

TITLE OF REPORT: Capital Programme and Prudential Indicators 2015/16
 – Third Quarter Review

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report sets out the latest position on the 2015/16 capital programme and Prudential Indicators at the end of the third quarter to 31 December 2015. The report identifies 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 2015/16, as agreed by Council on 26 February 2015, totalled £82.311m, which was then revised to £78.821m as part of the second quarter review. The third quarter review now projects the year-end expenditure to be £61.329m.
3. The proposed reduction to the capital programme at the third quarter comprises of the following movements:

	£m
Increased borrowing/external funding/contributions	0.784
Re-profiling of capital expenditure to future years	(12.450)
Other reductions	(5.642)
Re-profiling of planned HRA investment	(0.184)
Total Variance	(17.492)

4. The slippage of planned expenditure to future years accounts for the majority of the proposed variance and these changes will be considered as part of developing the Council's future capital programme. This includes £3.0m of expenditure relating to the Council's District Energy scheme reflecting the updated construction programme following delays regarding the construction of the network as a result of additional design work and the need to resolve issues with ground conditions. A total of £8.9m is expected to be spent on the scheme within the current financial year and the scheme is expected to become operational during 2016/17.
5. In addition, a total of £4.7m has also been re-profiled to 2016/17 relating to investment within the HRA capital programme. This includes significant variances as follows:
 - £1.5m relating to the planned external improvement and energy efficiency works at Fell, Lough and Beacon, which is being delivered through the Warm Up North Partnership and a start date of April 2016 has now been proposed by the Contractor;

- £1.5m as part of the planned external improvements at Regent Court which have been delayed as a result of undertaking additional intrusive surveys and following a review of the viability model and HRA business plan;
 - Almost £1.3m relating to the committed estate regeneration schemes at Bleach Green and Clasper Village, where progress has been delayed pending the acquisition of the remaining owner occupied properties to enable the demolition works to progress.
6. Approximately £1.8m of investment has been re-profiled relating to schemes aimed at promoting Economic and Housing growth within Gateshead including:
- £0.6m relating to the completion of the site assembly and preparations as part of the Housing Joint Venture at Bensham and Saltwell and in Brandling following delays in the acquisition process;
 - £0.5m of investment in Coatsworth Road as part of the lottery funded Townscape Heritage Initiative scheme where work to engage with businesses to develop the specific projects is continuing but the progress has been slower than originally anticipated.
7. As part of the third quarter review, the Council has also identified reductions to project budgets amounting to £5.6m. This primarily includes reductions of £4.6m in the investment plans regarding Solar PV schemes as a result of Government changes to the Feed In Tariff Scheme for projects registered from January 2016 onwards. Whilst the Council is still expecting to invest a total of £2.6m in the current financial year, mainly in Council buildings and Schools, the changes have meant that the original business cases for investment in social housing schemes and external organisations are no longer considered to be viable to progress at this stage. Work is ongoing to develop alternative business models and these will be considered as part of the development of the Council's future capital programme.

Proposal

8. The report identifies planned capital expenditure of £61.329m for the 2015/16 financial year. The expected resources required to fund the 2015/16 capital programme are as follows:

	£m
Prudential Borrowing	26.653
Capital Grants and Contributions	12.843
Major Repairs Reserve (HRA)	19.833
Capital Receipts	2.000
Total Capital Programme	<u>61.329</u>

9. 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 2015/16 were agreed at Council on 26 February 2015. Borrowing and investment levels have remained within the limits set by Council.

Recommendations

10. Cabinet is asked to:

- (i) Recommend to Council that all variations to the 2015/16 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 2015/16 have been breached.

For the following reasons:

- (i) To ensure the optimum use of the Council's capital resources in 2015/16.
- (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 and priority outcomes set out in Vision 2030 and the Council Plan.

Background

2. The original budget for the capital programme for 2015/16, as agreed by Council on 26 February 2015, totalled £82.311m and this was revised to £78.821m following the second quarter review.
3. The projected year-end expenditure was £61.329m at the end of the third quarter.
4. The £17.492m variance 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 in the programme during the third 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 26 February 2015. Performance against the indicators for 2015/16 is set out in Appendix 5.

Consultation

7. The Leader 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 2015/16.

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 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.
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, 24 February 2015 (Council 26 February 2015) - Capital Programme 2015/16 to 2017/18.
 - ii. Report for Cabinet, 14th July 2015 – Capital Programme and Prudential Indicators 2015/16 – First Quarter Review.
 - iii. Report for Cabinet, 3rd November 2015 – Capital Programme and Prudential Indicators 2015/16 – Second Quarter Review.