Society, Environment, and Council Development Executive Advisory Board Report

Ward(s) affected: All wards

Report of the Chief Finance Officer

Author: Vicky Worsfold

Tel: 01483 444834

Email: victoria.worsfold@guildford.gov.uk

Lead Councillor responsible: Michael Illman

Tel: 07742 731535

Email: michael.illman@guildford.gov.uk

Date: 5 January 2017

General Fund Capital Programme (2016-17 to 2021-22)

Executive Summary

The report details the position of the current capital programme and the new capital expenditure proposals for the period 2017-18 to 2021-22. Officers have put forward bids, with a net cost to the Council of £125 million. The Council has a current underlying need to borrow for the general fund capital programme of £266 million, which will increase to £392 million, should these proposals be approved for inclusion in the programme.

Expenditure on bids between 2022-23 and 2026-27 are included in **Appendix 1**. These are bids with a longer delivery timescale than the five year plan, and are included in the programme rather than the capital vision.

The Council has an ambitious Corporate Plan, and in order to achieve the targets within that, we need to invest in capital. Some of the schemes put forward as part of this report support the Corporate Plan.

This is a prudent capital programme. Some capital receipts or a revenue stream may arise as a result of the investment, but in most cases are currently uncertain and it is too early to make assumptions. Some information has been included in the capital vision highlighting the potential income. It is likely there are cash-flow implications of the development schemes, where income will come in after the five-year time horizon and the expenditure will be incurred earlier in the programme.

All projects will be funded by capital receipts, grants and contributions, reserves and finally borrowing. We do not currently know how each scheme will be funded – this budget report shows a high-level position.

Appendices 1 to 3 contain details of the new bids submitted, including the impact of proposed capital expenditure on Council Tax. **Appendices 3 to 8** show the position and

profiling of the current capital programme (2016-17 to 2020-21). **Appendix 9** shows the capital vision schemes.

Corporate Management Team (CMT) evaluated each bid using the prioritisation criteria within each bid. The Joint Executive Advisory Board Budget Working Group (JEABBWG) also reviewed all the bids.

Officers have requested that two General Fund bids (PR381 and PR394) are approved straight away, without the need for a further Executive report, and these requests were supported by both CMT and the JEABBWG.

The key areas of growth included are:

- PR041 North Street
- PR350 SARP
- PR364 Guildford West (Park Barn) Station
- PR367 Museum
- PR371 Property acquisitions for RAP
- PR372 Bedford Wharf redevelopment
- PR395 Redevelopment of Midleton Industrial Estate
- PR402 Gyratory and Approaches
- PR416 Stoke Park Home Farm redevelopment

This report also includes the Council's Minimum Revenue Provision (MRP) policy and some of the Council's Prudential Indicators. The details are in sections 6 and 7.

The EAB is asked to consider the bids and make any comments or recommendations it sees fit to the Executive for its consideration on 24 January 2017.

Recommendation to Council

The Executive will be asked to recommend to Council:

(1) That the general fund capital estimates, as shown in **Appendices 3 and 4** (current approved and provisional schemes), and as amended to include such new bids as may be approved by the Executive at its meeting on 24 January 2017, **Appendix 6** (schemes funded from reserves), **Appendix 7** (s106 schemes), and **Appendix 8** (general fund housing schemes), be approved.
(2) That the Minimum Revenue Provision policy be approved.
(3) That the Prudential Indicators and limits for 2017-18 to 2021-22, as detailed in the report, be approved.

Recommendation to the Executive

The Executive will also be asked to agree, subject to Council approving the budget on 8 February 2017:

(1) That the new capital proposals listed as items 1 and 2 in **Appendix 1** to this report be added to the general fund capital programme approved list and the relevant officer be authorised to implement the schemes.

(2) That the new capital proposals listed as items 32 and 33, in **Appendix 1**, to this report be added to the general fund capital programme approved list, funded by reserves, and that the relevant officer be authorised to implement the schemes.

(3) That the new capital proposals listed as items 3 to 31 in **Appendix 1**, to this report be added to the general fund capital programme provisional list, and that these schemes, subject to the limits in the financial regulations, be subject to a further report to the Executive, before being progressed.

(4) That the revenue implications of the new capital schemes referred to in recommendations (1) and (2) above be implemented in the relevant years stated in the bids.

Reason for Recommendation:
To enable the Council, at its budget meeting on 8 February 2017, to approve the funding required for the new capital investment proposals.

1. Purpose of Report

1.1 This report relates to the general fund (GF) capital programme, which is split into non-housing and housing schemes (affordable housing and housing renewal grants).

1.2 This report schedules new schemes the Council may need or wish to undertake in the next five years. Items recommended for approval will be included in the 2017-18 to 2021-22 capital programme budget for approval by the Executive on 24 January 2017 and Council on 8 February 2017.

1.3 The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities ("The Prudential Code") when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. To demonstrate that the Council has fulfilled these objectives, this report details the Prudential Indicators that must be set and monitored each year that relate to capital expenditure.

1.4 We must put aside resources where the Council finances capital expenditure by debt (internal or external borrowing), to repay that debt in later years. This cost is charged to the revenue account annually and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2017-18 is included in this report.

1.5 The EAB is asked to consider the capital programme for the period 2017-18 to 2021-22 and make any comments or recommendations it sees fit to the Executive for its consideration on 24 January 2017.

2. Strategic Priorities

2.1 A comprehensive and well-managed capital programme supports all the fundamental themes of the Corporate Plan and the Council's strategic priorities.

3. Background

3.1 The Council has an ambitious Corporate Plan and medium to long-term aspirations within the Borough. As such, we have an approved capital programme, and ask officers to submit bids for capital funding each year covering a five-year period. These bids are linked to the Corporate Plan and the Council's strategic priorities.

3.2 Any projects that are expected to be delivered after the five years, or those where a scheme has not been fully identified are placed on the Council's Capital Vision (see **Appendix 10**). The vision enables us to model the potential financial impact of these schemes, and be aware of the potential schemes to be brought forward onto the GF capital programme in future.

3.3 Many of the bids submitted as part of this report are development projects, and their expenditure and income profile could span beyond the five-year timeframe in the report. This report, therefore, shows a prudent capital programme. Any income arising as a result of a development project that is outside the five years, or is currently only estimated is shown in the capital vision. Any development projects will be subject to a thorough business case and officers will ensure that they are financially viable before they can proceed.

3.4 The report schedules new schemes the Council may need or wish to undertake in the next five years (2017-18 to 2021-22). It also sets out the latest position of the 2016-17 non-housing GF capital programme and the availability of resources we can use to finance the expenditure.

3.5 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code for both capital and treasury management purposes.

3.6 The objectives of the Prudential Code in relation to capital are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. This then ties in with treasury management with the prudential code ensuring that treasury management decisions are taken in accordance with good professional practice and that capital investment decisions are taken once the Council has determined how much money it can afford to borrow for a capital purpose.

3.7 To demonstrate the Council has fulfilled these objectives, **section 6** of this report details the Prudential Indicators that must be set and monitored each year that relate to capital expenditure.

3.8 We must put aside resources where the Council finances capital expenditure by borrowing (internal or external), to repay that debt in later years. This cost is charged to the revenue account annually and is known as Minimum Revenue Provision (MRP). The annual MRP statement for 2017-18 is included in **section 7** of this report.

4 New general fund schemes

4.1 We asked officers to submit capital bids as part of the business planning process to be assessed against the Council's corporate plan priorities and fundamental themes whilst having regard to our underlying need to borrow for the current capital programme.

4.2 **Appendix 1** provides a summary of the new capital bids submitted with further information for each scheme in **Appendix 2**. Corporate Management Team (CMT) evaluated the bids, against a prioritisation matrix found within each bid. This shows the proposed schemes with their gross cost, ranked in priority order after applying the criteria shown.

4.3 Following this evaluation, the Joint Executive Advisory Board Budget Working Group (JEABBWG) reviewed the bids, they were generally supportive of all the bids, and understood that the majority of them will be subject to further approvals before being progressed.

4.4 **Appendix 1** includes new schemes submitted with a net cost of £142 million, after taking account of estimated third party contributions, financing from specific reserves and any bids currently in the capital programme. If the Council decides to progress any of these schemes, we will add them to the current capital programmes, which are attached as **Appendices 3 to 8**.

4.5 There is an underlying need to borrow to meet the current GF capital programme of £266 million for 2016-17 to 2020-21 (excluding the new bids detailed in this report). The revised underlying need to borrow after taking into account the new capital bids is £392 million.

4.6 For planning purposes, we have currently assumed we will borrow internally for all schemes, but in doing so are projecting a need to borrow externally (see paragraph 6.7). The most economically advantageous method of financing (use of available capital resources, external borrowing or leasing) will be determined in the year(s) in which we incur the expenditure. This is part of the day-to-day treasury management activity of the Council and depends on the resource available.

4.7 The Executive is asked to consider the bids listed in **Appendix 1** and detailed in **Appendix 2**, and decide whether it wishes to recommend to Council that the schemes be approved and added to the Council's capital programme.

4.8 In accordance with the policy adopted by the Executive on 29 January 2009, most of the schemes, if approved, will remain subject to a further report from the relevant budget holder. Once estimates have been updated and before the scheme can be progressed and contracts awarded, a full report will be provided to the Executive to justify moving the scheme from the provisional to the approved list for a cost of over £200,000. Anything under that limit will be moved under officer delegation.

4.9 It is important to include schemes in the provisional programme so the Council can produce a realistic five-year programme, and include the financial implications in the outline budget. It also gives councillors an indication as to what schemes are being investigated, and an indication as to when these schemes may be progressed.

4.10 Officers have a capital vision that will incorporate long-term schemes identified in documents such as the corporate plan and SCC local transport plan. This will enable us to model the potential financial impact of these schemes, and be aware of the potential schemes to be brought forward onto the GF capital programme in future.

4.11 Due to the nature of some of the schemes, it is recommended that they are added to the non-housing GF approved capital programme and the relevant budget holder be authorised to implement them without being subject to further approval. These schemes are 1 and 2.

4.12 Officers have submitted new bids, with a gross cost of £371 million (over the initial five year period). Some of these bids are funded from specific reserves, some are extensions or amendments to current schemes in the capital programme and some attract external funding. Therefore, the net cost to the Council over the period is £125 million.

Current approved and provisional general fund capital programme (Appendices 3 and 4)

4.13 A copy of the current GF capital programme is attached at **Appendices 3 and 4**, together with a schedule of the latest position of the resource availability for, and financing of, the programme shown in **Appendix 5**. The possible sources of financing are capital receipts from the sale of assets, reserves, revenue contributions and borrowing.

4.14 The revised estimate for 2016-17 shows the original approved estimate plus any unspent approved expenditure in 2015-16 now planned for 2016-17, and any additions or amendments to schemes approved by the Executive during the course of the year.

4.15 **Appendix 5** shows the current estimated borrowing requirement for schemes on the non-housing GF capital programme is £266 million as at December 2016. If the Council decides to progress all the new schemes proposed in **Appendix 1**, at a net cost in the period of £125 million, the borrowing requirement will increase to £392 million.

General fund reserve schemes capital programme (Appendix 6)

4.16 The Council holds some reserves that we earmark for use by specific reserves. The capital projects that we finance from these reserves are identified separately from the main programme and are shown in **Appendix 6**.

4.17 The major items include car parks, affordable housing and ICT renewals.

4.18 The ICT renewals fund has been in place for many years, is well managed, and supports many projects. Business cases are submitted during the year, to the ICT Manager, and projects are then prioritised.

S106 financed capital expenditure (Appendix 7)

4.19 The schemes to be financed from s106 contributions are shown in **Appendix 7**. These schemes are not progressed until the s106 receipt is in hand.

4.20 Under the financial regulations, schemes that are fully financed by s106 receipts can be added to the capital programme where they have been approved by the relevant Lead Councillor and relevant Director in consultation with the Head of Financial Services.

Financing and resources

4.21 The proposed financing of the capital programme assumes resources will be used in the following order:

a) available capital receipts
b) the general fund capital schemes reserve
c) internal borrowing
d) external borrowing

4.22 The actual financing of each year's capital programme is determined in the year in question as part of the preparation of the Council's statutory accounts.

4.23 If we do not finance the expenditure from existing resources, for example capital receipts or reserves, it will create a borrowing requirement. If we take out physical loans to meet that borrowing requirement (replacing cash we have spent) then external borrowing will be in place. If there are no physical loans then the Council has internal borrowing. This means that we are using cash relating to items in the balance sheet in the interim for capital funding purposes.

4.24 All projections are based on the current estimates for schemes and level of resource availability. If costs increase, and/or additional capital resources are received, the methods of financing and the level of borrowing required will vary accordingly.

5 General fund housing programme (Appendix 8)

5.1 We split expenditure on housing services between the Housing Revenue Account (HRA) and GF housing. Any expenditure that relates to the Council's own stock, or its role as a landlord, is accounted for in the HRA capital programme. All other housing related expenditure is accounted for in the GF housing programme.

5.2 Where direct development is concerned, we normally account for site preparation and feasibility costs in the GF housing programme, but construction costs, most enabling works and other costs incurred after planning approval are accounted for in the HRA capital programme. This is because we bear preparation costs regardless of who finally builds the structure.

5.3 This section focuses on the GF housing programme, which

- ensures ongoing provision of affordable housing in the borough
- raises housing standards in the private sector
- improves the energy efficiency of residential properties in the borough
- delivers a mandatory and discretionary grant programme
- meets the objectives set out in the housing strategy statement

Affordable housing

<u>Funding and regulation</u>

5.4 We are continuing with our ambitious programme of directly providing new housing, and the recent planning permission for Guildford Park Car Park means we are set to provide housing for market sale as well as affordable housing, in order to cross-subsidise the affordable housing.

5.5 The Government decided to realign grant funding last year, with all the funding for rented housing being channelled into home ownership products. Our priority has been, and continues to be, the provision of affordable rented housing, so currently none of our proposed developments qualify for HCA funding. There have been hints recently that the Government is considering returning to the funding of rented housing, so we continue to design to HCA standards so that we can take advantage of any funding opportunities should they arise.

5.6 Similarly to last year, the focus for affordable housing at the moment is mainly on council direct development because our housing association partners are having difficulty finding sites in the borough which are viable to develop entirely for affordable housing. Some new affordable housing is being delivered via s106, however, there is currently no grant funding available for this. There are various small rural exception sites being proposed in the borough which, if they come forward, may require some element of grant funding to ensure that rents are affordable.

5.7 There is also a plethora of new forms of affordable housing being proposed, which we are considering, for example joint ventures with housing associations which would require upfront investment from the Council to allow affordable housing to be provided on sites that would otherwise provide no or very few affordable homes. Given the limited amount of available land in our ownership, we are not likely to proceed with these ventures or provide grant funding unless it results in the delivery of affordable homes that would otherwise not be delivered.

<u>Funding commitments</u>

5.8 We will require some resources to enable scheme preparation for development of some Council owned sites. These costs include:

- valuations
- decommissioning costs
- home loss and disturbance payments
- other costs relating to the rehousing of tenants
- architectural services
- planning fees
- legal fees
- site surveys

5.9 As discussed above, we may also need to provide grant funding to housing associations to assist development viability or fund enabling works. We may also wish to pursue opportunities to bring empty homes back into use via refurbishment or redevelopment. Estimates for grant funding and enabling of both Council and housing association developments are included in the overall figures outlined in **Appendix 8**.

Private sector housing

5.10 The Council's housing strategy and GF housing capital programme seek to integrate national and local policies to deliver improvements to the quality of housing accommodation in the private sector through:

- an appropriate housing renewal policy
- appropriate use of housing enforcement legislation
- continued development of partnership working

5.11 The principal responsibility for maintenance and improvement of privately owned dwellings rests with the owners; however, we will intervene where it is necessary to:

- exercise statutory powers in respect of hazardous conditions in dwellings
- bring long-term empty homes back into occupation
- licence houses in multiple occupation
- improve conditions in privately rented accommodation
- offer financial assistance for the repair, improvement or adaptation of private dwellings in appropriate circumstances
- promote energy efficiency measures and take up of renewable energy sources
- provide assistance to elderly people and other vulnerable households through the care and repair service
- administer Disabled Facilities Grants (DFG)

5.12 The funding in the capital programme provides the financial resource to meet the demand for mandatory DFGs and a discretionary scheme of assistance for homeowners, which has regard to local housing conditions.

5.13 The emphasis in the discretionary policy is to direct support to residents on low income living in poor housing conditions or promoting a more sustainable environment. More specifically the current discretionary scheme targets assistance towards:

- assisting lower income households needing to make homes decent
- bringing empty homes back in to use
- installing energy efficiency measures particularly solid wall inflation for park homes
- domestic renewable energy such as solar heating

5.14 There are specific conditions attached to the approvals of grants or loans will ensure that a substantial proportion of the funds provided will be repaid in future years.

5.15 Alongside the grant scheme, we offer a range of loans in partnership with Parity Trust, a social lender. These loans may be interest only or repayment.

5.16 We have put £520,000 in the capital programme for mandatory and discretionary grants falling within the agreed home improvement policy. We expect to receive £500,000 through the Better Care Fund[1] in 2017-18 for DFGs and we estimate to receive £40,000 from previous grant repayments, which leaves a small surplus in funds.

6 Prudential Indicators

6.1 The Local Government Act 2003 requires the Council to have regard to the CIPFA Prudential Code when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice. To demonstrate we have fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

6.2 The Council’s capital expenditure plans are a key driver of treasury management activity. The outputs of the capital expenditure plan are reflected in prudential indicators, which are designed to assist councillors’ overview and confirm capital expenditure plans.

Estimates of capital expenditure

6.3 This indicator is a summary of the Council’s GF capital programme (including the new bids detailed in **Appendix 1**), and financing of the programme is summarised below:

[1] The better care fund is a pooled budget which supports health and social care services to deliver more integrated services

CAPITAL EXPENDITURE SUMMARY	2016-17 Approved £000	2016-17 Outturn £000	2017-18 Estimate £000	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000
General Fund Capital Expenditure							
- Main Programme	12,848	43,976	34,893	7,194	70	0	0
- Provisional schemes	78,558	3,400	64,345	84,350	35,310	22,000	15,000
- Schemes funded by reserves	2,484	3,215	1,483	1,053	537	537	0
- S106 Projects	320	697	412	0	0	0	0
- Housing Grants (General Fund)	520	520	520	520	520	520	520
- Affordable Housing (General Fund)	3,107	3,107	220	220	220	220	220
- New Bids (net cost)	0	0	(7,589)	27,558	39,775	59,690	5,750
Total Expenditure	**97,837**	**54,915**	**94,284**	**120,895**	**76,432**	**82,967**	**21,490**
Financed by :							
Capital Receipts	(330)	(459)	(330)	(4,330)	(9,530)	(9,405)	(15,330)
Capital Grants/Contributions	(1,347)	(3,501)	(3,915)	(1,121)	0	0	0
Capital Reserves/Revenue	(15,654)	(6,265)	(1,383)	(1,463)	(947)	(947)	(410)
Borrowing	(80,506)	(44,690)	(88,656)	#######	(65,955)	(72,615)	(5,750)
Financing - Totals	**(97,837)**	**(54,915)**	**(94,284)**	**#######**	**(76,432)**	**(82,967)**	**(21,490)**
Housing Revenue Account Capital Expenditure							
- Main Programme	13,769	14,119	1,240	175	0	0	0
- Provisional schemes	9,695	0	14,790	8,985	16,645	5,475	5,475
- New Bids	0	0	2,050	3,500	2,250	500	500
Total expenditure	**23,464**	**14,119**	**18,080**	**12,660**	**18,895**	**5,975**	**5,975**
Financed by :							
- Capital Receipts	(5,684)	(3,318)	(4,692)	(3,581)	(6,016)	(915)	(915)
- Capital Reserves/Revenue	(17,780)	(10,801)	(13,388)	(9,079)	(12,879)	(5,060)	(5,060)
Financing - Totals	**(23,464)**	**(14,119)**	**(18,080)**	**(12,660)**	**(18,895)**	**(5,975)**	**(5,975)**

6.4 Initially we will finance capital expenditure from our own resources. If we do not have enough resources to finance all the planned expenditure, there will be an increase in the underlying need to borrow, and therefore the Capital Financing Requirement (CFR).

6.5 The table shows that the majority of our capital expenditure will be financed from borrowing because we have used our capital receipts and capital reserves.

Estimates of CFR and Gross debt shown against the CFR

6.6 The CFR measures the Council's underlying need to borrow for a capital purpose, and is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

6.7 Any capital expenditure in the table above which has/will not immediately be paid for, will increase the CFR. The table below includes the effect of the new bids submitted, as detailed in **Appendix 1.**

Guildford Borough Council Balance Sheet Summary and Projections in £000 - last updated 7 Dec 2016							
31st March:	2016	2017	2018	2019	2020	2021	2022
Loans Capital Financing Req.	236,440	280,815	368,243	480,560	543,917	612,473	612,455
Less: External Borrowing	(238,085)	(203,355)	(198,125)	(192,895)	(192,665)	(192,435)	(147,435)
Internal (Over) Borrowing	**(1,645)**	**77,460**	**170,118**	**287,665**	**351,252**	**420,038**	**465,020**
Less: Usable Reserves	(124,169)	(122,647)	(115,482)	(104,682)	(95,276)	(101,242)	(108,020)
Less: Working Capital Surplus	(19,256)	(19,256)	(19,256)	(19,256)	(19,256)	(19,256)	(19,256)
(Investments) / New Borrowing	**(145,070)**	**(64,443)**	**35,380**	**163,727**	**236,720**	**299,540**	**337,744**
Net Borrowing Requirement (CFR less reserves and Working Capital)	93,015	138,912	233,505	356,622	429,385	491,975	485,179
Preferred Year-end Position	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Liability Benchmark	**113,015**	**158,912**	**253,505**	**376,622**	**449,385**	**511,975**	**505,179**

Housing Revenue Account - Summary and Projections in £000							
31st March:	2016	2017	2018	2019	2020	2021	2022
HRA Loans CFR (debt cap)	196,664	197,024	197,024	197,024	197,024	197,024	197,024
HRA Reserves	(61,254)	(63,549)	(57,563)	(46,101)	(37,963)	(45,022)	(52,179)
HRA Working Capital	0	0	0	0	0	0	0
HRA Borrowing (=cash in)	(193,495)	(193,355)	(193,125)	(192,895)	(192,665)	(192,435)	(147,435)
HRA Cash Balance	**(58,085)**	**(59,880)**	**(53,664)**	**(41,972)**	**(33,604)**	**(40,433)**	**(2,590)**

General Fund - Summary and Projections in £000							
31st March:	2016	2017	2018	2019	2020	2021	2022
GF Loans CFR	39,776	83,791	171,219	283,536	346,893	415,449	415,431
GF Reserves	(62,915)	(59,098)	(57,919)	(58,581)	(57,313)	(56,220)	(55,841)
GF Working Capital	(19,256)	(19,256)	(19,256)	(19,256)	(19,256)	(19,256)	(19,256)
GF Borrowing (=cash in)	(44,590)	(10,000)	(5,000)	0	0	0	0
GF Cash Balance	**(86,985)**	**(4,563)**	**89,044**	**205,699**	**270,324**	**339,973**	**340,334**

6.8 The GF CFR is forecast to increase by £469 million over the period, as capital expenditure financed by borrowing is greater than resources put aside for debt repayment.

6.9 The Council is required to pay off an element of the accumulated GF capital expenditure each year through a revenue charge called the Minimum Revenue Provision (MRP), although we can make a Voluntary Revenue Provision (VRP) if we so wish.

6.10 Gross debt against the CFR is a key indicator of prudence. In order to ensure that, over the medium-term, debt will only be for a capital purpose, the Council should ensure that debt does not exceed the total of the CFR in the previous year plus the estimates of any additional CFR for the current and next two financial years.

6.11 The table above shows that debt is expected to remain below the CFR during the period shown.

Operational boundary for external debt

6.12 The operational boundary is a monitoring indicator that shows the most likely, but not worst-case estimate for external debt. It directly links to the Council's capital expenditure plans, the CFR and cash flow requirements. It is a key management tool for in-year monitoring. Other long-term liabilities include finance leases, Private Finance Initiatives and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary of External Debt	2016-17 Approved £000	2016-17 Revised £000	2017-18 Estimate £000	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000
Borrowing - General Fund	149,406	88,796	252,616	397,146	438,496	495,096	503,466
Borrowing - HRA	197,024	197,024	197,024	197,024	197,024	197,024	197,024
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**372,430**	**311,820**	**475,640**	**620,170**	**661,520**	**718,120**	**726,490**

6.13 The table represents the current debt portfolio and a maximum amount of assumed temporary borrowing that may be required in the year. It is not a limit of total borrowing for the Council. It is calculated by taking the estimated CFR plus an allowance of headroom for cash movements. The HRA operational boundary is limited to the HRA debt cap, which increases in 2016-17 in line with the approved increase relating to the Guildford Corporation Club project. £26 million is included for purchases that could be classed as finance leases.

Authorised limit for external debt

6.14 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003, and is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for any unusual cash movements. It needs to be set or revised by full Council.

Authorised Limit for External Debt	2016-17 Approved £000	2016-17 Revised £000	2017-18 Estimate £000	2018-19 Estimate £000	2019-20 Estimate £000	2020-21 Estimate £000	2021-22 Estimate £000
Borrowing - General Fund	185,706	133,396	302,816	453,546	503,196	551,296	575,366
Borrowing - HRA	197,024	197,024	197,024	197,024	197,024	197,024	197,024
Other Long Term Liabilities	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Total	**408,730**	**356,420**	**525,840**	**676,570**	**726,220**	**774,320**	**798,390**

6.15 The GF authorised debt level gives headroom for significant cash flow movements, over the operational boundary, for example if we do not receive Council Tax on the correct day. The HRA limit is set at the debt cap imposed by the Government.

6.16 We are required to set a limit for other long-term liabilities, for example finance leases. £26 million has been included in the authorised limit for purchases that could be classed as finance leases.

6.17 Officers monitor the authorised limit on a daily basis against all external debt items on the balance sheet (long and short-term borrowing, overdrawn bank balances and long-term liabilities.

Ratio of financing to net revenue stream

6.18 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs associated with capital spending, net of investment income.

6.19 The net revenue stream for the GF is the total budget requirement and for the HRA is total income.

6.20 Where the figures are negative, it means that interest receivable by the Council is higher than interest payable on the financing.

	2016-17 Approved	2016-17 Outturn	2017-18 Estimate	2018-19 Estimate	2019-20 Estimate	2020-21 Estimate	2021-22 Estimate
General Fund	2.15%	-4.63%	11.44%	39.12%	43.13%	44.42%	61.58%
HRA	30.13%	32.42%	31.07%	28.39%	27.05%	28.72%	27.51%

6.21 The GF outturn for 2016-17 is lower than approved because investment income is anticipated to be higher than budgeted due to more cash than expected in the year. The 2017-18 estimate is higher than the 2016-17 outturn rate because of the increasing MRP and reducing cash balances. The large increase from 2018-19 relates to an increase in the MRP budget and a large increase in interest payable on external borrowing - a direct result of the increasing capital expenditure.

6.22 The HRA indicator is reducing slightly because of the reducing debt interest costs as one of the Council’s loans is being repaid, and interest on HRA reserves is increasing in line with expected balances in reserves.

Incremental impact of capital investment decisions

6.23 This is an indicator of affordability. It forecasts the effect on the revenue budget arising from the capital programme, excluding financing costs. The calculation is the loss of interest on funds used for the capital programme, plus any ongoing revenue implications of the schemes and MRP.

6.24 The table below shows cost on Council Tax of the current capital programme which takes account of changes made during 2016-17, and the impact of the net cost of the new capital bids on Council Tax band D.

6.25 Capital investment decisions do not impact on the weekly housing rents as the Council sets them based on the discontinued national rent convergence policy laid down by CLG, but now implemented at a local level. There is no variation to Council Tax once it has been set for the year.

	2016-17 Estimate £	2017-18 Estimate £	2018-19 Estimate £	2019-20 Estimate £	2020-21 Estimate £	2021-22 Estimate £
Cost of current capital programme on Council Tax - Band D	5.02	30.01	49.96	28.19	16.26	15.92
Cost of new bids on Council Tax - Band D	7.72	8.81	60.22	102.55	35.52	82.05
Total impact of the GF capital programme	12.74	38.82	110.18	130.74	51.78	97.97
Cost of Housing Capital Programme on Weekly Housing Rents	1.03	0.74	2.56	1.98	0.06	0.07

6.26 The table shows that the impact for the period for the current capital programme, and the impact of the new bids. It can be seen that there is a large requirement in 2017-18 and 2018-19 mainly as a result of the new bids submitted, and the loss of interest and borrowing costs associated with that expenditure. The costs reduce in the later years for two reasons: the capital programme has very little scheduled in, which is expected to change as we move through the timeframe in the table, and also because of the favourable revenue implications of the new bids submitted.

6.27 For the HRA, there are small changes because of the stable capital expenditure profile and the new build programmes.

Adoption of the CIPFA treasury management code

6.28 The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 13 June 2002.

6.29 The Council has incorporated the changes from the revised CIPFA code of practice into its treasury policies, procedures and practices. The Council approved an updated treasury management policy on 9 February 2012.

7 Annual Minimum Revenue Provision (MRP) Statement 2016-17

7.1 Where the Council finances capital expenditure by debt (internal or external borrowing), the CFR will increase and we must put aside resources to repay that debt in later years – known as MRP.

7.2 The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on MRP ("the CLG Guidance") most recently issued in 2012.

7.3 The CLG Guidance aims to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

7.4 It also requires the Council to approve an annual MRP statement and recommends a number of options for calculating a prudent MRP.

7.5 Unfinanced capital expenditure incurred in 2016-17 will not be subject to an MRP charge until 2017-18. Where schemes have not been completed at the end of the financial year, MRP will be deferred until the scheme is complete and the asset is operational.

7.6 MRP only applies to the GF. There is no requirement to make an MRP charge on the HRA.

7.7 Based on the Council's estimate of its CFR on 31 March 2017, and unfinanced capital expenditure in 2016-17 of £44.7 million, the budget for MRP for 2017-18 has been set at £1.228 million.

7.8 We base the future MRP projections on the capital programme spending profile. Based on the current approved capital programme, and the new bids submitted as part of this report, we expect MRP to be £2.2 million in 2018-19, £3.17 million in 2019-20, £4.5 million in 2020-21, and £7.4 million in 2021-22. Profiling of capital expenditure is key in determining the impact of MRP on the revenue account.

MRP policy

7.9 The Council will use the asset life method as its main method of applying MRP, but will use the annuity method for investment property.

7.10 Where appropriate, for example in relation to capital expenditure on development, we may use an annuity method starting in the year after the asset becomes operational.

7.11 Where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained. Therefore, where construction, major refurbishment or redevelopment of an asset occurs, we will not charge MRP during the period of construction refurbishment or redevelopment. MRP will not be charged from the date a property is vacant (as long as the development starts within 12 months of the vacation date). MRP will be charged in the financial year after the asset has returned to operational use.

7.12 Where expenditure on schemes are pending receipt of an alternative source of finance (for example capital receipts), we will not charge MRP.

7.13 The MRP guidance recommends a life of 50 years for freehold land. However, we feel that as land often has an infinite economic life, charging MRP over 75 years is more realistic whilst maintaining prudency. If we were to purchase land for development purposes, we will also apply an estimated life of 75 years, which is at least as great as it will be if a new building was placed on it. We believe that new buildings or similar structures will have an estimated life of 75.

7.14 Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be put aside to reduce the CFR.

7.15 For investments in shares classed as capital expenditure, we will apply a 100-year life.

7.16 For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

7.17 We will apply a prudent approach to determining which schemes are financed from capital resources and which ones will be subject to MRP. For example, we feel it is prudent to apply capital resources to those schemes that have a shorter estimated life. We will determine this annually as part of closing the accounts.

7.18 Estimated life periods will be determined under delegated powers.

8 Consultations

8.1 The new bids have been reviewed by the JEABBWG.

9 Financial Implications

9.1 The financial implications are covered throughout the report.

9.2 The Prudential Code, introduced in 2004, includes a number of recommendations regarding capital expenditure, particularly where we are considering prudential borrowing as a method of funding. The prudential code requires us to assess the impact of each project in terms of its effect on the Council's budget and council tax, even if no borrowing has taken place.

10. Legal Implications

10.1 The Local Government Act 2003 ("the Act"), provides the powers to borrow and invest and prescribes controls and limits on these activities. The Council is required to undertake any borrowing activity with regard to the Prudential Code.

10.2 Disabled Facilities Grants are given under the Housing Grants, Construction and Regeneration Act 1996 ("the 1996 Act"). This Act makes a statutory duty to provide grant aid to disabled people for a range of specified purposes, mostly adaptations. The 1996 Act also sets a test of resources (means test) and a grant maximum, which is currently £30,000.

10.3 The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 gives provision for local housing authorities to offer additional assistance in any form for adaptations, repairs alterations and so on. This might include top up funding where the grant limit is reaches, providing small scale adaptations and addicting the purchase of alternative accommodation.

10.4 We may not exercise the power conferred by the order unless we have adopted a policy for the provision of assistance under it, given public notice of the adoption of the policy and unless the power is exercised in accordance with that policy.

10.5 Delegated authority already rests with the Head of Health and Community Care Services to implement the policy in its proposed form.

11. Human Resource Implications

11.1 Where additional resources are required to deliver schemes identified within this report, officers have included this in the bid or have submitted a revenue bid.

12 Summary of Options

12.1 Officers have detailed options within each bid.

13 Conclusion

13.1 The information included in the report shows the position of the current approved capital programme. Bids for future years that are viewed as essential projects have been submitted from heads of service.

13.2 If all schemes proceed, there will be an underlying need to borrow of £612 million by 31 March 2022.

14. Background Papers

None

15. Appendices

Appendix 1:	Schedule of new general fund capital programme bids for 2017-17 to 2021-22
Appendix 2:	Detail of each proposal listed in Appendix 1
Appendix 3:	Schedule of approved general fund capital programme – estimated expenditure 2016-17 to 2021-22, as currently approved and updated
Appendix 4:	Schedule of provisional general fund capital programme – estimated expenditure 2016-17 to 2021-22, as currently approved and updated
Appendix 5:	General fund capital programme – summary of resources and financial implications
Appendix 6:	Schedule of general fund capital schemes funded by reserves – estimated expenditure 2016-17 to 2021-22, as currently approved and updated
Appendix 7:	Schedule of general fund capital schemes funded by s106 contributions – estimated expenditure 2016-17 to 2021-22, as currently approved and updated
Appendix 8:	Schedule of general fund housing capital programme, as currently approved and updated
Appendix 9:	Capital vision