

# **Report of the Director of Finance to the meeting of Executive to be held on 24 February 2015 and Council to be held on 26 February 2015.**

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**Subject:**

**The Council's Capital Investment Plan for 2015-16 onwards**

**Summary statement:**

**This report proposes the programme of capital expenditure for 2015-16 onwards**

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**Portfolio:**

**Leader of Council**

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**Overview & Scrutiny Area:**

**Corporate**

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## 1. SUMMARY

- 1.1 The report provides the proposed capital expenditure plans to 2018/19. The Capital Investment Plan is part of the overall budget proposal for the Council which includes:
- The Council's Revenue Estimates for 2015-16 (Document BF; and
  - Allocation of the Schools Budget 2015-16 Financial Year (Document BH).
- 1.2 This report is submitted to enable the Executive to make recommendations to Budget Council on the setting of the budget and the Council Tax for 2015-16 as required by Article 4 of the Council's Constitution.

## 2. BACKGROUND

- 2.1 The proposed Capital Investment Plan (CIP) for 2015-19 provides for capital expenditure of £185.1m. Capital expenditure is forecast as per Table 1 below:

**Table 1: Profile of capital expenditure**

Financial year	£m
2015-16	86.1
2016-17	53.5
2017-18	31.4
2018-19	14.1
Total	185.1

This plan is based on known resources and does not anticipate further funding streams.

- 2.2 In recent years the Council was notified in the Local Government Finance Settlement that all capital allocations across the Spending Review would be made by capital grant and that there would be no allocations by means of supported borrowing.
- 2.3 Given the contraction of the Council's revenue resources over the next few years it is considered prudent to review the proportion of the revenue budget that is used to finance capital expenditure. If the revenue budget is decreasing then it would be reasonable to expect that the capital programme has a corresponding shrinkage, unless specific resources have been identified outside of the revenue budget.
- 2.4 The decision was made at Full Council on 20 February 2014 that the Capital Investment Plan would be reduced overall by £20m and then undertake a period of consolidation so that no new capital investment activity is undertaken unless it is fully funded or an invest to save scheme with a short pay back period.
- 2.5 This period of consolidation would enable the Council to repay existing loans on maturity over the next three financial years and not take out the same level of replacement borrowing. The estimated ongoing revenue saving by this course of action is £280k in 2015-16 and a further £6.52m in 2016-17.

- 2.6 There may be a requirement to incur capital expenditure that is not foreseen and a contingency of £2m p.a. is included within the Capital Investment Plan to provide scope for any such eventualities.
- 2.7 On 13 January 2015 Executive approved the development of four new swimming pools. A provision of £17m for this was included in the Capital Investment Plan as a result of the Capital Budget decision of Full Council on 20 February 2014. As detailed in the Executive report for the 13 January 2015 meeting, the actual cost to the Council will be £41m and will be funded through borrowing, capital receipts from the disposal of the existing facilities and grant funding. These revised capital costs and funding have been incorporated into the proposed Capital Investment Plan.
- 2.8 Table 2 below shows the revised forecast of capital financing expenditure for the next three years and the proposed movement in budget. This reflects the impact of additional capital investment decisions since February 2014 and the effect of the revised spend profiles.

Table 2: Revised Capital Financing Costs

	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>FORECAST EXPENDITURE</b>			
Principal Repayments (MRP)	30,166	26,424	30,121
Interest	20,325	20,208	18,478
Premia on Debt Redemption	268	268	268
<b>Total Capital Financing costs</b>	<b>50,759</b>	<b>46,900</b>	<b>48,867</b>
<b>PROPOSED BUDGET MOVEMENTS</b>			
Base Budget	48,720	42,200	42,200
Impact of Invest to Save Schemes and Sports Facilities Review	2,739	4,017	5,928
Impact of rephasing CIP	(700)	683	739
<b>Revised Budget</b>	<b>50,759</b>	<b>46,900</b>	<b>48,867</b>

### **3. OTHER CONSIDERATIONS**

- 3.1 The Local Government Act 2003 requires the Council to make a provision for the repayment of borrowing used to finance its capital expenditure, known as the Minimum Revenue Provision (MRP).
- 3.2 The Council is required to state as part of its budget process the policy for determining its MRP. The policy Full Council adopted on 20 February 2014 was that the MRP be calculated on the equal instalments method as the most beneficial to the Council in setting the capital budget and it is proposed that Full Council continue with this policy. In detail the policy provides that:
- a) Supported Borrowing MRP continues to be based on 4% of the Capital Financing Requirement – that is, the capital expenditure financed from borrowing – as required by legislation;

- b) Unsupported or prudential borrowing MRP is based on the Asset Life method – that is, the expenditure financed from borrowing is divided by the expected asset life. For schemes funded before 31<sup>st</sup> March 2012 the MRP is calculated on the annuity basis and for schemes funded after 1<sup>st</sup> April 2012 the MRP is calculated on an equal instalment basis.
  - c) Since 2009/10 the appropriate financing costs for the Council's Building Schools for the Future (BSF) Private Finance Initiative (PFI) schemes have been included in MRP calculations, adjusted as relevant where the estimated asset life is different to the PFI contract life and financing period.
- 3.3 The Capital Financing Requirement (CFR) represents the amount of capital expenditure that has been financed from borrowing, less any amounts that the Council has set aside to repay that debt through the MRP. Borrowing may come from loans taken from the Public Works Loan Board (PWLB) or commercial banks, finance leases (including PFI) or from the use of the Council's own cash balances.
- 3.4 External debt can be less than the CFR. External debt cannot exceed the CFR (other than for short term cashflow purposes or cashflow management.)
- 3.5 The MRP is the amount of principal capital repayment that is set aside each year in order to repay the CFR based on the requirement of statutory regulation and the Council's own accounting policies.
- 3.6 There is an International Financial Reporting Standards requirement that assets funded from finance leases (including PFI deals) are brought onto the balance sheet. This also includes the liability as well as the asset. Therefore the term borrowing does not just include loans from PWLB and banks, but also the liability implicit in PFI and other finance leases.
- 3.7 The CIP will need to be reviewed through the planning cycle to ensure it remains affordable within revenue resources and to take account of the actual implementation

#### **4. FINANCIAL & RESOURCE APPRAISAL**

- 4.1 The CIP as proposed remains balanced to forecast capital and resources up to and including 2017/18. Projects beyond that period will require the identification of resources such as capital receipts from the sale of Council owned assets, additional and specific funding or prudential borrowing. The latter would have revenue budget implications.

#### **5. RISK MANAGEMENT AND GOVERNANCE ISSUES**

- 5.1 The uncertainties regarding the funding that will be available to the Council; and the control of the capital programme are considered within the Director of Finance Section 151 Budget Report.
- 5.2 The inclusion of contingencies as detailed in paragraph 2.6 above means that there is some scope for additional unforeseen and unfunded capital expenditure that may arise.

5.3 The existing governance arrangements for controlling the capital programme remain appropriate.

## **6. LEGAL APPRAISAL**

6.1 The legal issues are set out in the body of the report. Legal Services will provide further advice on the implementation of the Capital Programme as required.

## **7. OTHER IMPLICATIONS**

7.1 Equality and diversity, sustainability, greenhouse gas emissions impacts, community safety, Human Rights Act, Trade Union and Ward Implications will be considered on an individual project basis.

## **8. NOT FOR PUBLICATION DOCUMENTS**

8.1 None.

## **9. RECOMMENDATIONS**

9.1 The Executive requests Council to approve that:

- a) The Capital Investment Plan as set out at Appendix 2 is adopted. Commitments against reserve schemes and contingencies can only be made after a business case has been assessed by the Project Appraisal Group and approved by Executive.
- b) The Chief Executive, Strategic Directors and Directors enter into commitments on capital schemes within the Capital Investment Plan subject to approval of business cases by Executive Committee up to the approved amounts each year except that, where it is indicated that schemes are funded or partly funded from specific resources such as capital grants or contributions, revenue or capital receipts, the approved amount will be subject to the securing of those resources and be adjusted to reflect the amounts actually received.
- c) Where necessary, the payments arising under the Capital Investment Plan are met from loans.
- d) In order to provide the flexibility necessary to manage effectively the Capital Investment Plan, the Chief Executive, Strategic Directors and Directors be specifically empowered to advance or defer approved schemes subject to consultation with the Director of Finance and the availability of resources.
- e) Additional capital schemes shall only commence where the scheme is wholly funded from specific resources on the approval of the Director of Finance in accordance with Financial Regulations.

9.2 The Borrowing Limits and Prudential Indicators as set out in Appendix 1 are adopted by the Council.

9.3 The existing Minimum Revenue Provision (MRP) policy as set out in paragraph 3.2 of this report is approved and adopted by the Council.

## **10. APPENDICES**

- Appendix 1 – Borrowing Limits and Prudential Indicators
- Appendix 2 – Proposed Capital Investment Plan for 2015/16 to 2018/19

## **12. BACKGROUND DOCUMENTS**

- The Council's Revenue Estimates 2015-16  
Executive 24 February 2014 (Document BF)
- Director of Finance Section 151 Report  
Executive 24 February 2014 (Document BI)
- Sports Facilities Review  
Executive 13 January 2015 (Document AS)
- 2015-16 Budget and financial outlook to 2017-18  
Executive report 2 December 2014 (Document AD)
- 2015-16 Budget Update  
Executive Report 10 February 2015 (Document AX)

## Appendix 1

### BORROWING LIMITS AND PRUDENTIAL INDICATORS

In compliance with the Council's duty under Section 3 of the Local Government Act 2003 to set an affordable borrowing limit and in accordance with Regulation 2 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and the Prudential Code for Capital Finance in Local Authorities the Council makes the following determinations.

(a) The capital expenditure (all of which is non-Housing Revenue Account (HRA)) in each of the following financial years will be:

2013/14	Actual	£92m
2014/15	Estimate	£113m
2015/16	Estimate	£86m
2016/17	Estimate	£54m
2017/18	Estimate	£31m

(b) The capital financing requirement (all of which is non-HRA) at the end of each of the following financial years will be:

2013/14	Actual	£688m
2014/15	Estimate	£697m
2015/16	Estimate	£696m
2016/17	Estimate	£706m
2017/18	Estimate	£701m

(c) In the medium term external borrowing will only be for capital purposes and will not(except in the short term) exceed the capital financing requirement in 2014/15, 2015/16, 2016/17, and 2017/18 as determined in (b) above.

(d) The ratio of capital financing costs to the net revenue stream in each of the following financial years is forecast to be:

2013/14	Actual	13.8%
2014/15	Estimate	14.5%
2015/16	Estimate	15.4%
2016/17	Estimate	14.9%
2017/18	Estimate	15.9%

(e) The estimates of the incremental impact of the new capital investment decisions (arising from (a) above) on the council tax (Band D), over and above capital investment decisions that have previously been taken by Council will be:

2015/16	Estimate	£0.00
2016/17	Estimate	£0.00
2017/18	Estimate	£0.00

This reflects the fact that the financing consequences of new capital investment decisions are within existing revenue budgets.

(f) The actual external debt of the authority at 31 March 2014 was £418 million in external borrowing and £204 million in Other Long Term Liabilities (including PFI and other finance leases) and the authorised limit for external debt in future years will be:

<b>Financial Year</b>	<b>Borrowing £m</b>	<b>Other Long Term Liabilities £m</b>
2015/16	420	240
2016/17	380	240
2017/18	380	240

(g) The operational boundary for external debt in future years will be:

<b>Financial Year</b>	<b>Borrowing £m</b>	<b>Other Long Term Liabilities £m</b>
2015/16	380	220
2016/17	360	220
2017/18	360	220

(h) In relation to the borrowing limits set at (f) and (g) above the Director of Finance is authorised to amend the separately identified figures for borrowing and for other long term liabilities provided that the total limits remain unchanged and subject to such action subsequently being reported to Council.

(i) The authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

(j) The upper limit for fixed interest rate exposure in 2015/16, 2016/17 and 2017/18 will be [+175%] of net outstanding principal sums.

(k) The upper limit for variable interest rate exposure in 2015/16, 2016/17 and 2017/18 will be [+20%] of net outstanding principal sums.

(l) The upper and lower limits for the amount of fixed rate borrowing maturing in each of the periods below expressed as a percentage of total estimated fixed rate borrowing will be:

<b>Maturing in:</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
Under 1 year	20%	0%
1 to 2 years	20%	0%
2 to 5 years	50%	0%
5 to 10 years	75%	0%
10 years and above	90%	20%

(m) There is a limit of £40 million for the Council to invest sums for periods longer than 364 days.



## Appendix 2: Proposed Capital Investment Plan

Scheme No	Scheme Description	Sources of Funding	2015-16	2016-17	2017-18	2018-19	Total
			£'000	£'000	£'000	£'000	£'000
<b>Adult &amp; Community Services</b>							
CS0237	Great Places to Grow Old - Adult Residential Strategy	C,SG,PB	6,059	4,300	10,590	0	20,949
CS0239	Community Capacity Grant	SG	2,200	1,025	0	0	3,225
<b>Total - Adult &amp; Community Services</b>			<b>8,259</b>	<b>5,325</b>	<b>10,590</b>	<b>0</b>	<b>24,174</b>
<b>Children's Services</b>							
CS0039	Surestart Early Years and Childcare Grant	SG	63	0	0	0	63
CS0042	Primary Capital Programme	C,SG	20	0	0	0	20
CS0181	SEBD School (ESB)	C	1	0	0	0	1
CS0025	Childrens Home Residential Provision	SG	143	0	0	0	143
CS0256	2 yr old Nursery Education Expansion Programme	SG	280	0	0	0	280
CS0022	Devolved Formula Capital	SG	1,213	0	0	0	1,213
CS0240	Capital Maintenance Grant	SG	2,895	0	0	0	2,895
CS0244	Primary Schools Expansion Programme	SG	6,668	6,302	0	0	12,970
CS0286	Outdoor Learning Centres	SG	175	0	0	0	175
CS0278	Targeted Basic Needs	SG	3,361	0	0	0	3,361
CS0297	Universal Free School Meals - Kitchen	SG	139	0	0	0	139
<b>Total - Children's Services</b>			<b>14,958</b>	<b>6,302</b>	<b>0</b>	<b>0</b>	<b>21,260</b>
<b>Environment &amp; Sport</b>							
CS0060	Replacement of Vehicles (funded by prudential borrowing with revenue funding identified by service dept)	PB	3,000	3,000	3,000	3,000	12,000
CS0063	Waste Infrastructure and Recycling projects	SG	1,100	0	0	0	1,100
CS0090	Landfill Restoration Sugden End	C	41	0	0	0	41
CS0121	Roberts Park	C,SG	35	0	0	0	35
CS0229	Cliffe Castle restoration	C,SG	3,882	0	0	0	3,882
CS0283	Above Ground Fuel Storage	C	40	0	0	0	40
<b>Total - Environment &amp; Sport</b>			<b>8,098</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>17,098</b>
<b>Regeneration - Culture and Tourism</b>							
CS0107	Markets	C	245	400	400	0	1,045
CS0247	Replace Box Office Equipment	C	130	0	0	0	130
<b>Total - Culture &amp; Tourism</b>			<b>375</b>	<b>400</b>	<b>400</b>	<b>0</b>	<b>1,175</b>
<b>Regeneration - Property &amp; Economic Development</b>							
CS0262	Property Programme – Former Library/Office Rationalisation	C	4,835	1,000	0	0	5,835
CS0294	Property Programme - Essential Maintenance	C	1,925	0	0	0	1,925
CS0085	City Centre Business District	C,SG	7,053	5,444	0	0	12,497
CS0189	Buck Lane	C	200	0	0	0	200
CS0241	Re-use of Former College Buildings Keighley	C	567	0	0	0	567
CS0265	LCR Revolving Econ Investment Fund	C	3,956	0	0	0	3,956
CS0266	Superconnected Cities	C	1,000	0	0	0	1,000
CS0285	Strategic Development Fund	C	1,417	0	0	0	1,417
CS0228	Canal Road	C	100	200	0	0	300
CS0084	City Park	C,SG	205	0	0	0	205
CS0086	LEGI	SG	29	0	0	0	29
CS0087	Bradford Centre Regeneration	C	14	0	0	0	14
<b>Total - Property &amp; Economic Development</b>			<b>21,301</b>	<b>6,644</b>	<b>0</b>	<b>0</b>	<b>27,945</b>

Scheme No	Scheme Description	Sources of Funding	2015-16	2016-17	2017-18	2018-19	Total
			£'000	£'000	£'000	£'000	£'000
<b>Regeneration - Climate, Housing, Employment &amp; Skills</b>							
CS0050	Carbon and Other Management Efficiencies	C, SG	1,800	0	0	0	1,800
CS0136	Disabled Housing Facilities Grant	C,SG	1,026	850	0	0	1,876
CS0137	Development of Equity Loans	C	664	0	0	0	664
CS0144	Empty Private Sector Homes Strategy	SG	1,005	250	0	0	1,255
CS0157	DEEP/Community Warmth	C,SG	157	0	0	0	157
CS0158	Regional HALS	SG	11	0	0	0	11
CS0225	Affordable Housing Programme 2011-2015	SG,PB	4,028	0	0	0	4,028
CS0230	Beechgrove Allotments	C,SG	277	0	0	0	277
CS0250	Goitside	C	463	0	0	0	463
CS0280	Temporary Housing Scheme - Clergy House	SG,C	2,064	0	0	0	2,064
<b>Total -Climate, Housing, Employment &amp; Skills</b>			<b>11,495</b>	<b>1,100</b>	<b>0</b>	<b>0</b>	<b>12,595</b>
<b>Regeneration - Planning</b>							
CS0131	Keighley Town Centre Heritage Initiative	C,SG	667	0	0	0	667
CS0281	Saltaire - Public Realm	C	367	0	0	0	367
<b>Total - Planning</b>			<b>1,034</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,034</b>
<b>Regeneration - Highways &amp; Transport</b>							
CS0091	Capital Highway Maintenance	SG	4,565	0	0	0	4,565
CS0095	Bridges	SG	1,265	0	0	0	1,265
CS0096	Street Lighting	SG	350	0	0	0	350
CS0099	Integrated Transport	SG	965	0	0	0	965
CS0103	WY Casualty Reduction Partnership	SG	0	0	0	0	0
CS0164	Local Integrated Transport Schemes	SG	923	0	0	0	923
CS0168	Connecting the City (Westfield Agreement)	SG	44	0	0	0	44
CS0169	Public Realm Improvements, City Centre	C,SG	33	0	0	0	33
CS0172	Saltaire Roundabout Congestion & Safety Works	SG	141	0	0	0	141
CS0306	Strategic Transport Infrastructure Priorities	C	3,040	9,120	0	0	12,160
CS0289	Local Pinch Point Fund	SG	720	0	0	0	720
<b>Total - Highways &amp; Transport</b>			<b>12,046</b>	<b>9,120</b>	<b>0</b>	<b>0</b>	<b>21,166</b>
<b>Reserve Schemes &amp; Contingencies</b>							
	General Contingency	C	1,681	2,000	2,000	2,000	7,681
	Wyke Manor Phase 2 Sports Dev	C	493	0	0	0	493
CS0284	Sports Facilities Review	C,PB	2,842	17,617	13,401	7,151	41,011
	Street Lighting Invest to Save	C	846	0	0	0	846
	WY Archive Service	C	328	0	0	0	328
	Essential Maintenance Provision	C	2,000	2,000	2,000	2,000	8,000
	Libraries Consolidation	PB	75	0	0	0	75
	The Oakes	PB	270	0	0	0	270
<b>Total - Reserve Schemes &amp; Contingencies</b>			<b>8,535</b>	<b>21,617</b>	<b>17,401</b>	<b>11,151</b>	<b>58,704</b>
<b>TOTAL - All Services</b>			<b>86,101</b>	<b>53,508</b>	<b>31,391</b>	<b>14,151</b>	<b>185,151</b>

#### Key – Sources of funding

C – Corporate Resources (including capital receipts, reserves and corporately funded prudential borrowing)

SG – Specific grants and contributions

PB – Service funded prudential borrowing

DRF – Direct revenue funding of capital using revenue budget