

TITLE OF REPORT: Capital Programme and Prudential Indicators 2016/17
 – First Quarter Review

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report sets out the latest position on the 2016/17 capital programme and Prudential Indicators at the end of the first quarter to 30 June 2016. 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 2016/17, as agreed by Council on 23 February 2016, totalled £71.069m. The projected year end expenditure at the end of the first quarter is now £76.297m. The proposed increase of £5.228m is largely as a result of slippage in the programme from 2015/16 which was reported to Cabinet on 14 June 2016.
3. The proposed increase to the capital programme at the first quarter comprises of the following movements:

	£m
Slippage of planned capital expenditure from 2015/16	4.192
Increased borrowing/external funding/contributions	3.642
Re-profiling of capital expenditure to future years	(2.331)
Other reductions	(0.275)
Total Variance	<u><u>5.228</u></u>

4. The proposed slippage in the capital programme is resourced by external funding and prudential borrowing, and the Council continues to manage the available resources in a flexible manner to ensure that the use of external resources is maximised.
5. A total of £4.192m of slippage has been identified on a number of key schemes throughout the capital programme which has been carried forward into 2016/17, with resources, from the 2015/16 financial year original capital budget.
6. The slippage includes £1.185m relating to the Council's Town Centre District Energy Network as a result of an amendment to the project delivery programme following delays experienced by the Contractor during the delivery of the planned works. Further connection and extension costs have not yet been reflected in the programme as these are still subject to the outcome of ongoing commercial discussions with customers. Further updates on this position are expected during the

second quarter and the resources will be included within the programme when there is sufficient certainty around the delivery programme.

7. In addition, a further £0.811m of slippage relates to the delivery of the Gateshead element of the Great North Cycleway scheme after structural issues were encountered during the delivery of the project. This phase of the scheme is expected to complete during the second quarter.
8. A total of £1.832m of slippage has been reflected in the revised projections for investment to the Council's housing stock within the HRA programme, primarily relating to schemes within the ongoing Decent Homes Investment Programme. However this has been offset by a re-profiling of expenditure to future years of £1.873m resulting in an overall reduction within the HRA of £0.241m. The reduction relates to the re-profiling of investment in Regent Court following further discussions around the proposed technical solution and progression of the design work.
9. In addition to the resources that have been carried forward from 2015/16, the Council has also included £1.7m of additional resources to meet the costs associated with the Council's contribution towards the share of S106 costs that have been incurred relating to the development of the Birtley Northside area. This follows a decision by Persimmon not to exercise their option to acquire the remaining site for development; the capital receipt was originally intended to provide the funding required to meet the Council's contribution. The Council is now considering the alternative options to progress the development of the site.
10. The Council has also received additional external funding amounting to £1.556m. This includes £0.313m of confirmed Basic Need funding to address capacity issues within the Council's Schools. Public Health England funding of £0.280m has also been received relating to a project delivered in partnership with Changing Lives to help acquire empty properties and bring them back into use to support recovery from substance misuse within the community.

Proposal

11. The report identifies planned capital expenditure of £76.297m for the 2016/17 financial year. The expected resources required to fund the 2016/17 capital programme are as follows:

	£m
Prudential Borrowing	39.542
Capital Grants and Contributions	12.226
Major Repairs Reserve (HRA)	22.029
Capital Receipts	2.500
Total Capital Programme	76.297

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 2016/17 were agreed at Council on 23 February 2016 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 2016/17 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 2016/17 have been breached.

For the following reasons:

- (i) To ensure the optimum use of the Council's capital resources in 2016/17.
- (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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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 2016/17, as agreed by Council on 23 February 2016, totalled £71.069m.
3. The projected year-end expenditure was £76.297m at the end of the first quarter.
4. The £5.228m variance is due to a combination of slippage from the previous year, the review of existing schemes, the receipt of additional resources and other variances. All variations in the programme during the first 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 2016. Performance against the indicators for 2016/17 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 2016/17.

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 Implications** - 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, 23 February 2016 (Council 25 February 2016) - Capital Programme 2016/17 to 2020/21.
 - ii. Report for Cabinet, 14 June 2016 – Capital Programme and Prudential Indicators 2015/16 – Year End Outturn.