decisions on Band D council Tax	£15.29	£8.27	£0.97
Operational Boundary	157,000	157,000	157,000
Authorised Limit	167,000	167,000	167,000

The Executive is also advised to note that:

- (i) the Capital Financing Requirement for this Council as at 31 March 2018 is estimated to be £140.653m and as such a Minimum Revenue Payment of £1,392k is required;
- (ii) the provisional Capital Programme for 2018/19 and 2019/20; and
- (iii) the available capital receipts forecast shown in Annex C.

## 1. Resource Implications

- 1.1 Executive Heads of Service were required to present capital bids for 2017/18, these were considered by the Chief Executive and Section 151 Officer on 22<sup>nd</sup> November 2016 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.
- 1.2 The 2017/18 Capital Programme as proposed is shown in Annex A. The Council no longer holds a capital receipts reserve therefore only in year receipts can be offset against the proposed spend. 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.
- 1.3 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.
- 1.4 The Revenue Capital Fund is estimated to be about £9.0m at 31 March 2017 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 2016/17 to fund significant property acquisitions and is prepared to do this again should the need arise.
- 1.5 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 poorest performing investments 0.6% for 2016/17.

	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
<b>Annual</b>	54	24	24
<b>Cumulative Total</b>	54	78	102

- 1.6 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.

## **2. Key Issues**

- 2.1 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.

- 2.2 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.

### **3. Options**

- 3.1 The Executive has the option of agreeing, amending or rejecting the proposed capital expenditure and prudential indicators. However the adoption of the prudential code and prudential indicators is a statutory requirement.

### **4. Proposals**

- 4.1 The Executive is advised to RECOMMEND to Council: that

- (i) the new capital bids for £3,871k in Annex A be approved for 2017/18 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 2017/18 to 2019/20 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.

<b>Prudential Indicator</b>	<b>2017/18 Estimated £000</b>	<b>2018/19 Estimated £000</b>	<b>2019/20 Estimated £000</b>
Capital Expenditure	3,871	600	600
Capital Financing Requirement	140,653	138,901	137,112
Ratio of financing costs to net revenue stream	35.17%	38.52%	41.36%
Incremental impact of investment decisions on Band D council Tax	£15.29	£8.27	£0.97
Operational Boundary	157,000	157,000	157,000
Authorised Limit	167,000	167,000	167,000

- 4.2 The Executive is also advised to NOTE:

- (i) The Capital Financing Requirement (CFR) for this Council as at the 31<sup>st</sup> March 2018 is estimated to be £140,653m and as such a Minimum Revenue Payment (MRP) of £1,392k is required.
- (ii) The provisional Capital Programme for 2017/18 and 2018/19.
- (iii) The available capital receipts forecast shown in Annex C.

### **5. Supporting Information**

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

- 5.2 Annex B provides brief background information for schemes.
- 5.3 Annex C sets out the impact on available capital receipts of the proposed capital programme.
- 5.4 Annex D sets out the Prudential Indicators for 2016/17 to 2018/19.

## **6. Corporate Objectives and Key Priorities**

- 6.1 The adoption of the capital programme and the prudential indicators supports the corporate objective of providing services efficiently, effectively and economically.
- 6.2 In addition the affordability tests of the corporate plan link to the Council's key priority of a sustainable medium term financial plan.

## **7. Legal Implications**

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

## **8. Risk Management**

- 8.1 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.

<b>Annexes</b>	Annex A – 2016/17 Proposed capital schemes Annex B – Background notes on schemes Annex C – Movement in available capital receipts. Annex D – Prudential indicators.
<b>Background Papers</b>	None
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## **Consultations, Implications and Issues Addressed**

	<b>Required</b>	<b>Consulted</b>	
<b>Resources</b>			
Revenue	✓	✓	
Capital	✓	✓	

Human Resources	n/a		
Asset Management	✓	✓	
IT	n/a		
<b>Other Issues</b>			
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 2017/18 to 2019/20**

<b>3 YEAR CAPITAL PROGRAMME</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>3 Year Funding Requirement</b>
	<b>Estimated Total</b>	<b>Estimated Total</b>	<b>Estimated Total</b>	
	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
Disabled Facilities Grants	600	600	600	1,800
London Rd Disabled Access	21			21
Refuse Vehicles	3,200			3,200
Replacement Dog Warden Van	10			10
Community Bus	40			40
<b>GRAND TOTAL OF ALL SCHEMES</b>	<b>3,871</b>	<b>600</b>	<b>600</b>	<b>5,071</b>

Executive are asked to approve and recommend to Council the schemes set out in the column headed “New Schemes” for 2017/18 which total £3.871m

Executive and Council will be asked to approve any carry forwards from 2016/17 later in the year under a separate report.

**TABLE 2 – FUNDING OF THE 2016/17 CAPITAL PROGRAMME**

<b>FUNDING FOR 2016/17 CAPITAL PROGAM</b>	<b>Scheme Total</b>	<b>Grant</b>	<b>Other External Contribs</b>	<b>Other Funding Required</b>
	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>	<b>£ 000's</b>
Disabled Facilities Grants	600	600		-
London Rd Disabled Access	21			<b>21</b>
Refuse Vechicles	3,200			<b>3,200</b>
Replacement Dog Warden Van	10			<b>10</b>
Community Bus	40			<b>40</b>
<b>GRAND TOTAL OF ALL SCHEMES</b>	<b>3,871</b>	<b>600</b>	<b>-</b>	<b>3,271</b>

Of the £3,871k schemes recommended for 2017/18, grant funding of £600k 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 2016/17 the full amount was passed to the Council but it is expected that each year will involve a 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 park 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 community transport service generates income of £200,000 per year of which £150,000 is from Service Level Agreements. A reduction in the number of vehicles in the fleet will negatively impact on the delivery of the SLA's. The payback period for replacement of the bus is 10-years.

### **Dog Warden Van**

The Environmental Health Technician/ Dog warden carries out 60% of her time carrying out general environmental health duties across the Borough and 40% dealing with dog related issues. The nature of her duties is that she would either be entitled to the provision of a lease car or a car allowance of £2,000 per annum plus motor mileage at 0.45 per mile. She currently drives 7,778 miles a year. This is total cost of £5,500 per year. As an alternative she has previously been provided with a van as this enables her collect stray dogs if the contractor is not available and to carry bulky environmental sampling equipment for the team. The van is now getting old and needs to be replaced before any major mechanical repairs are necessary.

### **Refuse Vehicles**

It is proposed that the Council agrees that funding of £3.2m to be included in the capital programme for 2017/18 and 2018/19 to provide capital funding for vehicle purchase as required for inclusion for the Surrey Heath transfer to the new refuse contract. The payback period is 10-years from Feb 2017 to be paid from savings in the joint contract.



**Movement in Available Capital Receipts**

	<b>2017/18 Estimate £'000's</b>	<b>2018/19 Estimate £'000's</b>	<b>2019/20 Estimate £'000's</b>
Forecast Capital Receipts 1st April	0	0	0
Capital Receipts during year	50	50	50
Capital Grants (Disabled Facilities Grant)	600	600	600
<b>TOTAL AVAILABLE FUNDS</b>	<b>650</b>	<b>650</b>	<b>650</b>
Proposed Capital Programme	(3,871)	(600)	(600)
<b>TOTAL SCHEMES REQUIRING FUNDING</b>	<b>(3,221)</b>	<b>0</b>	<b>0</b>
<b>FUNDING REQUIREMENT</b>	<b>(3,221)</b>	<b>0</b>	<b>0</b>

This will be funded by internal borrowing from revenue reserves

## CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS 2017/18

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.

<b>Capital Expenditure and Financing</b>	<b>2016/17 Revised £k</b>	<b>2017/18 Estimate £k</b>	<b>2018/19 Estimate £k</b>	<b>2019/2020 Estimate £k</b>
Capital Programme	122,300	3,871	600	600
<b>Total Expenditure</b>	<b>122,300</b>	<b>3,871</b>	<b>600</b>	<b>600</b>
Capital Receipts	494	50		
Government Grants	601	600	600	600
Reserves	253			
Revenue	37			
Borrowing	120,915			
<b>Total Financing</b>	<b>122,300</b>	<b>3,221</b>	<b>600</b>	<b>600</b>

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

<b>Capital Financing Requirement</b>	<b>31.03.17 Revised £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>	<b>31.03.20 Estimate £m</b>
<b>Total CFR</b>	<b>138.824</b>	<b>140.653</b>	<b>138.901</b>	<b>137.112</b>

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.

<b>Debt</b>	<b>31.03.17 Revised £m</b>	<b>31.03.18 Estimate £m</b>	<b>31.03.19 Estimate £m</b>	<b>31.03.20 Estimate £m</b>
Borrowing	135.937	134.597	133.269	131.903
Finance leases	0	0	0	0
<b>Total Debt</b>	<b>135.937</b>	<b>134.597</b>	<b>133.269</b>	<b>131.903</b>

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.

<b>Operational Boundary</b>	<b>2016/17 Revised £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>
Borrowing	157	157	157	157
Other long-term liabilities	0	0	0	0
<b>Total Debt</b>	<b>157</b>	<b>157</b>	<b>157</b>	<b>157</b>

**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.

<b>Authorised Limit</b>	<b>2015/16 Revised £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
Borrowing	167	167	167	167
Other long-term liabilities	0	0	0	0

<b>Total Debt</b>	<b>167</b>	<b>167</b>	<b>167</b>	<b>167</b>
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**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.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2016/17 Revised %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
General Fund	10.43	35.17	38.52	41.36

**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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>
General Fund - increase in annual band D Council Tax	-15.29	8.27	0.97

**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 22<sup>nd</sup> February 2013

### **Annual Minimum Revenue Provision Statement 2017/18**

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 31<sup>st</sup> 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 31<sup>st</sup> March 2008, MRP will be determined as being equal to the accounting charge for depreciation.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Based on the Authority's latest estimate of its Capital Financing Requirement on 31<sup>st</sup> March 2018, the budget for MRP has been set as follows:

	<b>31.03.2018 Estimated CFR £m</b>	<b>2017/18 Estimated MRP £000</b>
Capital expenditure before 01.04.2008	<b>0</b>	0
Supported capital expenditure after 31.03.2008	<b>136.140</b>	1.339
Unsupported capital expenditure after 31.03.2008	<b>4.513</b>	.053
<b>Total</b>	<b>140.653</b>	<b>1.392</b>