Gateshead Council

REPORT TO CABINET
8 November 2016

TITLE OF REPORT: **Capital Programme and Prudential Indicators 2016/17 – Second 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 September 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, which was then revised to £76.297m as part of the first quarter review. The second quarter review now projects the year-end expenditure to be £73.346m.

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

	£m
Slippage of planned capital expenditure from 2015/16	0.050
Increased borrowing/external funding/contributions	3.869
Re-profiling of capital expenditure to future years	(5.414)
Re-profiling of planned HRA Investment	(1.256)
Other reductions	(0.200)
Total Variance	**(2.951)**

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 where possible.

5. A total of £5.414m of slippage has been identified on a number of key schemes throughout the capital programme where expenditure has been re-profiled into 2017/18. This includes £2.412m relating to potential development at Baltic Business Quarter, relating to a planned delay in the progression of the speculative office development element of the scheme. The Council's resources are currently focussed instead on progressing the Northern Centre for Emerging Technology scheme which is expected to utilise external funding from ERDF and the Local Growth Fund.

6. The slippage to future years also includes:
    - £0.590m relating to the proposed Street Lighting LED replacements following delays in the procurement process which means installation is unable to commence in the current financial year;
    - £0.500m relating to potential investment in Gateshead Quays. Work is ongoing to develop specific investment proposals with our Development Partner which will then inform the Council's investment plans within the future Capital Programme;
    - £0.400m relating to the proposal to reconfigure the Public Spaces within the Civic Centre. This will be considered alongside potential opportunities to improve the use of the building and explore options to work with other Public Sector organisations;
    - £0.400m relating to the planned extension of the Energy Network to Trinity Square as commercial negotiations with potential end users continue.

7. Additions to the programme identified during the second quarter review amount to £3.869m. This includes the proposed acquisition of retail and residential units as an investment at St Mary's Green in Whickham. The retail units will form part of the non-operational portfolio whilst the residential units utilise HRA capital receipts and will form part of the HRA in a manner consistent with the Council's existing assets held at St Mary's Green.

8. Other significant value additions also included:
    - £0.380m relating to the proposed £11.56m High-rise Energy Infrastructure scheme at Harlow Green and Regent Court, which is seeking ERDF funding, to fund the required pre-construction costs and undertake the detailed design;
    - £0.340m relating to the £0.85m Battery Storage project which is linked to the Council's District Energy Scheme and provides the opportunity to store surplus electricity for re-supply at peak periods;
    - £0.300m relating to the £3.1m development of the New Build Assisted Living Schemes within the HRA to provide enhanced specialist housing for people with learning disabilities and autism. The investment in the current year will progress the design and site investigations elements of the scheme with construction work expected to commence next year.

9. During the second quarter there have also been a number of changes to re-profile planned investment to future years within the HRA amounting to £1.256m including:
    - £0.387m of investment in Decent Homes works, primarily as a result of revising the scope of required works. Potential reserve schemes are being developed for consideration;
    - £0.366m of investment in Service Risers pending the outcome of CCTV survey's required to inform the design work;
    - £0.187m relating to the delivery of the ongoing multi-year lift replacement and refurbishment programme, reflecting the contractors proposed delivery plans;
    - £0.117m relating to Estate Regeneration commitments, with the remaining acquisitions likely to require a CPO to progress;
    - £0.114m relating to investment in Door Entry system upgrades as a result of performance issues with the system which has resulted in a decision to defer the planned investment until the issues have been resolved.

Proposal

10. The report identifies planned capital expenditure of £73.346m for the 2016/17 financial year. The expected resources required to fund the 2016/17 capital programme are as follows:

	£m
Prudential Borrowing	34.823
Capital Grants and Contributions	13.627
Major Repairs Reserve (HRA)	21.226
Capital Receipts	3.670
Total Capital Programme	**73.346**

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 2016/17 were agreed at Council on 23 February 2016 and borrowing and investment levels have remained within these limits.

Recommendations

12. 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 monitor performance within the approved Prudential Limits.

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APPENDIX 1

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. This was revised to £76.297m at the first quarter review.

3. The projected year-end expenditure is £73.346m at the end of the second quarter.

4. The £2.951m variance is due to a combination of the review of existing schemes and re-profiling of resources to future years, the receipt of additional resources and other variances. All variations in the programme during the second 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 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.

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, 12 July 2016 - Capital Programme and Prudential Indicators 2016/17 – Second Quarter Review.