

**TITLE OF REPORT:** Capital Programme and Prudential Indicators 2018/19 – Year End Outturn

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

### Purpose of the Report

1. This report requests Cabinet to recommend that Council note the 2018/19 Capital Programme outturn and approve the financing of the programme. The report assesses reasons for the variances from the third quarter review and considers the impact of CIPFA’s Prudential Code on the capital programme and the monitoring of performance against the statutory Prudential Indicators.

### Overview

2. The original budget for the capital programme for 2018/19 as agreed by Council on 20 February 2018, totalled £102.9m. The projected year end expenditure was revised to £87.9m 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) |
|---------------------|----------------------|----------------|----------------|----------------|--------------|---------------------|
| <b>General Fund</b> | 74.6                 | 76.1           | 63.1           | 56.2           | 55.7         | (0.53)              |
| <b>HRA</b>          | 28.3                 | 31.7           | 31.9           | 31.6           | 31.8         | 0.22                |
| <b>Total</b>        | <b>102.9</b>         | <b>107.8</b>   | <b>95.0</b>    | <b>87.9</b>    | <b>87.6</b>  | <b>(0.31)</b>       |

3. The capital programme outturn for 2018/19 is £87.6m and this is £0.3m less than the third quarter review, with the main variances summarised in Appendix 2 and shown in detail in Appendix 4. In addition, £2.034m of qualifying revenue expenditure was funded using capital receipts through the application of the Capital Receipts Directive. When the Capital Receipt Directive is included total expenditure financed through capital is £89.6m.
4. The reduction from the Capital Programme position reported at the third quarter comprises of the following movements:

|  | <b>£m</b>      |
|--|----------------|
| Re-profiling of resources and slippage to future years | (4.228)        |
| Other changes to planned expenditure                   | 3,915          |
| <b>Total Capital Programme Variance</b>                | <b>(0.313)</b> |

5. A number of schemes have resulted in underspends during 2018/19. Where there is certainty the expenditure will be incurred during 2019/20 it is proposed that the allocation is carried forward into the 2019/20 Capital Programme.
6. The schemes where underspends are greater than £0.500m and the budget is to be carried forward into 2019/20 include:
  - Replacement of Fleet and Horticultural Equipment: £0.5m - due to a number of vehicles ordered in 2018/19; but not received by the end of March 2019;
  - Loan to Keelman Homes Bleach Green: £0.5m – the loan available was not required in 2018/19 due to delays with the start of construction at the Bleach Green site, therefore this is expected to be drawn down in 2019/20;
  - Loans to Keelman Homes Empty Properties: £0.5m – due to a change in the timing of the loan drawdown from March 2019 to April 2019.
  - Heworth Roundabout: £0.5m – the main works are complete, but due to an underspend on the approved scheme the Department for Transport agreed for the remaining grant to be utilised in 2019/20 on other maintenance schemes in the proximity of the original scheme.
7. The use of available external capital resources and capital receipts to fund the 2018/19 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 £87.6m represents a significant contribution to supporting Council assets and the wider thrive agenda and includes investment of:
  - £31.8m in the Council's Housing stock, including energy efficiency improvements and investment to maintain decency in over 2000 homes;
  - £13.8m in Transport Infrastructure, including highway maintenance, street lighting column replacement and sustainable transport improvements;
  - £3.8m 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;
  - £3.7m of improvements to the Council's Schools, including the provision of additional capacity;
  - £2.1m in the Council's ongoing fleet replacement programme;
  - £1.9m in the District Energy Network and associated schemes;
  - £0.9 m in the Council's Non-Operational Property portfolio;
  - £1.6m of investment in providing Disabled Facilities Grants, issuing 302 grants to enable residents to undertake adaptations to their properties to continue to live independently within their homes.
9. The Council has continued to utilise capital resources to encourage housing growth and development in Gateshead. During 2018/19 the Council has invested:

- £5.2m in the Council's Accelerated Development Zone helping to bring forward economic growth at Gateshead Quays and Baltic Quarter, where the Council has completed the PROTO building, established for dedicated research and design testing facilities, and workshop space for technology driven SME's; and also where the five storey office development is under construction;
- £5.3m of investment targeted at bringing forward housing development, including the provision of loans to Keelman Homes and Gateshead Trading Company.

### Capital Receipts Directive

10. In January 2019, Council agreed to use the Capital Receipts Directive to finance qualifying revenue expenditure from capital receipts. Potential expenditure was identified in the following key themes:
- **Digital and IT:** developing new systems to streamline processes to reduce demand/or generate efficiency savings
  - **Ways of Working – internal:** realign business process and structure to improve ways of working to drive efficient and savings, reduce demand or generate additional income
  - **Ways of Working – partners:** working with partner public sector bodies to find more efficient ways of working to generate efficiencies and savings and reduce demand.
11. For 2018/19 the final revenue position for qualifying schemes was £2.034m, taking the total capital expenditure for 2018/19 to £89.6m.

### Capital Financing

12. The report identifies a capital outturn of £89.6m for the 2018/19 financial year. The resources required to fund the 2018/19 capital programme are as follows:

|                                  | <b>£m</b>   |
|----------------------------------|-------------|
| Prudential Borrowing             | 36.0        |
| Capital Grants and Contributions | 21.1        |
| Major Repairs Reserve (HRA)      | 24.3        |
| Capital Receipts                 | 7.3         |
| Revenue Contributions            | 0.9         |
| <b>Total Capital Programme</b>   | <b>89.6</b> |

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 2018/19 were agreed at Council on 20 February 2018. Borrowing and investment levels have remained within the limits set by Council.

### Recommendations

13. Cabinet is asked to:

- (i) Note the Capital Programme outturn position for 2018/19.
- (ii) Recommend to Council that all variations to the 2018/19 Capital Programme as detailed in Appendix 2 are agreed.
- (iii) Recommend to Council the financing of the 2018/19 Capital Programme.
- (iv) 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 2018/19 have been breached.

For the following reasons:

- (i) To ensure the optimum use of the Council's capital resources in 2018/19.
- (ii) To monitor actual performance against the approved Prudential Indicators.

## 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 2018/19, as agreed by Council on 20 February 2018, totalled £102.9m.
3. The projected year-end expenditure was £87.9m at the end of the third quarter.
4. The actual capital programme expenditure for 2018/19 is £87.6m. This represents a reduction of £0.3m from the third quarter.
5. The £0.3m variance from the third quarter is due to a combination of slippage and other changes to the 2018/19 programme. All variations which have occurred in the programme during the fourth quarter are detailed in Appendix 2.
6. The total capital outturn for 2018/19 is £89.6m due to the application of the budget flexibility directive to use £2.03m of capital receipts to fund qualifying revenue expenditure. The individual revenue expenditure scheme financed through the flexible use of capital receipts are:

| Qualifying Revenue Expenditure                    | Outturn (£m) |
|---|--------------|
| CWL Systems                                       | 0.113        |
| CWL Improvement Officers                          | 0.101        |
| ACT Team  | 0.352        |
| Complex CIN Team                                  | 0.386        |
| Systems Development                               | 0.212        |
| Digital Platform and Improved Customer Experience | 0.657        |
| Cross-Public Sector Ways of Working Improvements  | 0.126        |
| Trading & Commercialisation                       | 0.065        |
| Counter Fraud Improvements                        | 0.022        |
| <b>Total</b>                                      | <b>2.034</b> |

7. Appendix 3 summarises the original budget and actual year end expenditure by Corporate Priority. The third quarter forecasts, year end payments and reasons for variance for each scheme are detailed in Appendix 4.
8. The Prudential Code sets out a range of Prudential Indicators that were agreed by the Council on 20 February 2018. None of these indicators were breached

during 2018/19 and performance against the indicators for 2018/19 is set out in Appendix 5.

### **Consultation**

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

### **Alternative Options**

10. The proposed financing arrangements are the best available in order to ensure the optimum use of the Council's capital resources in 2018/19.

### **Implications of Recommended Option**

#### **11. 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.
12. **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.
  13. **Equality and Diversity Implications** - There are no equality and diversity implications arising from this report.
  14. **Crime and Disorder Implications** - There are no direct crime and disorder implications arising from this report.
  15. **Health Implications** - There are no health implications arising from this report.
  16. **Sustainability Implications** - The works will help to make the environment more attractive and reduce health and safety hazards.
  17. **Human Rights Implications** - There are no direct human rights implications arising from this report.
  18. **Area and Ward Implications** - Capital schemes will provide improvements in wards across the borough.

19. **Background Information**

- i. Report for Cabinet, 20 February 2018 (Council 22 February 2018) - Capital Programme 2018/19 to 2022/23.
- ii. Report for Cabinet, 17 July 2018 - Capital Programme and Prudential Indicators 2018/19 – First Quarter Review.
- iii. Report for Cabinet, 20 November 2018 - Capital Programme and Prudential Indicators 2018/19 – Second Quarter Review.
- iv. Report for Cabinet, 22 January 2019 - Capital Programme and Prudential Indicators 2018/19 – Third Quarter Review.