Executive Report

Report of Chief Finance Officer

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General Fund Capital Programme (2015-16 to 2019-20)

Executive Summary

The report details the new capital proposals for the period 2015-16 to 2019-20. 29 new bids have been put forward, with a net cost in the period to the Council of £88.36 million. The Council has a current underlying need to borrow for the general fund capital programme of £60.85 million, which will increase to £149.21 million, should these proposals be approved for inclusion in the programme.

Each bid was evaluated using the prioritisation criteria at **Appendix 3**, by extended Corporate Management Team (CMT). The Finance Scrutiny Group (FSG) have also reviewed the bids.

Officers have requested that a number of bids are approved straight away, without the need for a further Executive report, and these requests were supported by both CMT and the FSG. The bids are numbered 1 to 11.

The key areas of growth included are:

- Clay Lane link road
- Spectrum roof
- Acquisition and development of new burial grounds
- Town centre development

This report also includes the Council's Minimum Revenue Provision (MRP) policy and some of the Council's Prudential Indicators. The detail of these can be seen in sections 6 and 7.

We are proposing the following additions to the MRP policy:

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

- 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 years.

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

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

Recommendation to Council

The Executive is asked to recommend to Council:

(1) That the General Fund capital estimates, as shown in **Appendix 5** (current approved and provisional schemes), and as amended to include such new bids as may be approved by the Executive at its meeting on 20 January 2014, **Appendix 7** (s106 funded schemes), **Appendix 8** (schemes funded from reserves) and **Appendix 10** (general fund housing schemes), be approved.

(2) That the MRP policy be approved from 2014-15.

(3) That the Prudential Indicators and limits for 2015-16 to 2018-19, as detailed in the report, be approved

Recommendation to Executive

Subject to Council approving the budget on 11 February 2015,

(1) That the new capital proposals listed as items 1, 3, 4, 6, 7, 8, 9, 10, 11 and the 2015-16 element of bid number 2 and 5, in **Appendix 1** to this report be added to the general fund capital programme approved list and that the relevant head of service be authorised to implement the schemes.

(2) That the capital proposals listed as items 12 to 18, in **Appendix 1**, to this report be added to the general fund capital programme approved list, funded by reserves, and that the relevant head of service be authorised to implement the schemes.

(3) That the new capital proposals listed as items 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, and the future years element of bid numbers 2 and 5, in **Appendix 1** (and in respect of bid 35, **"Not for Publication" Appendix 13**), 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 bids referred to in recommendation 1 and 2 above be implemented in the relevant years stated in the bid.

Reason for Recommendation:
To enable Council, at its meeting on 11 February, to approve the funding required for the new capital investment proposals.

1. **Purpose of Report**

1.1 This report relates to the General Fund Capital Programme, which is split into non-housing and housing schemes (affordable housing and housing renewal grants).

1.2 The 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 2015-16 to 2019-20 capital programme budget for approval by Council on 11 February 2015.

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, and that treasury management decisions are taken in accordance with good professional practice. 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 Where the Council finances capital expenditure by debt (internal or external borrowing), it must put aside resources 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 2015-16 is included in this report.

2. Strategic Framework

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 general fund (GF) capital programme is split into non-housing and housing schemes (affordable housing and housing renewal grants).

3.2 The report schedules new schemes the Council may need or wish to undertake in the next five years (2015-16 to 2018-19). It also sets out the latest position of the 2014-15 non-housing GF capital programme and the availability of resources that can be used to finance the expenditure.

3.3 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 for a capital purpose.

3.4 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 professional practice.

3.5 To demonstrate that 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.

3.6 Where the Council finances capital expenditure by borrowing (internal or external), we must put aside resources 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 2015-16 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 evaluated the bids, other than the late bid 35, against a prioritisation matrix (**Appendix 3**) and the results are set out in **Appendix 4**. This shows the proposed schemes with their gross cost, ranked in priority order after applying the criteria shown.

4.3 Following this evaluation, the Finance Scrutiny Group reviewed the bids, other than the late bid 35, and their comments were reviewed by Corporate Improvement Scrutiny Committee. The Finance Scrutiny Group will review the late bid at its meeting on 20 January 2015.

4.4 **Appendix 1** includes 35 schemes submitted with a net cost in the period of £88.36 million, after taking account 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 Council's current capital programmes, which are attached at **Appendices 5a, 5b, 7** and **8**.

4.5 There is an underlying need to borrow to meet the GF current capital programme of £60.85 million for 2014-15 to 2018-19 (excluding the bids detailed in this report). The revised underlying need to borrow after taking into account the new capital bids is £149.21 million. We may need to borrow externally to meet these commitments. For planning purposes, we have assumed that internal borrowing will fund all new schemes. However, 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.

4.6 The Executive is asked to consider the bids listed in **Appendix 1** and detailed in **Appendix 2**, and decide whether they should be approved and added to the Council's capital programme.

4.7 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 head of service. 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.

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

4.9 Officers are developing a capital vision that will incorporate long-term schemes identified in documents such as the corporate plan, SCC local transport plan, town centre vision, town centre masterplan. 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 general fund capital programme in future.

4.10 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 head of service be authorised to implement them without being subject to a further report to the Executive. These schemes are bid numbers 1 to 11.

4.11 A summary of all proposed schemes are (those highlighted in yellow are in the current capital programme but officers have updated the costs):

Bid number	SCHEMES	Gross scheme cost £000
	For approved programme	
1	Woking Road Depot Roof	**180**
2	Clay Lane Link Road	**100**
3	Slyfield, Foundation Units Forecourt	**27**
4	Guildford Riverside Route - Ph 1 (part SPA)	**708**
5	Replacement Vehicles	**630**
6	Electric Theatre-New boilers	**120**
7	Flood resilience measures	**100**
8	Replacement roundabout planters	**50**
9	Stoke Park Glasshouses	**26**
10	Electric Theatre- new projector and screen	**15**
11	Bay construction at Stoke Cemetery	**15**
	Total approved programme	**1,971**
	For reserves programme (approved)	
12	Woking Road Depot energy reduction (Salix)	**70**
13	Lighting upgrade (car parks maintenance)	**300**
14	Housing Enabling (HRA capital receipts)	**2,465**
15	PV Projects (GBC invest to save)	**100**
16	Housing Renewal and Disabled Facilities Grants	**3,000**
17	IT Renewals (IT renewals)	**2,065**
18	Lift Replacement (car parks maintenance)	**429**
	Total funded from reserves	**8,429**
	For provisional programme	
2	Clay Lane Link Road	**7,340**
19	Guildford Gyratory package - replacement pedestrian and cycle bridges at Walnut Bridge and Wooden Bridge	**4,469**
20	Guildford Heart of Heritage - delivery phase	**4,960**
21	Woodbridge Road	**1,162**
22	Playgrounds 5 year	**120**
23	Guildford Riverside Route - Ph 2 & 3 (Millmead to Artington P&R, A320 Woking rd to Bowers Lane/Clay Lane)	**2,400**
24	Local contribution to transport schemes for future Local Growth Fund and other funding opportunities	**4,000**
5	Replacement Vehicles	**4,400**
25	Acquisition and Development of new burial ground	**1,750**
26	Renewables Projects	**65**
27	Void investment property refurbishment works	**200**
28	Provision of a single gypsy pitch at Wyke Avenue	**158**
29	Spectrum Roof replacement & steel repairs	**4,000**
30	Home Farm - Stoke Park	**675**
31	Northside Drainage scheme	**130**
32	Stoke Park Bowls Club	**35**
33	Surface Water Management Plan	**200**
34	Litter Bins	**200**
35	Development (£21.5m in 2021-22)	**70,334**
	Total provisional programme	**106,598**
	Gross total	**116,997**
	Funded by reserves or contributions	**(22,900)**
	Cost to the Council	**94,097**
	Already in programme	**(5,733)**
	Net addition to the programme	**88,364**

4.12 Officers have submitted 29 new bids, with a gross cost of £116.99 million. 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 in the period to the Council is £88.36 million.

Current approved and provisional general fund capital programme (Appendices 5a and 5b)

4.13 A copy of the current GF capital programme is attached at **Appendix 5a and 5b**, together with a schedule of the latest position of the resource availability for, and financing of, the programme shown in **Appendix 6**. The possible sources of financing are capital receipts from the sale of assets, reserves, revenue contributions and borrowing.

4.14 The revised estimate for 2014-15 shows the original approved estimate plus any unspent approved expenditure in 2013-14 now planned for 2014-15, and any additions or amendments to schemes approved by the Executive during the course of the year.

4.15 **Appendix 6** shows the current estimated borrowing requirement for schemes on the non-housing GF capital programme is £60.85 million as at November 2014. If the Council decides to progress all the new schemes proposed in **Appendix 1**, at a net cost in the period of £88.36 million, the borrowing requirement will increase to £149.21 million.

4.16 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 (please refer to the treasury management report elsewhere on this agenda for further details)

4.17 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. 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.

4.18 All projections are based on 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.

S106 financed capital programme (Appendix 8)

4.19 The schemes to be financed from s106 contributions are shown in **Appendix 8**. 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 the relevant Executive Head of Service or Head of Service, in consultation with the Head of Financial Services.

General fund reserve schemes capital programme (Appendix 7)

4.21 The Council holds some reserves that we earmark for use by specific services. The capital projects that we finance from these reserves are identified separately from the main programme and are shown in **Appendix 7**.

4.22 The major items include car park schemes agreed as part of the Parking Business Plan and financed from the car parks maintenance reserve and works at Spectrum financed through the Spectrum reserve.

4.23 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 Head of Business Systems, and projects are then prioritised.

5. General fund housing programme

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 general fund housing programme.

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

5.3 This section focuses on the general fund housing programme, which

- ensures on-going provision of affordable housing in the borough
- raises housing standards in the private sector
- improved the energy efficiency of all residential properties in the borough
- delivers a mandatory and discretionary grant programme
- meets the objectives set out in the Housing Strategy Statement.

Affordable Housing

Funding and regulation

5.4 The Homes and Communities Agency (HCA), (via the HCA's 2011-2015 Affordable Homes Programme) awarded us a total of £850,000 in grant, and £432,000 to provide five additional traveller pitches at Ash Bridge.

5.5 Under the same programme, Mount Green Housing Association and Affinity Sutton were awarded funding to develop rural exception schemes which are currently on site in the borough.

5.6 We also applied for funding for one scheme via the HCA's 2015-2018 programme. During the initial bid round, only one of our sites was at the correct stage to put in a grant bid (having planning permission and land ownership, or other indications of certainty of delivery). Our bid was not successful because our proposed rent levels were below the maximum local housing allowance, which conflicted with HCA policy on Affordable Rents. However, we will be able to apply for grant on future schemes when they have progressed further, via the HCS's Continuous Market Engagement programme.

5.7 A number of Registered Providers (RPs) have been awarded HCA funding for 71 affordable rent units and 34 shared ownership units.

Funding commitments

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 We have also identified some other schemes that may require grant funding to housing associations, to assist development viability or fund enabling works. Grant may also be required to pursue opportunities to bring empty homes back into use. Estimates for grant funding and enabling of both Council and housing association developments are included in the overall figures outlined in **Appendix 10**.

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
- domestic renewable energy such as energy generation or solar heating

5.14 A specific feature of the discretionary scheme is that 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 We have put £600,000 in the capital programme for mandatory and discretionary grants falling within the agreed home improvement policy. The Government has awarded us a grant of £302,000 for 2015-16, and we estimate to receive £30,000 in repayments, which leaves £268,000 to be funded from housing capital receipts.

6. Prudential Indicators

6.1 The Local Government Act 2003 requires the Council to have regard to the 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 and that treasury management decisions are taken in accordance with good practice. To demonstrate that 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 the 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 prudential indicator is a summary of the Council's GF capital programme (including the bids detailed in **Appendix 1**), and financing of the programme and is summarised below.

CAPITAL EXPENDITURE SUMMARY	2013-14 Actual £000	2014-15 Approved £000	2014-15 Outturn £000	2015-16 Estimate £000	2016-17 Estimate £000	2017-18 Estimate £000	2018-19 Estimate £000	2019-20 Estimate £000
General Fund Capital Expenditure (Unsupported Expenditure)								
Approved Programme	18,429	7,950	19,015	15,434	192	100	100	0
Provisional schemes	0	29,306	6,374	10,351	17,222	2,619	1,600	0
Supplementary estimate	0	0	51	0	0	0	0	0
New Schemes	0	0	0	30,312	19,459	5,325	52,875	3,295
Schemes funded by reserves	1,386	1,644	3,655	593	500	1,750	400	0
S106 Projects	270	265	1,120	20	0	0	0	0
GF Housing Grants	551	600	600	600	600	590	590	590
GF Affordable Housing	446	1,581	1,581	390	150	150	150	150
Total Expenditure	**21,082**	**41,346**	**32,396**	**57,700**	**38,123**	**10,534**	**55,715**	**4,035**
Financed by :								
Capital Receipts	(5,951)	0	(5,839)	(30)	(30)	(30)	(30)	(30)
Capital Grants/Contributions	(832)	(765)	(513)	(2,815)	(13,511)	(3,117)	(1,668)	(876)
Capital Reserves/Revenue	(1,846)	(3,455)	(5,380)	(3,553)	(2,598)	(3,628)	(2,373)	(1,830)
Borrowing	(12,453)	(37,126)	(20,663)	(51,302)	(21,984)	(3,759)	(51,644)	(1,299)
Financing - Totals	**(21,082)**	**(41,346)**	**(32,396)**	**(57,700)**	**(38,123)**	**(10,534)**	**(55,715)**	**(4,035)**
MRP charge to revenue	**175**	**450**	**494**	**677**	**2,071**	**2,896**	**3,023**	**3,492**

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.

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 - last updated 12 Jan 2015					
31st March:	**2014**	**2015**	**2016**	**2017**	**2018**
	£000	**£000**	**£000**	**£000**	**£000**
Loans Capital Financing Requirement	220,150	228,226	286,312	309,348	310,431
Less: External Borrowing	(194,045)	(203,815)	(198,585)	(204,355)	(199,125)
Internal / (Over) Borrowing	**26,105**	**24,411**	**87,727**	**104,993**	**111,306**
Less: Usable Reserves/Working Capital	(111,504)	(99,878)	(93,029)	(96,166)	(102,777)
Investments / (New Borrowing)	**85,399**	**75,467**	**5,302**	**(8,827)**	**(8,529)**
Net Borrowing Requirement	108,646	128,348	193,283	213,182	207,654
Minimum Liquidity	0	20,000	20,500	21,013	21,538
Liability Benchmark	**108,646**	**148,348**	**213,783**	**234,194**	**229,192**

Housing Revenue Account - Summary and Projections					
31st March:	**2014**	**2015**	**2016**	**2017**	**2018**
	£000	**£000**	**£000**	**£000**	**£000**
HRA CFR	196,664	196,664	196,664	196,664	196,664
HRA Reserves	(64,274)	(70,531)	(63,278)	(67,492)	(73,750)
HRA Working Capital	0	0	0	0	0
HRA Borrowing	(194,045)	(193,815)	(193,585)	(193,355)	(188,125)
HRA Cash Balance	**61,655**	**67,682**	**60,199**	**64,183**	**65,211**

General Fund - Summary and Projections					
31st March:	**2014**	**2015**	**2016**	**2017**	**2018**
	£000	**£000**	**£000**	**£000**	**£000**
GF Loans CFR	23,486	31,562	89,648	112,684	113,767
GF Reserves	(47,230)	(29,347)	(29,751)	(28,674)	(29,027)
GF Working Capital	(17)	(10)	(10)	(10)	(10)
GF Borrowing	0	(10,000)	(5,000)	(11,000)	(11,000)
GF Cash Balance	**23,761**	**7,795**	**(54,887)**	**(73,000)**	**(73,730)**
Less borrowing = GF borrowing need	23,761	(2,205)	(59,887)	(84,000)	(84,730)

6.8 The GF CFR is forecast to increase by £89.67 million over the period, as capital expenditure financed by debt 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 (Minimum Revenue Provision –

MRP), although we can undertake 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	**2014-15 Approved £000**	**2015-16 Estimate £000**	**2016-17 Estimate £000**	**2017-18 Estimate £000**
Borrowing - General Fund	74,595	181,605	280,165	206,635
Borrowing - HRA	196,665	196,665	197,025	197,025
Other Long Term Liabilities	0	26,000	26,000	26,000
Total	**271,260**	**404,270**	**503,190**	**429,660**

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 investment property purchases and fleet 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	2014-15 Approved £000	2015-16 Estimate £000	2016-17 Estimate £000	2017-18 Estimate £000
Borrowing - General Fund	178,795	213,205	239,265	242,935
Borrowing - HRA	196,665	196,665	197,025	197,025
Other Long Term Liabilities	26,000	26,000	26,000	26,000
Total	**401,460**	**435,870**	**462,290**	**465,960**

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 investment property purchases and fleet 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 costs 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.

	2014-15 Approved	2014-15 Outturn	2015-16 Estimate	2016-17 Estimate	2017-18 Estimate
General Fund	1.86%	-0.28%	1.80%	18.88%	28.29%
HRA	33.71%	33.28%	32.96%	32.84%	32.54%

6.21 The GF outturn for 2014-15 is lower than approved because investment income is anticipated to be higher than budgeted. The 2015-16 estimate is in line with the 2014-15 approved rate. The large increase in 2015-16 relates to an increase in the MRP budget and declining investment income as a direct result of capital expenditure.

6.22 The HRA indicator is reducing because of reducing debt interest costs as one of the Council's loan is being repaid, and interest on HRA reserves is increasing in line with expected increases in interest rates and 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 an 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 2014-15, 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.

	2015-16 Estimate £	2016-17 Estimate £	2017-18 Estimate £	2018-19 Estimate £	2019-20 Estimate £
Cost of current capital programme on Council Tax - Band D	4.83	5.20	6.96	2.61	2.90
Cost of new bids on Council Tax - Band D	5.68	2.66	1.16	17.28	1.55
Cost of Housing Capital Programme on Weekly Housing Rents	0.55	0.34	0.54	0.55	0.44

6.26 The table shows that the impact for the next couple of years in line with the current capital programme. It can be seen that there is a large requirement in 2016-17 as a result of the new bids submitted. The costs reduce in the later years and this is because the capital programme has very little scheduled in, which is expected to change as we move through the timeframe in the table.

6.27 For the HRA, there are small changes as a result of the stable capital expenditure profile.

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 2015-16

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 2014-15 will not be subject to an MRP charge until 2015-16. Where schemes are not fully completed at the end of the financial year, unfinanced capital expenditure 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 2015, and unfinanced capital expenditure in 2014-15 of £8.57 million, the budget for MRP for 2015-16 has been set at £677,410.

7.8 The MRP budget projected forward is based 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 £2.07 million in 2016-17, £2.896 million in 2017-18, £3.023 million in 2018-19 and £3.492 million in 2019-20.

MRP Policy (new items in italics)

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 years*.

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 annual 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. Financial Implications

8.1 The financial implications are covered throughout the report.

8.2 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.

8.3 The Table in **Appendix 9** demonstrates the potential effect on council tax of incurring new capital expenditure by calculating the loss of investment interest we would have earned had a capital scheme not progressed. The estimated annual impact on council tax is based on the net cost of each scheme, assuming the loss of a full years investment income, and including the effect of a full years revenue cost or income. A full year effect on the MRP is also applied. We will reflect these in future years outline budget. They are, however, one of the many budget changes taken into account when the actual council tax figure for the coming year is calculated.

8.4 **Appendix 11** shows a summary of the revenue impact of the capital bids submitted, with details shown in **Appendix 1**.

9. Legal Implications

9.1 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.

9.2 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.

9.3 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.

9.4 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.

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

10. Human Resource Implications

10.1 There are no additional human resource implications arising as a result of this report.

11. Conclusion

11.1 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. The Executive will consider the affordability of these projects.

11.2 If all schemes proceed, there will be an underlying need to borrow of £78.68 million by 31 March 2020.

12. Background Papers

None

13. Appendices

Appendix 1: Schedule of new general fund capital programme bids for 2015-16 to 2019-20
Appendix 2: Detail of each proposal listed in Appendix 1

Appendix 3:	Capital schemes estimates 2015-16 prioritisation scheme
Appendix 4:	General fund capital bids – ranked according to the evaluation criteria
Appendix 5a:	Schedule of approved general fund capital programme – estimated expenditure 2014-15 to 2019-20, as currently approved and updated
Appendix 5b:	Schedule of provisional general fund capital programme – estimated expenditure 2014-15 to 2019-20, as currently approved and updated
Appendix 6:	General fund capital programme – summary of resources and financial implications
Appendix 7:	Schedule of general fund capital schemes funded by reserves – estimated expenditure 2014-15 to 2019-20, as currently approved and updated
Appendix 8:	Schedule of general fund capital schemes funded by s106 contributions – estimated expenditure 2014-15 to 2019-20, as currently approved and updated
Appendix 9:	Council tax impact on proposed capital expenditure
Appendix 10:	Schedule of general fund housing capital programme, as currently approved and updated
Appendix 11:	Schedule of the revenue implications of the capital bids submitted
Appendix 12:	Affordable housing information
Appendix 13:	‘Not for Publication’ Bid No. 35 – North Street Redevelopment