

Report of the Director of Finance to the meeting of Executive to be held on 23 February 2016 and Council to be held on 25 February 2016

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Subject:

The Council's Capital Investment Plan for 2016-17 onwards

Summary statement:

This report proposes the programme of capital expenditure for 2016-17 onwards

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Portfolio:

**Leader of Council and Strategic
Regeneration**

Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1 The report provides the proposed capital expenditure plans to 2019/20. The Capital Investment Plan is part of the overall budget proposal for the Council which includes:
- The Council's Revenue Estimates for 2016-17 (Document BA)
 - Allocation of the Schools Budget 2016-17 Financial Year (Document AZ)
- 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 2016-17 as required by Article 4 Part 3C of the Council's Constitution.

2. BACKGROUND

- 2.1 The proposed Capital Investment Plan (CIP) for 2016-20 provides for capital expenditure of £280m. Capital expenditure is forecast as per Table 1 below:

Table 1: Profile of capital expenditure

<u>Financial year</u>	<u>£m</u>
2016-17	133
2017-18	58
2018-19	68
2019-20	21
<u>Total</u>	<u>280</u>

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. The Council is monitoring its cash balances to determine whether it will need to replace loans due to mature at the end of 2016-17 in order to maintain adequate working capital.

- 2.5 A number of proposed new capital bids were outlined in paragraph 5.2 of the Budget Update report that was considered by Executive at the meeting on 9 February 2016. 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 the proposed change in the MRP policy outlined in 3.2 below, as well as the effect of additional capital investment decisions since February 2015 and the effect of the revised spend profiles.

Table 2: Revised Capital Financing Costs

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Baseline Capital financing budget	44,068	44,068	44,068	44,068
Less: Savings from previous years	-6,520	-6,520	-6,520	-6,520
Less: Additional Saving from change in MRP Policy	-2,000	-2,000	-2,000	-2,000
Corporate Budget	35,548	35,548	35,548	35,548
Budget vired from service to fund Prudential Borrowing	4,384	4,044	3,494	3,129
Total Budget	39,932	39,592	39,042	38,677

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 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 Budget Consultation document contained a proposal to change the MRP policy. When in 2008 the government changed the guidance to give Council's four options on the calculation of MRP, Bradford like most other authorities continued to use the regulatory method for calculating MRP on supported borrowing, whilst adopting the Asset Life (Equal Instalment) method for unsupported borrowing. The regulatory method is based on a charge of 4% on the outstanding debt. This has the disadvantage that the actual charge differs each year being higher in earlier years then reducing year after year. Also the debt is never actually paid off as the annual charge reduces with the opening debt. For example if the Council continues to use the regulatory method it would still have £43.7m of this debt outstanding after 50 years. A change to the asset life method in

equal instalments is considered more financially prudent as the repayments are paid in equal instalments over a fixed period.

The proposed method for calculating the MRP on each category of debt is outlined below:

- a) The policy for charging MRP on historic supported borrowing be changed to the asset life method calculated on an equal instalment basis. This brings it into line with the MRP policy for prudential borrowing. The historic supported borrowing cannot be tied to specific assets. Therefore an assumed asset life has to be used. Most of the Council's operational buildings have been given estimated lives of between 40 and 60 years. Therefore it is proposed to use an assumed life of 50 years. This is considered more prudent than the regulatory method as the debt will be paid in a fixed period of 50 years. This means a change to policy used hitherto.
 - 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 31st March 2012 the MRP is calculated on the annuity basis and for schemes funded after 1st 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, adjusted as relevant where the estimated asset life is different to the PFI contract life and financing period. This means no change to existing policy.
- 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 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 2019/20. 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 Minimum Revenue Provision (MRP) policy incorporating the proposed change to that 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 2016/17 to 2019/20

11. BACKGROUND DOCUMENTS

- 2016/17 and 2017/18 Budget and Financial Outlook to 2018/19 – Executive report 1 December 2015 (Document AH)
- 2016-17 and 2017/18 Budget Update and Financial Outlook to 2018/19 – Executive report 9 February 2016 (Document AU)
- The Council's Revenue Estimates 2016/17 and 2017/2018 – Executive report 23 February 2016 (Document BA)
- S151 Officer's assessment of the robustness of the proposed budget – Executive report 23 February 2016 (Document BC)

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:

2014/15	Actual	£114m
2015/16	Estimate	£81m
2016/17	Estimate	£133m
2017/18	Estimate	£58m
2018/19	Estimate	£68m

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

2014/15	Actual	£679m
2015/16	Estimate	£671m
2016/17	Estimate	£719m
2017/18	Estimate	£733m
2018/19	Estimate	£735m

(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 2016/17, 2017/18, and 2018/19 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:

2014/15	Actual	15.6%
2015/16	Estimate	15.8%
2016/17	Estimate	14.8%
2017/18	Estimate	15.4%
2018/19	Estimate	15.0%

(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:

2016/17	Estimate	£0.00
2017/18	Estimate	£0.00
2018/19	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 2015 was £391 million in external borrowing and £195 million in Other Long Term Liabilities (including PFI and other finance leases) and the authorised limit for external debt in future years will be:

Financial Year	Borrowing £m	Other Long Term Liabilities £m
2016/17	400	240
2017/18	400	240
2018/19	400	240

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

Financial Year	Borrowing £m	Other Long Term Liabilities £m
2016/17	380	220
2017/18	380	220
2018/19	380	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 2016/17, 2017/18 and 2018/19 will be +175% of net outstanding principal sums.

(k) The upper limit for variable interest rate exposure in 2016/17, 2017/18 and 2018/19 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:

Maturing in:	Upper Limit	Lower Limit
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	Funding	2016-17	2017-18	2018-19	2019-20	Total
			£'000	£'000	£'000	£'000	£'000
Adult & Community Services							
CS0237	Great Places to Grow Old	C	2,000	8,297	6,990	0	17,287
CS0239	Community Capacity Grant	SG	2,105	2,201	0	0	4,306
CS0311	Autism Innovation Capital Grant	SG	19	0	0	0	19
CS0312	Integrated IT System - New Scheme	SG	596	0	0	0	596
Total - Adult & Community Services			4,720	10,498	6,990	0	22,208
Children's' Services							
CS0278	Targeted Basic Needs	SG	305	0	0	0	305
CS0286	Outdoor Learning Centres	SG	257	15	0	0	272
CS0297	Universal Free School Meals - Kitchen	S	22	0	0	0	22
CS0022	Devolved Formula Capital	SG	1,316	0	0	0	1,316
CS0240	Capital Maintenance Grant	SG	2,922	0	0	0	2,922
CS0244	Primary Schools Expansion Programme	C,SG	15,465	2,358	0	0	17,823
CS0313	School Capital Loans (Solar Panels, Blds etc)	SG	400	550	0	0	950
CS0322	Horton Park Primary Open Spaces	SG	43	0	0	0	43
Total - Children's' Services			20,730	2,923	0	0	23,653
Environment & Sports							
CS0060	Replacement of Vehicles	PB	3,000	3,000	3,000	3,000	12,000
CS0063	Waste Infrastructure and Recycling projects	SG	0	1,100	0	0	1,100
CS0151	Building Safer Communities	SG	5	0	0	0	5
CS0324	Waste Minimisation Strategy	DRF	46	0	0	0	46
	Westgate Carpark	C	610	300	300	0	1,210
CS0229	Cliffe Castle Restoration	C,SG	4,000	0	0	0	4,000
CS0284	Sport Facilities Investment Prog (SFIP)	C,SG	12,973	13,105	1,440	12,893	40,411
CS0327	Oastler Market Redevelopment	C.PB	1,235	0	2,630	0	3,865
Total - Environment & Sports			21,869	17,505	7,370	15,893	62,637
Regeneration - Property & Economic Development							
CS0262	Property Programme - Office Rationalisation / Former Library	C	1,000	0	0	0	1,000
CS0333	Argus Chambers / Britannia House	PB	298	0	0	0	298
CS0084	City Park	C	205	0	0	0	205
CS0085	City Centre Growth Zone	C,SG	1,075	0	4,268	0	5,343
CS0086	LEGI	SG,C	51	0	0	0	51
CS0189	Buck Lane	C	137	0	0	0	137
CS0228	Canal Road	C	200	0	0	0	200
CS0241	Re-use of Former College Buildings Keighley	C	567	0	0	0	567
CS0266	Superconnected Cities	C	902	0	0	0	902
CS0291	Tyrils	SG	5,200	0	0	0	5,200
CS0265	LCR Revolving Econ Investment Fund	C	3,956	0	0	0	3,956
CS0285	Strategic Development Fund	C	1,167	0	0	0	1,167

Total - Regen – Property & Economic Development	14,758	0	4,268	0	19,026
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Scheme No	Scheme Description	Funding	2016-17	2017-18	2018-19	2019-20	Total
			£'000	£'000	£'000	£'000	£'000
CS0050	Carbon Management	C	2,802	0	0	0	2,802
CS0134	Computerisation of Records	SG	5	0	0	0	5
CS0136	Disabled Housing Facilities Grant	SG,C	850	850	850	850	3,400
CS0137	Development of Equity Loans	C	671	0	0	0	671
CS0144	Empty Private Sector Homes Strategy	SG	250	0	0	0	250
CS0157	DEEP/Community Warmth	SG	62	0	0	0	62
CS0225	Affordable Housing Prog 11-15	SG, PB, C	1,090	0	0	0	1,090
CS0308	Affordable Housing Prog 15 -18	SG,PB,C	12,750	13,000	3,212	0	28,962
CS0250	Goitside	C	573	5	0	0	578
CS0280	Temporary Housing Clergy House	SG,PB,C	760	41	0	0	801
Total - Regen - Climate, Housing, Employment & Skills			19,813	13,896	4,062	850	38,621
Regeneration - Planning							
CS0131	Keighley Town Centre Heritage Initiative	C,SG	310	0	0	0	310
CS0178	Ilkley Moor	C,SG	10	0	0	0	10
CS0281	Saltaire - Public Realm imp	C	200	0	0	0	200
Total - Regeneration - Planning			520	0	0	0	520
Regeneration - Highways & Transport							
CS1000	Countances Way - Bridge grant	SG	30	0	0	0	30
CS0071	Highways S106 Projects	SG	352	0	0	0	352
CS0172	Saltaire Roundabout Congestion & Safety Works	SG	217	0	0	0	217
CS0282	Highways Strategic Acquisitions	C	209	0	0	0	209
CS0293	West Yorks & York Transport Fund	SG	725	2,966	38,314		42,005
CS0306	Strategic Transport Infrastructure Priorities	C	12,260	0	0	0	12,260
CS0302	Highways Property Liability Reduction Strategy	C	165	0	0	0	165
CS0319	Challenge Fund	SG	2,080	750	0	0	2,830
CS0325	Street Lighting Invest to Save	PB	516	0	0	0	516
CS0329	Damens County Park	C	138	0	0	0	138
Total - Regen - Highways & Transport			16,692	3,716	38,314	0	58,722
Reserve Schemes & Contingencies							
	General Contingency	C	1,251	2,000	2,000	0	5,251
CS0277	Wyke Manor Ph2 Sports Dev	C	493	0	0	0	493
	Essential Maintenance Provision	C	2,000	2,000	2,000	2,000	8,000
	Depot Strategy	C	0	3,000	0	0	3,000
	Whiteoaks Respite Centre	SG	503	0	0	0	503
	Bradford City Centre Townscape Heritage	SG,C	2,750	0	0	0	2,750
Total - Reserve Schemes & Contingencies			6,997	7,000	4,000	2,000	19,997

Scheme No	Scheme Description	Funding	2016-17	2017-18	2018-19	2019-20	Total
			£'000	£'000	£'000	£'000	£'000
New Bids							
	Disabled Facilities Grant	C	1,621	1,621	1,621	1,621	6,484
	Equity Loans	C	1,000	1,000	1,000	1,000	4,000
	Schools Catering Equipment	C	300	300	0	0	600
	St George's Hall	C,SG	3,988	0	0	0	3,988
	Britannia House/Argus Chambers Phase 2	C	2,000	0	0	0	2,000
	Strategic acquisition	C	275	0	0	0	275
	Keighley One Public Sector Community Hub	C,PB	18,000	0	0	0	18,000
Total - New Bids			27,184	2,921	2,621	2,621	35,347
TOTAL - All Services			133,283	58,459	67,625	21,364	280,731

Funding Key

SG - Specific grant or developer contribution

DRF - Direct revenue funding

C - Corporate resource (borrowing, capital receipt, reserves etc)

PB - Service funded prudential borrowing