**Agenda Item:**

**CORPORATE CAPITAL PROGRAMME 2010/11 TO 2012/13**

**SUMMARY**

**To consider the Corporate Capital Programme for 2010/11, the Prudential Indicators for 2010/11 to 2012/13 and the provisional capital programme for 2011/12 – 2012/13.**

| | | |
|---|---|---|
| **PORTFOLIO** | Finance | Date consulted: tba |
| **WARDS AFFECTED** | All | |

**RECOMMENDATION**

**The Executive is advised to RECOMMEND to Council:**

**(i)** **that the new capital bids for £1.510m in Annex B be approved for commencement in 2010/11 and incorporated into the Capital Programme.**

**(ii)** **the Prudential Indictors in Annexe B for 2010/11 to 2012/13 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities**

(iii) **That the Capital Financing Requirement (CFR) for this council as at the 31st March 2010 is estimated to be £nil and as such no Minimum Revenue Payment (MRP) is required**

**The Executive is also advised to**

**(iv)** **Note the provisional programmes for 2011/12 and 2012/13.**

1. **RESOURCE IMPLICATIONS**

1.1 The capital program proposed is shown in Annexe B and its effect on the Councils capital receipts reserves is shown in Annexe C. This indicates that the current capital programme can be fully financed out of capital receipts.

1.2 However no account has been taken of the impact of redundancy costs or investment write-offs which could be set against capital provided a capitalisation directive is granted by the Government.

1.3 Additional capital receipts could be realised from the sale of Council assets although there is a risk in the current climate that such sales will not be realised.

1.4 The revenue capital fund amounted to £10.3m at 31st March 2009 and could be used to support the Capital Programme. However this reserve may be required to support the revenue expenditure and hence the General Fund in the future.

1.5 It is clear that the Council will need to take the decision as to whether or not to borrow to finance its on going capital program in the next couple of years or possibly sooner if there is a significant capital project proposed.

## 2. KEY ISSUES

2.1 Financial Regulations state that as part of the annual budget process the Full Council following recommendation by the Executive is required to approve formally the Capital Programme and its revenue implications.

2.2 The current capital programme was revised and reported to the Executive at its meeting on the 8th September 2009.

2.3 New schemes for 2010/11 have been submitted by Heads of Service via the Capital Asset Working Group meeting on 5th November 2009.

2.4 The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code and produce Prudential Indicators.

## 3. OPTIONS

3.1 The Executive has the option of agreeing, amending or rejecting the proposed capital expenditure.

## 4. PROPOSALS

The Executive is advised to RECOMMEND to Council:

a. that the new capital bids for £1.510m in Annex A be approved for commencement in 2010/11 and incorporated into the Capital Programme.

b. the Prudential Indictors summarised below and explained in annexe A for 2010/11 to 2012/13 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities

| | **2009/10 Estimated £000** | **2010/11 Estimated £000** | **2011/12 Estimated £000** | **2012/13 Estimated £000** |
|---|---|---|---|---|
| Capital Expenditure | 5,282 | 1,575 | 1,490 | 1,490 |
| Capital Financing requirement | 0 | 0 | 0 | 0 |
| Authorised Limit for External Debt | 2,500 | 10,000 | 10,000 | 10,000 |
| Operational Boundary for External Debt | 0 | 5,000 | 5,000 | 5,000 |
| Ratio of financing costs to net revenue stream | -4.2% | -3.4% | -3.3% | -3.0% |
| Incremental impact of investment decisions on Band D council Tax | £2.50 | £0.85 | £0.80 | £0.80 |

c. That the Capital Financing Requirement (CFR) for this council as at the 31st March 2010 is estimated to be £nil and as such no Minimum Revenue Payment (MRP) is required

The Executive is also advised to

d. Note the provisional programmes for 2011/12 and 2012/13.

## 5. SUPPORTING INFORMATION

5.1 Annexe A sets out the Prudential Indicators for 2010/11, 2011/12 and 2012/13.

5.2 Annexe B sets out the capital schemes proposed by Heads of Service and approved by the Capital Asset working group.

5.3 Annexe C sets out the impact on capital receipts of the capital programme.

## 6. CORPORATE OBJECTIVES AND KEY PRIORITIES

6.1 The adoption of the capital program and the prudential indicators supports the corporate objective of providing services efficiently, effectively and economically.

6.2 In addition the affordability tests of the corporate plan link to the Council's key priority of a sustainable medium term financial plan.

## 7. LEGAL IMPLICATIONS

7.1 The Council has a statutory requirement under the Local Government Act 2003 to adopt the CIPFA Prudential Code and produce Prudential Indicators.

## 8. RISK MANAGEMENT

**8.1** There is a risk that the Council will exhaust its capital resources within the medium term. This will mean that future programs will need to be financed by borrowing which has an impact on revenue as both the capital and interest need to be financed

| | |
|---|---|
| **ANNEXES** | **Annexe A – Prudential Indicators**<br>**Annexe B – Capital Schemes proposed**<br>**Annexe C – Movement in Capital Reserves** |
| **BACKGROUND PAPERS** | **2010/11 Budget papers.**<br>**Head of Service bid submissions.** |
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**CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED**

| | Required | Consulted | |
|---|---|---|---|
| **Resources** | | | |
| Revenue | ✓ | ✓ | |
| Capital | ✓ | ✓ | |
| Human Resources | n/a | | |
| Asset Management | ✓ | ✓ | |
| IT | n/a | | |
| **Other Issues** | | | |
| Corporate Objectives & Key Priorities | ✓ | ✓ | |
| Policy Framework | n/a | | |
| Legal | n/a | | |

| | | | |
|---|---|---|---|
| Governance | n/a | | |
| Sustainability | n/a | | |
| Risk Management | ✓ | ✓ | |
| Equalities Impact Assessment | n/a | | |
| Community Safety | n/a | | |
| Human Rights | n/a | | |
| Consultation | n/a | | |
| P R & Marketing | n/a | | |

Review Date: November 2010.

Version: 1 (November 2009).

## ANNEX A

## CAPITAL EXPENDITURE AND PRUDENTIAL INDICATORS

## INTRODUCTION

1. The capital expenditure and treasury procedures are now firmly established. The Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable.

2. In order to show it is working within these limits the Council must approve, revise and monitor at least a basic range of prudential indicators covering the forthcoming three years. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators.

3. This report sets the indicators for 2010/11, 2011/12 and 2012/13. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital appraisal systems.

4. Within this overall prudential framework there is a clear impact on the Council's treasury management activity either through borrowing or investment activity. The treasury management strategy for 2010/11 is included as a separate paper to this Executive.

## CAPITAL EXPENDITURE PLANS AND BORROWING

5. The Council's capital expenditure plans are summarised in Annexe B and this forms the first of the prudential indicators. The total expenditure is partially funded by resources such as capital receipts, capital grants etc. Any remaining expenditure, which cannot be immediately funded from these resources, will form a borrowing need.

6. The table in **Annex B** detailing Capital Expenditure and Sources of Finance shows that there is not an underlying financing (borrowing) need in any of the years to 2012/13 based on current expenditure plans. However should these change then borrowing may be required

7. Borrowing to fund a capital project would result in an annual interest charge plus a MRP charge related to the life of the asset. For example, an asset with an estimated life of 50 years would bear a charge of 2%, whilst one with a 20 year life would have a 5% charge. This needs to be found from revenue resources. The table below shows current estimated interest rates (which vary daily) for various loan periods and MRP rates applied to various periods of asset life. This compares to the revenue cost of funding schemes from the Council's own resources which is limited to the loss of interest if the money had been invested. As an indication rates are shown below:

| | **PWLB Borrowing rates (as at 11th December 2009)** | **MRP Rates based on asset life** |
|---|---|---|
| Period | % | % |
| 1 year | 0.94 | 100 |
| 4.5 to 5 years | 1.82 | 20 |
| 14.5 to 15 years | 3.79 | 6.67 |
| 29.5 to 30 years | 4.42 | 3.33 |
| 49.5 to 50 years | 4.49 | 2.00 |

8. It is not necessary to apply the borrowing period to the life of the asset. For example, it is possible to borrow for a 5 year period in respect of an asset with a 50 year life. This would incur a borrowing charge of 1.82% and an MRP charge of 2%, making a total of 3.82%. For £1m, this would be £38,200 per annum. However at the end of the 5 year period the loan would need to be rolled over at a new interest rate or paid off.

9. Surrey Heath's capital expenditure is unsupported by the Government, i.e. there is no Government Grant, apart from £200,000 for Disabled facilities Grants, and hence the capital program has to be paid for from the Council's own resources.

10. The estimated loss of investment income based on the proposed capital program is shown below. This is based on an interest rate of 1.5%

| | **2010/11 £'000** | **2011/12 £'000** | **2012/13 £'000** |
|---|---|---|---|
| | | | |
| Annual Total | 18 | 20 | 20 |
| | | | |
| Cumulative Total | 18 | 38 | 58 |

11. There are two main limiting factors, which may impact on the Council's ability to undertake unsupported capital expenditure:

- Whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs and;
- The Government may use a long stop control to limit either the total of all councils' plans, or in the event of an assessment by Central Government that local plans are unaffordable at a specific council, it may implement a local control to limit its capital expenditure plans. No such control was implemented during 2009/10.

12. The key risk to the plans is that the capital expenditure programme is subject to change. Similarly some of the estimates for other sources of funding, such as capital receipts may also be subject to change over this timescale.

13. The Executive is asked to approve the summary capital expenditure projections and program in Annexe B. This also forms the first prudential indicator.

**THE COUNCIL'S BORROWING NEED (THE CAPITAL FINANCING REQUIREMENT)**

14. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The net capital financing need above will impact directly on the CFR. The CFR will determine the Council's requirement to make a Minimum Revenue Provision for Debt Redemption (MRP) from within its Revenue budget. Physical borrowing may be greater or less than the CFR.

15. The Council is asked to approve the CFR projections detailed in the table in Annexe B.

16. The expected impact of the capital expenditure decisions above on the Council's Capital Reserves is shown in Annexe C

**LIMITS TO BORROWING ACTIVITY**

17. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits.

| | **2009/10 Probable £000** | **2010/11 Estimate £000** | **2011/12 Estimate £000** | **2012/13 Estimate £000** |
|---|---|---|---|---|
| Gross borrowing | 0 | 0 | 0 | 0 |
| Investments (ave for year) | -23,000 | -21,359 | -19,333 | -16,800 |
| Net Borrowing | -23,000 | -21,359 | -19,333 | -16,800 |

18. For the first of these the Council needs to ensure that its total borrowing net of any investments does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2010/11 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

19. The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

20. A further two prudential indicators control or anticipate the overall level of borrowing. These are:

    a. The authorised limit – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The authorised limits stated in the table below are calculated from the operational boundary detailed in the paragraph below, plus a contingency for 'emergencies'.

    b. The operational boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure the authorised limit is not breached. The figures in the table below are derived from the cash flow forecasts and represent the maximum short term (temporary) borrowing which may be required during the year, plus an option to take long term borrowing in order to finance future capital programme commitments.

| | Actual | | Estimates | |
|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | £000 | £000 | £000 | £000 |
| Authorised Borrowing Limit | **2,500** | **10,000** | **10,000** | **10,000** |
| Operational Borrowing | **Nil** | **Nil** | **Nil** | **Nil** |

**AFFORDABILITY PRUDENTIAL INDICATORS**

21. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indictors are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's finances overall. The Council is asked to approve the following indicators:

a. Actual and Estimates of the ratio of financing cost to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The net revenue stream is the Total Budget Requirement the figures are negative, because currently Surrey Heath has net investment income as there is no long term borrowing. The estimates of financing costs include current commitments and the proposals in this budget report.

| | Estimated | | Estimates | |
|---|---|---|---|---|
| | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| General Fund | **-4.2%** | **-3.4%** | **-3.3%** | **-3.0%** |

b. Estimates of the incremental impact of capital investment decisions on Council Tax

This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably be subject to change over the three year period.

| | 2010/11 | 2011/12 | 2011/12 |
|---|---|---|---|
| | £ | £ | £ |
| Council Tax at band D | | | |
| *Each year individually* | **0.85** | **0.80** | **0.80** |
| *Cumulatively* | **0.85** | **1.65** | **2.45** |

**ANNEXE B**

**Capital Programme Schemes submitted by Heads of Service and approved by Capital Asset Working Group.**

| Schemes | Notes | Service | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 |
|---|---|---|---|---|---|
| | | | | | |
| | | | | | |
| Disabled Facilities Grants | [ a ] | ES | 600 | 600 | 600 |
| Renovation Grants / Assistance | [ b ] | ES | 40 | 40 | 40 |
| Supply of Recycling Bins | [ c ] | ES | 20 | - | - |
| Capitalised Salaries (IT development work) | [ d ] | CR | 200 | 200 | 200 |
| Information Technology (schemes determined by ISSG) | [ e ] | CR | 200 | 200 | 200 |
| Capitalised R&R Fund | [ f ] | CF | 250 | 250 | 250 |
| Capitalised PPM Fund | [ g ] | CF | 200 | 200 | 200 |
| | | | | | |
| | | | | | |
| **Total New Bids** | | | **1,510** | **1,490** | **1,490** |
| | | | | | |
| | | | | | |
| *For Information – schemes due to commence in 2010/11 which have been already approved by the Executive :-* | | | | | |
| | | | | | |
| Parks- Leisure play facilities ( refer to 10th Nov'09 Exec.) | **[ h ]** | **AL** | 50 | - | - |
| | | | | | |
| Parks - Automatic barriers (refer to 8th Dec'09 Exec.) | **[ i ]** | **AL** | 15 | - | - |
| | | | | | |
| **Total Programme** | | | **1,575** | **1,490** | **1,490** |
| | | | | | |
| **Financed By:** | | | | | |
| -Capital Receipts | | | 1,175 | 1,290 | 1,290 |
| - Grants | | | 200 | 200 | 200 |
| - Contributions | | | 200 | 0 | 0 |
| | | | | | |
| **Financing Total** | | | **1,575** | **1,490** | **1,490** |
| | | | | | |
| **Capital Financing Requirement** | | | **Nil** | **Nil** | **Nil** |
| | | | | | |

*Background notes on schemes*

*The following notes are provided as background on the Capital Programme.*

*a) Disabled Facilities Grants*

*Disabled Facility Grants are mandatory grants offered to disabled persons requiring modifications to their home on the recommendation of social services. Central Government provides a cash-limited sum (£240,000 received for 2009/10) but grant expenditure above this sum is funded entirely by the Council.*

*b) Renovation Grants / Home Assistance*

*Discretionary grants and financial assistance for the renovation and maintenance of properties.*

*c) Environmental Services - Supply of Recycling Bins*

*The new waste scheme was launched in September 2009 and has resulted in much higher volumes of dry recycling than anticipated. The proposal is to supply additional bins to households generating more than 240 litres of dry recycling per fortnight and will therefore result in increased recycling rates for the Council.*

*d) Capitalised Salaries*

*Capitalised salaries represent the costs of developing and implementing IT projects in-house.*

*e) Information Technology Equipment & Software*

*All new IT projects are subject to a process of prioritisation by the Information Systems Strategic Group. Work is undertaken on a rolling programme linked to system reviews.*

*f) Capitalised Repairs & Renewals*

*Represents expenditure on provided cars, vehicles, IT and other equipment initially charged to revenue after approval by the Portfolio Holder for Finance but subsequently capitalised at the discretion of the Head of Corporate Finance and with agreement by the External Auditor.*

*g) Capitalised Planned Property Improvements*

*Represents revenue expenditure via the PPM Fund on the Council's properties deemed to be improvement works and subsequently capitalised at the discretion of the Head of Corporate Finance and with agreement by the External Auditor.*

*h) Parks – Leisure play facilities*

*The Council has successfully been awarded £100,000 of Government funding under the Playbuilder scheme administered via Surrey County Council. The Executive approved at the 10th November 2009 meeting to replace the play area at Frimley Lodge Park as a priority during 2009/10 (estimated cost of £50,000). The second project to be delivered in 2010/11 will be the subject of a further detailed report to the Executive.*

*i) Parks – Leisure Automatic barriers*

*The Executive approved at the 8th December 2009 meeting to install a permanent electronic barrier during 2009/10 at Lightwater Country Park. The second phase to be delivered during 2010/11 at an estimated cost of £15,000 (sites at Frimley Lodge Park, Watchetts and Frimley Green recreation grounds). The running costs (£400 per annum) will be contained within existing revenue budgets.*

**ANNEX C**

## Capital Programme Forecast Available Resources

| | 2010/11 Estimate £' M | 2011/12 Estimate £' M | 2012/13 Estimate £' M |
|---|---|---|---|
| Capital Receipts 1st April | 3.6m | 2.5m | 1.8m |
| Capital Receipts during year | 0.1m | 0.6m | 0.1m |
| Provisions/Contributions | 0.2m | - | - |
| Capital Grants (Disabled Facilities Grant) | 0.2m | 0.2m | 0.2m |
| Capital Programme | -1.6m | -1.5m | -1.5m |
| **Capital Receipts 31st March** | **2.5m** | **1.8m** | **0.6m** |