Gateshead Council

REPORT TO CABINET
24 January 2017

TITLE OF REPORT: **Capital Programme and Prudential Indicators 2016/17 – 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 2016/17 capital programme and Prudential Indicators at the end of the third quarter to 31 December 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 £73.346m as part of the second quarter review. The third quarter review now projects the year-end expenditure to be £69.614m.

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

	£m
Increased borrowing/external funding/contributions	0.891
Re-profiling of capital expenditure to future years	(4.242)
Re-profiling of planned HRA Investment	0.864
Other reductions	(1.245)
Total Variance	**(3.732)**

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 £4.242m of slippage has been identified on a number of key schemes throughout the capital programme where expenditure has been re-profiled into 2017/18 and will be considered as part of setting the future capital programme.

6. The proposed slippage to future years includes:
   - Slippage of £1.785m to future years reflecting changes to the construction programme for the Ravensworth Terrace Primary School scheme following delays with the erection of steelwork and in making the building weathertight. The contractor is providing additional resources to ensure that the building becomes operational in accordance with the original programme but this has meant that some planned expenditure will not take place until the next financial year;

- £0.350m relating to the proposed acquisition of land at Brandling which is linked to the proposed development as part of the Housing Joint Venture. An additional land owner has been identified and is currently considering their position which has resulted in delays;
- £0.338m following the re-profiling of investment as part of the Council's Technology Plan;
- £0.300m following the deferral of planned Flood Alleviation works pending the results of additional feasibility work with the Environment Agency and Northumbrian Water;
- £0.235m relating to the ongoing replacement of concrete street lighting columns, reflecting delivery programmes for the remainder of the financial year;
- £0.217m relating to the delivery of the restoration works at Chase Park as part of the Heritage Lottery Funded scheme, with works now expected to commence in January;
- £0.200m associated with the planned investment to progress the development of the Area Action Plan for MetroGreen. Further work is being undertaken to finalise the scope of the required studies and procure suitable specialists.

7. Additions to the programme identified during the third quarter review amount to £0.891m. This includes an additional £0.415m relating to the Town Centre District Energy Scheme, along with £0.124m relating to the pre-construction costs associated with the part-ERDF funded extension of the network which uses plastic pipe technology. The Council has also included an additional scheme, amounting to £0.120m, to introduce an additional filtration system in the Council's swimming pools. The projected outturn does not currently include potential additional investment of £0.660m relating to expanding the Battery Storage scheme, but this can be added to the programme during the final quarter subject to consideration and approval of the separate report elsewhere on this agenda.

8. The review has highlighted a number of schemes where the level of planned investment has reduced, reflecting changes to the scope of projects such as Development Site Preparation works (£0.150m) or revised estimates of demand such as the Disabled Facilities Grant scheme (£0.270m).

9. During the third quarter there have also been a number of changes to re-profile planned investment to future years within the HRA amounting to £0.864m including:
   - £0.707m of additional investment in Decent Homes works, following the introduction of additional reserve schemes including significant investment at Portmeads;
   - £0.263m of additional investment in the replacement of communal electrics following the acceleration of a scheme at Ripley Court.

Proposal

10. The report identifies planned capital expenditure of £69.614m for the 2016/17 financial year. The expected resources required to fund the 2016/17 capital programme are as follows:

	£m
Prudential Borrowing	33.269
Capital Grants and Contributions	10.695
Major Repairs Reserve (HRA)	21.680
Capital Receipts	3.970
Total Capital Programme	**69.614**

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 £73.346m at the second quarter review.

3. The projected year-end expenditure is £69.614m at the end of the third quarter.

4. The £3.732m 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 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 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 – First Quarter Review.
    iii. Report for Cabinet, 8 November 2016 - Capital Programme and Prudential Indicators 2016/17 – Second Quarter Review.