

**TITLE OF REPORT:**           **Capital Programme and Prudential Indicators 2015/16  
– 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 2015/16 capital programme and Prudential Indicators at the end of the second quarter to 30 September 2015. 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 2015/16, as agreed by Council on 26 February 2015, totalled £82.311m, which was then revised to £84.015m as part of the first quarter review. The second quarter review now projects the year-end expenditure to be £78.821m.

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

	<b>£m</b>
Increased borrowing/external funding/contributions	1.908
Re-profiling of capital expenditure to future years	(5.467)
Re-profiling of capital expenditure from future years	0.282
Other reductions	(1.904)
Re-profiling of planned HRA investment	(0.013)
<b>Total Variance</b>	<b>(5.194)</b>

4. The slippage of planned expenditure to future years includes £2.208m of expenditure relating to the Council's District Energy scheme reflecting the updated construction programme which has profiled more expenditure in 2016/17 than originally anticipated. The scheme is expected to become operational during the first quarter of 2016/17.
5. In addition, a total of £1.3m has also been re-profiled to 2016/17 relating to the loan to Keelman Homes to facilitate the delivery of additional affordable housing within Gateshead, reflecting the progress made delivering the existing schemes and following an analysis of the potential cashflow for the remainder of the financial year. The business case for the remaining development within this phase is currently being reviewed to ensure that it remains a viable investment proposal.
6. During the second quarter, the Council has secured additional external funding amounting to £1.853m in 2015/16. This primarily relates to an award of £0.976m

from the Cycle City Ambition Fund which is being matched with £0.109m of Local Transport Plan funding to fund works associated with the Great North Cycleway.

7. In addition, the Council has been successful in receiving £0.923m of funding from the Heritage Lottery Fund to support the redevelopment and restoration of Chase Park as part of a £1m project which is being delivered in partnership with the Friends of Chase Park. Based on the project cashflow, £0.225m of this is expected to be incurred in the current financial year with the capital element of the project expected to be complete during the second quarter of 2016/17.
8. As part of the second quarter review, the Council has also identified reductions to the overall borrowing requirement amounting to £1.874m. This primarily includes reductions of £1.260m in the planned fleet replacement allocation and of £0.434m on the delivery of the Council's Technology Plan schemes as investment programmes are aligned with discussions on the future revenue budget plans, reflecting the uncertainty around service provision in some areas of the Council.
9. In addition to the changes outlined within the report, the Council is currently reviewing its investment plans regarding Solar PV schemes as a result of a consultation issued by the Government, which closed in October 2015, regarding potential changes to the Feed In Tariffs Scheme for projects registered from January 2016 onwards. The proposed changes would impact upon the commercial viability of future investment and whilst alternative delivery models will be explored, if the changes are enforced it is likely to place the remaining expenditure within the Commercial and Social Housing Solar PV schemes at risk. A further update will be provided as part of the third quarter review when the outcome of the consultation process is likely to have been confirmed.

## Proposal

10. The report identifies planned capital expenditure of £78.821m for the 2015/16 financial year. The expected resources required to fund the 2015/16 capital programme are as follows:

	<b>£m</b>
Prudential Borrowing	38.547
Capital Grants and Contributions	13.499
Major Repairs Reserve (HRA)	24.775
Capital Receipts	2.000
<b>Total Capital Programme</b>	<b><u>78.821</u></b>

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

## Recommendations

12. 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 £84.015m following the first quarter review.
3. The projected year-end expenditure was £78.821m at the end of the second quarter.
4. The £5.194m 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 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 26 February 2015. Performance against the indicators for 2015/16 is set out in Appendix 5.

### Consultation

7. The Leader and Deputy Leader have been consulted.

### 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, 14<sup>th</sup> July 2015 – Capital Programme and Prudential Indicators 2015/16 – First Quarter Review.