Gateshead Council

REPORT TO CABINET
22 January 2019

TITLE OF REPORT: **Capital Programme and Prudential Indicators 2018/19 – 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 2018/19 capital programme and Prudential Indicators at the end of the third quarter to 31 December 2018. The report assesses reasons for the variances 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 2018/19, as agreed by Council on 22 February 2018, totalled £102.862m, which was revised at the second quarter review to £94.975m to reflect the scheme projections. The third quarter review of progress of schemes has resulted in a revised estimate for total capital expenditure of £87.897m.

3. The proposed reduction of the capital programme at the third quarter comprises of the following movements:

	£m
Increased borrowing/external funding/contributions	3.086
Re-profiling of capital expenditure to future years	(5.844)
Reduction of planned expenditure	(4.320)
Total Variance	**(7.078)**

4. A total of £3.086m increased capital expenditure primarily relates to the following schemes:

   - The Department of Transport (DfT) announced additional highways funding to support expenditure during 2018/19 on highways including repairs to potholes and damaged road. The Council's allocation was £1.2m and additional highways schemes have been brought forward and included within the Capital Programme to ensure the in-year funding is utilised; and
   - Increased costs of £0.8m in the Highrise Energy Infrastructure for Gateshead Housing Tenants (HEIGHTs) and Regent Court energy efficiency and improvement works.

5. Planned investment has been re-profiled to 2019/20 on several schemes, amounting to £5.844m reductions to reflect the progress of the projects and updated cashflow projections. This includes:

   - The start date for the outdoor sports provision schemes at both Blaydon Leisure Centre and Gateshead International Stadium has been delayed to February 2019, which has resulted in £1.356m of planned expenditure being moved to 2019/20;

- A revised cashflow has resulted in a reprofiling of the Gateshead Trading Company's loan drawdown to support the Lyndhurst housing scheme, with £1m deferred until 2019/20;
- The Gateshead Quays scheme has reduced by £0.9m in 2018/19 to reflect the revised project timelines.

6. The most significant reduction in planned expenditure, which has not been reprofiled into 2019/20, is the removal of the potential £3m loan to the NHS Trust for works at Prince Consort Road. The NHS Trust have confirmed they no longer wish to proceed with the lease and therefore the loan is not required.

7. Within the ring-fenced Housing Revenue Account capital resources have been realigned to support in year changes, this has resulted in a combined reduction in the projected outturn from the HRA of £0.3m, with the most significant changes being a reduction in the projected expenditure on decent homes works of £0.773, offset by a £0.8m increase in the expenditure on HEIGHTs and Regent Courts improvements works.

8. Additional grant funding totalling £1.632m has been confirmed during quarter 3, including £1.2m from the DfT, £0.182m additional Disabled Facilities Grant and £0.250m Salix funding to support additional energy efficiency schemes.

Proposal

7. The report identifies planned capital expenditure of £88.297m for the 2018/19 financial year. The expected resources required to fund the 2018/19 capital programme are as follows:

	£m
Prudential Borrowing	38.929
Capital Grants and Contributions	19.900
Major Repairs Reserve (HRA)	22.540
Right to Buy Receipts (HRA)	6.528
Total Capital Programme	**87.897**

8. It is estimated that Capital Receipts of c.£2m will be received in year, it is proposed that the option to apply the capital receipt flexibility in-year to qualifying revenue expenditure is taken. As a result of this option Capital Receipts have been removed from the capital financing forecast. If additional receipts are generated in-year or revenue expenditure outturn on qualifying expenditure is less than currently projected then any remaining capital receipts will be applied to support the capital programme. Further information, about the revenue schemes is included within the Revenue Budget – Third Quarter Review 2018/19 elsewhere in the agenda.

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 2018/19 were agreed at Council on 22 February 2018 and borrowing and investment levels have remained within these limits.

Recommendations

9. Cabinet is asked to:

    (i) Recommend to Council that all variations to the 2018/19 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 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 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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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's Thrive Agenda.

Background

2. The original budget for the capital programme for 2018/19, as agreed by Council on 22 February 2018, totalled £102.862m. The third quarter review has reprofiled the capital programme to reflect in year progress within capital schemes, resulting in a revised estimate of £87.897m.

3. The £7.078m reduction is due to updated programme timelines for a number of schemes. All variations in the programme during the second quarter are detailed in Appendix 2.

4. 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.

5. The Prudential Code sets out a range of Prudential Indicators that were agreed by the Council on 22 February 2018. Performance against the indicators for 2018/19 is set out in Appendix 5.

Consultation

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

Alternative Options

7. 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

8. **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.

9. **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.

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

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

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

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

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

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

16. **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 (Council 19 July 2018) – Capital Programme and Prudential Indicators 2018/19 – First Quarter Review; and
iii. Report for Cabinet, 20 November 2018 (Council 22 November 2018) – Capital Programme and Prudential Indicators 2018/19 – Second Quarter Review.