

TITLE OF REPORT: Capital Programme and Prudential Indicators 2016/17 – Year End Outturn

REPORT OF: Darren Collins Strategic Director, Corporate Resources

Purpose of the Report

1. This report presents the 2016/17 capital programme which included capital expenditure of £65.061m. The report assesses reasons for the variances from the third quarter review and details the proposed financing of the capital programme. In addition the report considers the impact of CIPFA's Prudential Code on the capital programme and the monitoring of performance against the statutory Prudential Indicators.

Background

2. The original budget for the capital programme for 2016/17 as agreed by Council on 25 February 2016, totalled £71.069m. The projected year end expenditure was revised to £69.614m at the end of the third quarter, reflecting changes to project delivery programmes.
3. The outturn of £65.061m is £4.553m less than the third quarter review, with the main variances summarised in Appendix 2 and shown in detail in Appendix 4.
4. The reduction from the position reported at the third quarter comprises of the following movements:

	£m
Acceleration of resources from 2017/18	1.570
Additional external funding	0.786
Re-profiling of resources and slippage to future years	(6.455)
Other increases/reductions to planned expenditure	(0.454)
Total Capital Programme Variance	(4.553)

5. A total of £1.4m of investment originally planned in 2017/18 relating to energy infrastructure was brought forward into the 2016/17 financial year reflecting the good progress made in scheme delivery. This included £0.8m towards the Council's District Energy Scheme which became operational during 2016/17 and almost £0.6m towards the expansion of the associated battery storage infrastructure, which will help to store and release the electricity generated by the District Energy Scheme to improve the resilience of the network and enhance commercial returns.
6. Other significant changes within the capital programme during the final quarter included the following:

- Slippage of almost £2.8m relating to planned improvements to the Council's housing stock within the HRA. This included almost £0.9m of investment in an energy efficiency improvement scheme at Fell, Lough and Beacon Court which has required additional design work, given the complexity of the scheme, and following programme delays due to access issues. The scheme is expected to complete during the second quarter of 2017/18. In addition, there has been slippage in a number of ongoing investment programmes within the HRA including £0.7m relating to decent homes improvement works and £0.4m relating to the estate regeneration programmes at Clasper Village, Dunston and Bleach Green;
 - Re-profiling of almost £2.0m relating to investment in the Council's ICT infrastructure. This has occurred as a result of a more competitive market from a price perspective and the implementation of alternative solutions, which have led to a combined reduction of £0.75m, as well as from a number of changes to the timings of initial investment programmes to reflect the latest delivery programmes and installation timescales;
 - Re-profiling of £0.5m of resources as part of the construction of Ravensworth Terrace Primary School due to technical difficulties encountered on site in the latter stages of the financial year. These issues have since been resolved and the school is expected to be completed by the Autumn term as expected;
 - The inclusion of additional external funding received during the final part of the year, primarily the School devolved formula capital (£0.5m) and developer contributions towards fixed play equipment (£0.2m).
7. The use of available external capital resources and capital receipts to fund the 2016/17 Capital Programme has been maximised and this means that the Council has not lost any of the external funding that it has been awarded.

Proposal

8. The report identifies a capital outturn of £65.061m for the 2016/17 financial year. The resources required to fund the 2016/17 capital programme are as follows:

	£m
Prudential Borrowing	28.358
Capital Grants and Contributions	12.642
Major Repairs Reserve (HRA)	18.839
Capital Receipts	2.394
Revenue Contributions	2.828
Total Capital Programme	65.061

9. Capital expenditure of £65.061m represents a significant contribution to the delivery of Vision 2030 and this includes investment in a number of high priority schemes as follows:
- £19m in the Council's Housing stock, including energy efficiency improvements and investment to maintain decency in over 1,900 homes;

- £13m in sustainability projects to reduce carbon emissions and generate ongoing revenue benefits including the Energy Network (£12m), which became operational during the year, and associated Battery storage infrastructure (£1m);
 - £9.5m in Transport Infrastructure within Gateshead, including highway maintenance, street lighting column replacement and sustainable transport improvements;
 - Over £5.5m of improvements to the Council's Schools, including the ongoing construction of Ravensworth Primary School in Birtley to provide additional capacity;
 - £2.5m in the Council's ongoing fleet replacement programme, primarily relating to Refuse Collection vehicles;
 - £2.3m in improvements to the Council's ICT infrastructure including the programmed replacement of desktop equipment, improvements to the network infrastructure to improve resilience, security and capacity as well as the development of the Council's digital platform;
 - £2.1m in the Council's Non Operational property portfolio, including the acquisition of retail and residential units at St Mary's Green, Whickham as well as improvements aimed at enhancing the level of rental income that is generated by the portfolio.
 - £1.4m of investment in providing Disabled Facilities Grants, helping over 300 people to undertake adaptations to their properties to continue to live independently within their homes.
10. In addition to the above investment, the Council has continued to utilise capital resources to encourage housing growth and development in Gateshead. During 2016/17 the Council has invested:
- £2.7m in the Council's Accelerated Development Zone helping to bring forward development at Gateshead Quays and Baltic Business Quarter, where the Council is progressing the Northern Centre for Emerging Technologies scheme to establish dedicated research and design testing facilities and workshop space for technology driven SME's;
 - £2.7m of investment targeted at bringing forward housing development, including the conclusion of the ten year Saltwell and Bensham acquisition and clearance programme to prepare sites for development as part of the Council's Housing Joint Venture as well as the provision of loans to Keelman Homes and settlement of the S106 obligations at Northside Birtley to release a Council owned site for further development;
 - £0.7m investment in two housing renewal sites at Clasper Village and Bleach Green in Blaydon, to prepare the sites for the future development of a significant number of family homes.
11. CIPFA's Prudential Code advises the regular monitoring of performance against the prudential indicators which regulate borrowing and investment. Targets and limits for the prudential indicators for 2016/17 were agreed at Council on 25 February 2016. Borrowing and investment levels have remained within the limits set by Council.

Recommendations

12. Cabinet is asked to:

- (i) Recommend to Council that all variations to the 2016/17 capital programme as detailed in Appendix 2 are agreed.
- (ii) Recommend to Council the financing of the 2016/17 capital programme.
- (iii) Confirm to Council that the capital expenditure and capital financing requirement indicators have been revised in line with the revised budget and that none of the approved Prudential Indicators set for 2016/17 have been breached.

For the following reasons:

- (i) To ensure the optimum use of the Council's capital resources in 2016/17.
- (ii) To accommodate changes to the Council's in-year capital expenditure plans.
- (iii) To ensure performance has remained within the approved Prudential Limits.

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APPENDIX 1

Policy Context

1. The proposals contained within this report are consistent with the objectives contained within the Council's corporate Capital Strategy and will contribute to achieving the objectives set out in Vision 2030 and the Council Plan.

Background

2. The original budget for the capital programme for 2016/17, as agreed by Council on 25 February 2016, totalled £71.069m.
3. The projected year-end expenditure was £69.614m at the end of the third quarter.
4. The actual capital payments for 2016/17 were £65.061m. This represents a reduction of £4.553m from the third quarter.
5. The £4.553m variance from the third quarter is due to a combination of slippage occurring within the current programme, reviewing existing schemes, the receipt of additional resources and other variances. All variations which have occurred in the programme during the fourth quarter are detailed in Appendix 2.
6. Appendix 3 summarises the original budget and actual year end payments by Corporate Priority. The third quarter forecasts, year end payments and comments on the progress of each scheme are detailed in Appendix 4.
7. The Prudential Code sets out a range of Prudential Indicators that were agreed by the Council on 25 February 2016. None of these indicators were breached during 2016/17 and performance against the indicators for 2016/17 is set out in Appendix 5.

Consultation

8. The Leader of the Council has been consulted on the contents of this report.

Alternative Options

9. The proposed financing arrangements are the best available in order to ensure the optimum use of the Council's capital resources in 2016/17.

Implications of Recommended Option

10. **Resources:**

- a) **Financial Implications** – The Strategic Director, Corporate Resources confirms that the financial implications are as set out in the report.

- b) **Human Resources Implications** – There are no human resources implications arising from this report.
 - c) **Property Implications** - There are no direct property implications arising from this report. Capital investment optimises the use of property assets to support the delivery of corporate priorities. The property implications of individual schemes are considered and reported separately.
11. **Risk Management Implication** - Risks are assessed as part of the process of monitoring the programme and treasury management. This assessment concludes that the increased uncertainty over the level of resources means that Cabinet should continue to receive quarterly reports for recommendation of any issues to Council, together with any necessary action to ensure expenditure is managed within available resources.
 12. **Equality and Diversity Implications** - There are no equality and diversity implications arising from this report.
 13. **Crime and Disorder Implications** - There are no direct crime and disorder implications arising from this report.
 14. **Health Implications** - There are no health implications arising from this report.
 15. **Sustainability Implications** - The works will help to make the environment more attractive and reduce health and safety hazards.
 16. **Human Rights Implications** - There are no direct human rights implications arising from this report.
 17. **Area and Ward Implications** - Capital schemes will provide improvements in wards across the borough.
 18. **Background Information**
 - i. Report for Cabinet, 23 February 2016 (Council 25 February 2016) - Capital Programme 2016/17 to 2020/21.
 - ii. Report for Cabinet, 12 July 2016 - Capital Programme and Prudential Indicators 2016/17 – First Quarter Review.
 - iii. Report for Cabinet, 8 November 2016 - Capital Programme and Prudential Indicators 2016/17 – Second Quarter Review.
 - iv. Report for Cabinet, 24 January 2017 - Capital Programme and Prudential Indicators 2016/17 – Third Quarter Review.