Gateshead Council

REPORT TO CABINET
21 November 2017

TITLE OF REPORT: **Capital Programme and Prudential Indicators 2017/18 – Second Quarter Review**

REPORT OF: **Darren Collins, Strategic Director, Corporate Resources**

Purpose of the Report

1. This report sets out the latest position on the 2017/18 capital programme and Prudential Indicators at the end of the second quarter to 30 September 2017. The report assesses reasons for the variances from the approved programme 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 2017/18, as agreed by Council on 23 February 2017, totalled £95.209m, which was revised to £96.114m at the first quarter. The second quarter review now projects the year-end expenditure to be £91.357m.

3. The proposed decrease to the capital programme at the second quarter comprises of the following movements:

	£m
Slippage of planned capital expenditure from 2016/17	0.221
Increased borrowing/external funding/contributions	3.926
Re-profiling of capital expenditure to future years	(8.384)
Other reductions	(0.520)
Total Variance	**(4.757)**

4. A total of £0.221m of slippage has been identified on a number of schemes throughout the capital programme which has been carried forward into 2017/18, with resources, from the 2016/17 financial year capital budget. This slippage includes £0.090m relating the replacement of fleet and horticultural equipment and £0.075m on the battery storage scheme.

5. The proposed slippage in the capital programme will be resourced by external funding and prudential borrowing. The Council continues to manage the available resources in a flexible manner to ensure that the use of any external resources is maximised where possible in the relevant financial year.

6. The proposed £3.926m increase includes £1.700m in relation to the Energy Network and £1.200m increase across the Local Transport Plan due to the reallocation of LTP funding as a result of the receipt of additional external funding to support the upgrade of Heworth Roundabout and the Vehicle Restraint System at the Felling Bypass following a successful Highways Maintenance Challenge Fund application.

7. During the quarter the Council has received notification of additional external funding to support capital investment including:

- £5m from the Department of Transport's Highways Maintenance Challenge Fund towards the improvements works at Heworth Roundabout; and
- £2.341m from the Department of Transport's National Productivity Investment Fund for the Sunderland Road Link. This funding award applies to 2018/19 – 2019/20 and will be included in future years capital financing calculations.

8. The £0.520m of reduction within the programme relates to the reduced project costs of the Vehicle Restraint System at the Felling bypass, which has been aligned with the Heworth Roundabout project, and the Empty Property Programme.

9. Planned investment of £8.384m has been re-profiled to future financial years on a number of schemes. This includes:

- Follingsby - £3.65m: due to a delay in the landowner selecting a developer for the site. The developer submitted a planning application in October 2017, anticipates an outcome in January 2018 to enable works to start on site in April 2018.
- Heworth Roundabout - £1.60m: due to the delay in receiving final costs and timescales for the scheme, works are expected to commence in January 2018 and complete in 2018/19.
- Gateshead Quays - £0.750m: reflecting the latest cash flow and programme for the pre-construction work and the ongoing discussions with NELEP regarding the Local Growth Fund application.
- Energy Network Extension - Trinity Square - £0.500m: due the ongoing negotiations with Tesco regarding the commercial terms which has impacted upon the planned delivery programme.
- New Build Assisted Living Development at Winlaton - £0.500m: the expected start of construction works has moved from October 2017 to January 2018 due to a planning objection that was upheld resulting in a re-design of the Derwent View site. The HCA are providing supplementary funding for this scheme, and have been notified of the revised programme forecast.
- Loan to Gateshead Trading Company - £0.430m: to reflect the latest delivery programme following the approval of the Derwentside scheme by the Trading Company Board, this is now expected to start on site in November.

10. In addition to the slippage of £0.430m relating to the loan to Gateshead Trading Company, the construction costs of the scheme have increased to £2.300m to reflect an improved specification, which has resulted in an increase in the total loan provision included in the Capital Programme from £1.500m to £2.300m. Depending on the timing of income from sales the full amount of the loan may not need to be drawn down.

Proposal

11. The report identifies planned capital expenditure of £91.357m for the 2017/18 financial year. The expected resources required to fund the 2017/18 capital programme are as follows:

	£m
Prudential Borrowing	35.484
Capital Grants and Contributions	26.221
Major Repairs Reserve (HRA)	20.774
Right to Buy Receipts	6.878
Capital Receipts	2.000
Total Capital Programme	**91.357**

12. 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 2017/18 were agreed at Council on 23 February 2017 and borrowing and investment levels have remained within these limits.

Recommendations

13. Cabinet is asked to:

    (i) Recommend to Council that all variations to the 2017/18 Capital Programme as detailed in Appendix 2 are agreed as the revised programme.

    (ii) Recommend to Council the financing of the revised 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 2017/18 have been breached.

    For the following reasons:

    (i) To ensure the optimum use of the Council's capital resources in 2017/18.

    (ii) To accommodate changes to the Council's in-year capital expenditure plans.

    (iii) To ensure performance has been assessed against the approved Prudential Limits.

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APPENDIX 1

Policy Context

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

Background

2. The original budget for the capital programme for 2017/18, as agreed by Council on 23 February 2017, totalled £95.209m. This was revised to £96.114m at the end of the first quarter.

3. The projected year-end expenditure is £91.357m at the end of the second quarter.

4. The £4.757m variance is due to a combination of slippage from the previous year, review of existing schemes and receipt of additional resources. All variations in the programme during the second quarter are detailed in Appendix 2.

5. Appendix 3 summarises the original budget and actual year end payments by Corporate Priority. The budget, projected year end payments and comments on the progress of each scheme are detailed in Appendix 4.

6. The Prudential Code sets out a range of Prudential Indicators that were agreed by the Council on 23 February 2017. Performance against the indicators for 2017/18 is set out in Appendix 5.

Consultation

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

Alternative Options

8. The proposed financing arrangements are the best available in order to ensure the optimum use of the Council's capital resources in 2017/18.

Implications of Recommended Option

9. **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 will be considered and reported separately.

10. **Risk Management Implication -** Risks are assessed as part of the process of monitoring the programme and in respect of treasury management. The Cabinet will 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.

11. **Equality and Diversity Implications -** There are no equality and diversity implications arising from this report.

12. **Crime and Disorder Implications -** There are no direct crime and disorder implications arising from this report.

13. **Health Implications -** There are no health implications arising from this report.

14. **Sustainability Implications -** The works will help to make the environment more attractive and reduce health and safety hazards.

15. **Human Rights Implications -** There are no direct human rights implications arising from this report.

16. **Area and Ward Implications -** Capital schemes will provide improvements in wards across the borough.

17. **Background Information**

    i. Report for Cabinet, 21 February 2017 (Council 23 February 2017) - Capital Programme 2017/18 to 2021/22.
    ii. Report for Cabinet, 18 July 2017 – Capital Programme and Prudential Indicators 2017/18 – First Quarter Review.