

# **Report of the Director of Corporate Services to the meeting of Executive to be held on 21 February 2017 and Council to be held on 23 February 2017**

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**Subject:**

**Document: BI**

The Council's Capital Investment Plan for 2017-18 onwards

**Summary statement:**

This report proposes the programme of capital expenditure for 2017-18 onwards

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**Portfolio:**

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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 2020/21. The Capital Investment Plan is part of the overall budget proposal for the Council which includes:
- The Council's Revenue Estimates for 2017-18 (Document BG)
  - Allocation of the Schools Budget 2017-18 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 2017-18 as required by Article 4 and Part 3C of the Council's Constitution.

## 2. BACKGROUND

- 2.1 The proposed Capital Investment Plan (CIP) for 2017-21 provides for capital expenditure of £342m. Capital expenditure is forecast as per Table 1 below:

**Table 1: Profile of capital expenditure**

Financial year	£m
2017-18	124
2018-19	155
2019-20	44
2020-21	19
Total	342

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 in the Council's revenue resources over the past few years the Council adopted a strategy of bringing down the capital financing costs broadly in line with the reduction in those revenue resources by not committing to new capital investment activity unless it is fully funded or an invest to save scheme with a short pay back period.
- 2.4 In 2015 the Council repaid £53 million of maturing loans without needing to replace that debt. This is in addition to the £25 million repaid in the previous year. The repayment of maturing loans has resulted in a reduction in cash balances. In 2016 the Council took out £26 million in order to ensure cash balances did not fall too low when a similar amount of loans are due to mature in March 2017. The new loans are at a significantly lower rate than the maturing loans. The Council will continue to monitor its cash balances to determine whether it will need to replace loans due to mature in 2017-18 in order to maintain adequate working capital.

- 2.5 Four proposed new capital bids were outlined in the published budget proposals. In addition the Council is considering bidding for grant funding towards a District Heating Scheme that if successful would require match funding. These are included in the last section of the Proposed CIP shown in Appendix 2. In addition 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.
- 2.6 Table 2 below shows the revised capital financing expenditure in the revenue budget for the next four years and the proposed movement in budget. This reflects the impact of the savings achieved from decision made in previous years and those arising from last year's change in the MRP policy outlined in 3.2 below, as well as the effect of additional capital investment decisions since February 2016 and the effect of the revised spend profiles.

Table 2: Revised Capital Financing Costs

	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Corporate Budget	37,819	37,819	37,819	37,819
Budget vired from service to fund Prudential Borrowing	4,897	5,241	6,395	7,370
<b>Total Budget</b>	<b>42,716</b>	<b>43,060</b>	<b>44,214</b>	<b>45,189</b>

- 2.7 As part of the local government settlement the Government announced greater flexibility for councils in how they make use of capital receipts. Councils were previously only allowed to spend such money on further capital projects or repay debt. But now capital receipts can be used to fund the revenue costs of transformation projects which are designed to generate ongoing revenue savings in the delivery of public services and /or to transform service delivery in a way that reduces costs or demand for services in the future.
- 2.8 There are no plans to use this flexibility in the 2017/18 financial year. However, given the size and scale of the transformation programme, it is possible that the Council may seek approval from the Secretary of State to use capital receipts in this flexible manner in future.

### 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).

The MRP is the amount of principal capital repayment that is set aside each year in order to repay the Capital Financing Requirement (CFR) based on the requirement of statutory regulation and the Council's own accounting policies.

- 3.2 The Council is required to state as part of its budget process the policy for determining its MRP. The policy was changed last year generating savings in the

current and future years. There are no proposed changes to the policy adopted last year. The method for calculating the MRP on each category of debt is outlined below:

- a) The policy for charging MRP on historic supported borrowing is on the asset life method calculated on an equal instalment basis over 50 years.
  - 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. This means no change to existing policy.
  - 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.
- 3.3 The 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 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.
- 3.6 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 resources up to and including 2020/21. 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 Strategic Director Corporate Services' 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 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 Strategic Director Corporate Services 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 Strategic Director Corporate services 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 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 2017/18 to 2020/21

## **11. BACKGROUND DOCUMENTS**

- Proposed Financial Plan 2017/18 - 2020/21 – Executive Report 6 December 2016 (DocAJ)
- 2017/18 and 2018/19 Budget Update and Financial Outlook to 2020/21- Executive Report 7 February 2017 (Doc AZ)
- The Council's Revenue Estimates for 2017/18 and 2018/19 – Executive Report 21 February 2017 (Doc BG)
- Strategic Director Corporate services Section 151 Report – Executive 21 February 2017 (Doc BJ)

## 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:

2015/16	Actual	£70m
2016/17	Estimate	£80m
2017/18	Estimate	£124m
2018/19	Estimate	£155m
2019/20	Estimate	£44m

(b) The capital financing requirement at the end of each of the following financial years will be:

2015/16	Actual	£666m
2016/17	Estimate	£653m
2017/18	Estimate	£675m
2018/19	Estimate	£707m
2019/20	Estimate	£720m

(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 2017/18, 2018/19, and 2019/20 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:

2015/16	Actual	16.0%
2016/17	Estimate	15.5%
2017/18	Estimate	16.2%
2018/19	Estimate	16.5%
2019/20	Estimate	16.7%

(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:

2017/18	Estimate	£0.00
2018/19	Estimate	£0.00
2019/20	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 2016 was £336 million in external borrowing and £218 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>
2016/17	440	240
2017/18	440	240
2018/19	440	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>
2016/17	400	220
2017/18	400	220
2018/19	400	220

(h) In relation to the borrowing limits set at (f) and (g) above the Strategic Director Corporate Services 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 2017/18, 2018/19 and 2019/20 will be +175% of net outstanding principal sums.

(k) The upper limit for variable interest rate exposure in 2017/18, 2018/19 and 2019/20 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	Budget 2017-18 £'000	Budget 2018-19 £'000	Budget 2019-20 £'000	Budget 2020-21 £'000	Total £'000
<b>Adult &amp; Community Services</b>							
CS0237	Great Places to Grow Old	SG,C,PB	11,756	3,914	1,313	0	16,983
CS0239	Community Capacity Grant	SG	3,593	0	0	0	3,593
<b>Total - Adult &amp; Community Services</b>			<b>15,349</b>	<b>3,914</b>	<b>1,313</b>	<b>0</b>	<b>20,576</b>
<b>Children's' Services</b>							
CS0278	Targeted Basic Needs	SG	47	0	0	0	47
CS0286	Outdoor Learning Centres	SG	30	0	0	0	30
CS0240	Capital Maintenance Grant	SG	4,538	0	0	0	4,538
CS0244	Primary Schools Expansion Prog	SG	16,392	16,906	0	0	33,298
CS0244	Silsden School	C,SG	1,900	5,000	1,045	0	7,945
CS0313	School Capital Loans	SG	550	0	0	0	550
CS0322	Horton Park Prim Open Spaces	SG	14	0	0	0	14
<b>Total – Children's Services</b>			<b>23,471</b>	<b>21,906</b>	<b>1,045</b>	<b>0</b>	<b>46,422</b>
<b>Environment &amp; Sports</b>							
CS0060	Replacement of Vehicles		3,000	3,000	3,000	3,000	12,000
CS0063	Waste Infrastructure & Recycling	SG	797	267	0	0	1,064
CS0340	St George's Hall	C,SG	3,568	0	0	0	3,568
CS0129	Scholemoor Project	SG	83	0	0	0	83
CS0229	Cliffe Castle Restoration	C,SG	605	479	0	0	1,084
CS0284	Sport Facilities Invest Prog (SFIP)	C	7,000	15,000	4,580	0	26,580
CS0107	Markets	C	50	50	707	0	807
CS0327	Oastler Market Redevelop	C, PB	100	2,159	0	0	2,259
CS042	Westgate Carpark	C	125	0	1,115	0	1,240
<b>Total - Environment &amp; Sports</b>			<b>15,328</b>	<b>20,955</b>	<b>9,402</b>	<b>3,000</b>	<b>48,685</b>

<b>Scheme No</b>	<b>Scheme Description</b>	<b>Sources of funding</b>	<b>Budget 2017-18 £'000</b>	<b>Budget 2018-19 £'000</b>	<b>Budget 2019-20 £'000</b>	<b>Budget 2020-21 £'000</b>	<b>Total £'000</b>
<b>Regen - Estates &amp; Property Services</b>							
CS0333	Argos Chambers / Britannia Hse	C	723	0	0	0	723
CS0050	Carbon Management	C	1,620	0	0	0	1,620
<b>Total - Regen – Estates &amp; Property Services</b>			<b>2,343</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,343</b>
<b>Regen - Economy &amp; Development Services</b>							
CS0136	Disabled Housing Facilities Grant	C,SG	4,273	2,471	2,471	2,471	11,686
CS0137	Development of Equity Loans	C	1,500	1,466	2,300	0	5,266
CS0144	Empty Private Sector Homes Strat	SG	1,021	243	0	0	1,264
CS0225	Afford Housing Prog 11-15	C,SG, PB	240	0	0	0	240
CS0308	Afford Housing Prog 15 -18	C,SG,PB	18,468	2,258	0	0	20,726
CS0250	Goitside	C	205	0	0	0	205
CS0134	Computerisation of Records	SG	10	0	0	0	10
CS0280	Temp Housing Clergy House	C,SG,PB	50	0	0	0	50
CS0335	Bfd Cyrenians 255- 257 Mnghm Ln	SG	30	0	0	0	30
CS0084	City Park	C	205	0	0	0	205
CS0085	City Centre Growth Zone	C,SG	1,300	4,400	0	0	5,700
CS0086	LEGI	SG	51	0	0	0	51
CS0189	Buck Lane	C	111	0	0	0	111
CS0228	Canal Road	C	200	0	0	0	200
CS0241	Re-use of Fmr College Builds Kghly	C	306	0	0	0	306
CS0266	Superconnected Cities	C	882	0	0	0	882
CS0291	Tyrils	C	1,000	3,715	0	0	4,715
CS0265	LCR Revolving Econ Invest Fund		1,956	0	0	0	1,956
CS0285	Strategic Development Fund		1,167	0	0	0	1,167
CS0345	Develop Land at Crag Rd, Shply		1,441	0	0	0	1,441
<b>Total - Regen - Economy &amp; Development Serv</b>			<b>34,416</b>	<b>14,553</b>	<b>4,771</b>	<b>2,471</b>	<b>56,211</b>
<b>Regen - Planning, Transport &amp; Highways</b>							
CS0178	Ilkley Moor	SG	18	0	0	0	18
CS1000	Countances Way - Bridge grant	SG	30	0	0	0	30
CS0071	Highways S106 Projects	SG	556	0	0	0	556
CS0252	Measures to Support Hubs	SG	45	0	0	0	45

Scheme No	Scheme Description	Sources of funding	Budget 2017-18 £'000	Budget 2018-19 £'000	Budget 2019-20 £'000	Budget 2020-21 £'000	Total £'000
<b>Regen - Planning, Transport &amp; Highways (continued)</b>							
CS0293	West Yorks & York Transport Fund		2,966	38,314	0	0	41,280
CS0306	Strategic Transp Infrastr Priorit		1,810	5,500	0	0	7,310
CS0319	Challenge Fund	SG	750	0	0	0	750
CS0350	Street Lighting Invest to Save		1,650	0	0	0	1,650
CS0353	Strat land purch Hard Ings Kghly		950	0	0	0	950
CS0355	Strat land purc Harrogate Rd/New Line Jct		3,500	0	0	0	3,500
<b>Total - Regen - Planning, Transport &amp; Highways</b>			<b>12,275</b>	<b>43,814</b>	<b>0</b>	<b>0</b>	<b>56,089</b>
<b>Reserve Schemes &amp; Contingencies</b>							
CS0277	General Contingency	C	2,000	2,000	2,000	2,000	8,000
	Wyke Manor Ph2	C	0	493	0	0	493
	Sports Dev						
	Essential Maintenance Prov	C	2,000	2,000	2,000	2,000	8,000
	Bfd City Ctre						
	Townscape Herit	SG	2,750	0	0	0	2,750
	Keighley One Public Sector Est	C, PB	3,000	10,000	5,000	0	18,000
	Depot Strategy		0	3,000	0	0	3,000
	Bereavement Strategy	C	0	8,500	8,500	0	17,000
	<i>New Schemes</i>						
	Strategic Property Acquisition	PB	10,000	10,000	10,000	10,000	40,000
	School Catering CPU Refurb	C	1,000	0	0	0	1,000
	Customer Services Strategy	C	250	0	0	0	250
	Canal Road Land Assembly	C	0	450	0	0	450
District Heating Scheme	SG,C	0	13,000	0	0	13,000	
<b>Total - Reserve Schemes &amp; Contingencies</b>			<b>21,000</b>	<b>49,443</b>	<b>27,500</b>	<b>14,000</b>	<b>111,943</b>
<b>TOTAL - All Services</b>			<b>124,182</b>	<b>154,585</b>	<b>44,031</b>	<b>19,471</b>	<b>342,269</b>

Key to Sources of Funding

SG – Specific grants and contributions

C – Corporate resources (capital receipts, renewal reserve and borrowing)

PB – Service funded prudential borrowing

DRF – Direct revenue funding