Gateshead Council

# REPORT TO CABINET
**19 June 2018**

**TITLE OF REPORT:** **Capital Programme and Prudential Indicators 2017/18 – Year End Outturn**

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

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## Purpose of the Report

1. This report provides a breakdown of the 2017/18 capital programme which included capital expenditure of £74.8m. 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 2017/18 as agreed by Council on 23 February 2017, totalled £95.2m. The projected year end expenditure was revised to £89.9m at the end of the third quarter, reflecting changes to project delivery programmes.

| | Original Budget (£m) | Quarter 1 (£m) | Quarter 2 (£m) | Quarter 3 (£m) | Outturn (£m) | Variance to Q3 (£m) |
|---|---|---|---|---|---|---|
| **General Fund** | 65.9 | 64.3 | 60.1 | 58.6 | 49.1 | 9.5 |
| **HRA** | 29.3 | 31.8 | 31.2 | 31.3 | 25.7 | 5.6 |
| **Total** | **95.2** | **96.1** | **91.3** | **89.9** | **74.8** | **15.1** |

3. The capital outturn for 2017/18 is £74.8m and this is £15.1m 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 |
|---|---|
| Re-profiling of resources and slippage to future years | (13.161) |
| Other changes to planned expenditure | (1.922) |
| **Total Capital Programme Variance** | **(15.083)** |

5. A number of schemes have resulted in underspends during 2017/18. Where there is certainty the expenditure will be incurred during 2018/19 it is proposed that the allocation is carried forward into the 2018/19 Capital Programme.

6. The schemes where underspends are greater than £0.500m and the budget is to be carried forward into 2018/19 are:

General Fund

- School Capacity Improvement: £1.3m slippage due to the phasing of works to align to the school year ending August 2018;
- Loan to the NHS Trust: £2.5m – negotiations relating to the loan terms to the NHS Trust to support the works at Prince Consort Road were ongoing as at 31 March 2018;
- Northern Centre for Emerging Technology: £0.9m – A one month delay in the works programme;
- Loans to Trading Company: £0.5m – timing of the loan drawdowns was based on estimated cash flows which were likely to change.
- Coatsworth Road Regeneration: £0.5m – Programme timescales extended to accommodate the late take up of the scheme by shop owners;

Housing Revenue Account

- HEIGHTs and Regent Court Improvements: £2.0m in year underspend primarily due to adverse weather conditions.
- Window Replacement: £0.6m – resulting from changing demand.
- Estate regeneration: £0.5m – slippage in the programme due to delays in the acquisition of final properties on the estates.

7. The use of available external capital resources and capital receipts to fund the 2017/18 Capital Programme has been maximised, which means that the Council will not lose any of the external funding that it has been awarded.

**Capital Investment Summary**

8. Capital expenditure of £74.8m represents a significant contribution to supporting Council assets and the wider thrive agenda and includes investment of:
   - £24m in the Council's Housing stock, including energy efficiency improvements and investment to maintain decency in over 1,400 homes;
   - £8.2m in sustainability projects to reduce carbon emissions and generate ongoing revenue benefits including the Energy Network and associated Battery storage infrastructure;
   - £10m in Transport Infrastructure, including highway maintenance, street lighting column replacement and sustainable transport improvements;
   - Over £6m of improvements to the Council's Schools, including the construction of Ravensworth Primary School to provide additional capacity;
   - £2.8m in the Council's ongoing fleet replacement programme;
   - £3.4m in improvements to the Council's ICT infrastructure, including improvements to the infrastructure to improve resilience, security and capacity as well as the development of the Council's digital platform;
   - £2.2 m in the Council's Non Operational property portfolio, including the acquisition of properties in the surrounding area of the planned Gateshead Quays development

- £1.5m of investment in providing Disabled Facilities Grants, issuing over 239 grants to enable residents to undertake adaptations to their properties to continue to live independently within their homes.

9. In addition to the above investment, the Council has continued to utilise capital resources to encourage housing growth and development in Gateshead. During 2017/18 the Council has invested:

- £5.7m 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;
- £3.3m of investment targeted at bringing forward housing development, including the provision of loans to Keelman Homes and Gateshead Trading Company;

**Capital Financing**

10. The report identifies a capital outturn of £74.7m for the 2017/18 financial year. The resources required to fund the 2017/18 capital programme are as follows:

| | **£m** |
|---|---|
| Prudential Borrowing | 29.0 |
| Capital Grants and Contributions | 20.2 |
| Major Repairs Reserve (HRA) | 16.3 |
| Capital Receipts | 8.1 |
| Revenue Contributions | 1.2 |
| **Total Capital Programme** | **74.8** |

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 2017/18 were agreed at Council on 23 February 2017. 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 2017/18 capital programme as detailed in Appendix 2 are agreed.
(ii) Recommend to Council the financing of the 2017/18 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 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 monitor actual performance against the approved Prudential Indicators.

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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 Council's objectives of making Gateshead a place where everyone thrives.

**Background**

2. The original budget for the capital programme for 2017/18, as agreed by Council on 23 February 2017, totalled £95.2m.

3. The projected year-end expenditure was £89.8m at the end of the third quarter.

4. The actual capital payments for 2016/17 were £74.8m. This represents a reduction of £15.1m from the third quarter.

5. The £15.1m variance from the third quarter is due to a combination of slippage and other changes to the 2017/18 programme. 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 23 February 2017. None of these indicators were breached during 2017/18 and performance against the indicators for 2017/18 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 2017/18.

**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 will be 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, 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.
iii. Report for Cabinet, 21 November 2017 - Capital Programme and Prudential Indicators 2017/18 – Second Quarter Review.
iv. Report for Cabinet, 23 January 2018 - Capital Programme and Prudential Indicators 2017/18 – Third Quarter Review.