

TRAFFORD COUNCIL

Report to: Executive and Council

Date: 21 February 2018

Report for: Decision

**Report of: The Executive Member for Corporate Resources and the Chief
Finance Officer**

Report Title

CAPITAL STRATEGY & PRUDENTIAL INDICATORS 2018/21

Summary

This report consists of two main areas for the Executive to consider:

Capital Strategy – This report highlights the Council's investment plans for the next three years taking into account the estimated resources to be made available from Government as well as the Council's own resources.

General Capital Programme - The level of resources forecasted to be available for general capital investment purposes during the period 2018/21 is £137.43m. New schemes with a value of £54.01m are recommended for approval (Appendix 1). If agreed this would result in a Capital Programme for 2018/21 totalling £139.65m (Appendix 2). This equates to £2.22m of over-programming over the three year programme and will be reviewed each year to ensure actual capital resources are not overcommitted.

Capital Investment Strategy – This report highlights the Council's proposals to utilise the fund created during 2017 by acquiring a range of investment assets to provide a sustainable revenue stream and cover any related borrowing costs whilst facilitating development and regeneration and also support local authority functions. The fund agreed of £300m was predominantly phased in 2017/18 (£295m) with a number of investments agreed to date; £5m is phased to 2018/19.

Prudential and Local Indicators – the Council is required to set indicators in accordance with the CIPFA Prudential Code which are designed to support and record decisions taken on affordability, sustainability and professional good practice and these are outlined at Appendix 4.

Recommendations

That the Executive:-

- 1) approve the Capital Expenditure Strategy as detailed in the report;
- 2) recommends the Council to approve the overall Capital Programme in the sum of £144.65m for the period 2018/21;
- 3) recommends the Council to approve £41.96m of additional prudential borrowing to support revenue generating investment opportunities as detailed in Paragraphs 20 and 21;
- 4) recommends the Council to approve the Prudential and Local Indicators as set out at Appendix 4 of this report.
- 5) Approves the Investment Strategy as detailed in the report

Contact person for access to background papers and further information:

Name: Graeme Bentley

Extension: 4336

Background Papers – None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial Implications	Planned capital expenditure over the next three year period will be contained within available capital resources.
Legal Implications:	None arising out of this report.
Equality/Diversity Implications	The Council has complied with the requirements of its Public Sector Equality Duty.
Sustainability Implications	None arising out of this report.
Staffing/E-Government/Asset Management Implications	A number of improvement schemes are being undertaken in 2018/21.
Risk Management Implications	Assumptions have been made on Land Sale Programme and the level of receipts to be generated in 2019/20 & 2020/21. An annual review will be undertaken of the future Land Sale Programme and in the event that there is a shortfall in resources to finance the Capital Programme adjustments will be made to our expenditure plans. Any other properties or other assets acquired as part of the Investment Fund will be subject to the annual review and revaluation. If the fair value of these assets falls then consideration will be given to making additional charges to the revenue budget.
Health and Safety Implications	A number of schemes are being undertaken in 2018/21 on the grounds of health and safety.

INTRODUCTION

1. Annually the Council sets a three year Capital Programme and the purpose of this report is to :
 - review the decisions taken in February 2017 with regard to the 2018/19 and 2019/20 budgets in light of any new priorities and bids for capital support
 - to provide an update on available capital resources for the period 2018/21
 - propose an indicative 2018/21 Capital Programme taking into account the issues reported above
 - ensure that there are adequate levels of resources available to finance the three year Capital Programme and
 - Update the prudential indicators for 2017/21.

CAPITAL EXPENDITURE STRATEGY

2. In December 2017 CIPFA issued an update to the Prudential Code requiring authorities to look at capital expenditure in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-term financing implications and potential risks to the authority.
3. Whilst the majority of the code remains unchanged authorities are now required to produce a Capital Strategy in order to demonstrate that it takes capital expenditure decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
4. The Council's strategy for capital expenditure is:-
 - **Capital expenditure links to Council priorities** by ensuring resources are allocated to schemes using a transparent prioritisation process.
 - **Achieves value for money from available capital resources** by using options appraisal techniques for all new projects and adopting the Council's Procurement Policies for managing capital projects.
 - **Ensures Council resources are used to their maximum potential** by ensuring that resources are employed to:-
 - support improvements in the Borough's infrastructure and property,
 - ensure schemes of a mandatory / contractual nature are prioritised,
 - invest in assets which generate additional revenue to support the revenue budget,
 - support invest to save schemes or reduce revenue liabilities and
 - support schemes that meet Council priorities.
 - **Develops an affordable Capital Programme by:-**
 - Adopting a robust budget preparation and challenge process,
 - Ensuring compliance with the CIPFA Prudential Code to ensure spending plans are prudent, affordable, sustainable and proportionate,
 - Considering the full extent of revenue implications in the Medium Term Financial Plan,
 - Optimising the level of capital receipts from asset disposals and
 - Maximising the use of external support towards capital projects.
 - **Manages the Capital Programme effectively** with projects completed on time and within budget by:-
 - Effective budget monitoring and reporting, including milestone monitoring,
 - Effective project management methods and
 - Identifying and managing risks; and implementing measures to mitigate them.
5. In addition the Council has adopted a Capital Investment Strategy to specifically address the governance of the capital investment portfolio (Section 2).

CURRENT CAPITAL PROGRAMME 2017/20

6. The current Capital Programme for 2017/20 is £444.12m and is split into two distinct elements, the general capital programme and the capital investment strategy. These two elements are shown in the table below and are included in this report as :

- Section 1 : General Capital Programme
- Section 2 : Capital Investment Portfolio

Table 1 - Capital Investment Programme 2017/20	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Service Analysis:				
Children, Families & Wellbeing	15.62	11.61	23.04	50.27
Economic Growth, Environment & Infrastructure	37.82	11.13	16.83	65.78
Transformation & Resources	6.78	16.22	5.07	28.07
General Programme Total	60.22	38.96	44.94	144.12
Capital Investment Portfolio	295.00	5.00	-	300.00
Total Programme	355.22	43.96	44.94	444.12

SECTION 1 - GENERAL CAPITAL PROGRAMME

7. The current forecasted expenditure for 2017/18 to 2019/20 is £144.12m and when the budget was set all anticipated capital resources were allocated, leaving a small amount of over-programming; the current level of which is £1.51m as detailed below:-.

Table 2 - 2017-20 Programme & Resourcing	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
Capital Programme Total	60.22	38.96	44.94	144.12
<i>Resourcing</i>				
Capital Grants	19.87	10.70	24.49	55.06
External contributions	10.27	8.82	13.40	32.49
External Resources	30.14	19.52	37.89	87.55
Reserves & revenue	2.89	4.97	4.96	12.82
Borrowing	10.46	4.09		14.55
Receipts – Land Sales Programme	18.20	4.71	4.78	27.69
Internal Resources	31.55	13.77	9.74	55.06
Resourcing total	61.69	33.29	47.63	142.61
Surplus / (Deficit)	1.47	(5.67)	2.69	(1.51)

8. The 2017/18 programme of £60.22m includes the delivery of a number of key projects including:-

- School Places and condition works of £11.93m
- Adult Social Care of £3.69m
- Corporate landlord investment of £4.86m
- Relocation of depot facilities of £5.01m
- Town centre regeneration and investment of £7.30m
- Highways improvements of £13.19m
- Metrolink extension contribution of £7.00m
- Parks and Open Space improvements of £1.22m

- ICT investment of £3.11m
- Other investment of £2.91m

9. As part of the budget process this year the Programme has been reviewed to ensure it continues to meet Council priorities and remains affordable within the level of resources available; this has involved:-

- Undertaking a capital bidding round for those projects requiring support from discretionary resources, i.e. capital receipts and prudential borrowing. This included uncommitted schemes in the existing programme giving priority to:-
 - support improvements in the Borough’s infrastructure and property,
 - ensure schemes of a mandatory / contractual nature are prioritised,
 - support invest to save schemes or reduce revenue liabilities and
 - support schemes that meet Council priorities.
- An update to the level of all capital resources available to support the new programme.
- Identifying those schemes that can be financed from other sources e.g. prudential borrowing and external contributions.

CAPITAL BIDS RECEIVED

10. All service areas were requested to submit new capital bids for the three years from 2018/21. This has included re-bidding for schemes in the current 2018/20 programme where those schemes were uncommitted. A full review of all bids was undertaken by the Corporate Leadership Team.

11. The value of bids received for 2018/21 totalled £72.50m. A number, valued at £8.04m, were assessed as low priority and a number of self-funded schemes with a value of £39.28m were also identified; being those which can be financed through prudential borrowing or external contributions. The remaining schemes, with a value of £25.18m, were assessed against the level of internal resources available.

CAPITAL RESOURCES UPDATE 2017/21

12. A review of capital resources was undertaken to determine the scope for including schemes in the Programme over the next three years and allowing for the requirement for funding the 2017/18 programme the level of available resources is :-

Table 3 – Changes to available resources	Total £m	Additions £m	Total £m
Capital Grants	55.06	8.51	63.57
External contributions	32.49	1.09	33.58
External Resources	87.55	9.60	97.15
Reserves & revenue	12.82	0.06	12.88
Borrowing	14.55	40.81	55.36
Receipts – Land Sales Programme	27.69	3.46	31.15
Internal Resources	55.06	44.33	99.39
Resourcing total	142.61	53.93	196.54
2017/18 Capital Programme Requirement (*)			(59.11)
Resources Available 2018/21			137.43

(*): 2017/18 Capital Programme Requirement is net of un-committed schemes.

External Resources

13. External resources available to support the Capital Programme are received from a number of sources. These include grants from central government departments and agencies, developer contributions in the form of S.106 and S.111 agreements and contributions from bodies interested in specific projects. These resources can be very specific with little, if any, discretion on how they can be applied.

14. **Capital Grants - £63.57m** : These include grants from central government departments and agencies and the major areas include :-

- **£40.84m** for schools related investment from the Department for Education.
- **£8.16m** from the ministry of Housing, Communities and Local Government for Disabled Facilities Grants
- **£10.34m** from the Department of Transport to support investment in highways and infrastructure.
- **£3.46m** from Transport for Greater Manchester for a range of cycling and road safety initiatives.
- **£0.77m** on a range of other projects

15. Included in the estimate of grants available the opportunity has been taken to adjust allocations for 2018/19 and 2019/20 and make assumptions as to the level of grant expected in 2020/21 resulting in additional resources of £8.51m.

Table 4 : Updated Level of Capital Grants	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
<i>Adjustment to current allocations</i>				
• Schools Devolved Formula	(0.02)	(0.02)		(0.04)
• Schools Maintenance	(0.05)	(0.04)		(0.09)
• Schools – SEND grant			0.34	0.34
• Disabled Facilities	0.44	0.34		0.78
• Highways Structural Maintenance	(0.23)	(0.22)	1.87	1.42
Sub-Total	0.14	0.06	2.21	2.41
<i>New notifications/ Assumptions</i>				
• Schools – Healthy Pupils Programme	0.19			0.19
• Schools Devolved Formula			0.37	0.37
• Schools Maintenance			1.80	1.80
• Disabled Facilities			2.04	2.04
• Highways - Pot Hole Funding	0.18	0.17	0.18	0.53
• Highways Incentive Fund	0.39	0.39	0.39	1.17
Sub-Total	0.76	0.56	4.78	6.10
Total	0.90	0.62	6.99	8.51

16. **External Contributions - £33.58m** : The majority of other external resources are made up of Section 106 contributions from developers which cover all areas of investment. The major areas currently included are :
- **£20.0m** contribution to the Metrolink extension. An amount of £7.0m has already been paid to Transport for Greater Manchester in 2017/18. The balance is phased across 2018/19 and 2019/20.
 - **£5.96m** for the continuing investment in public realm improvements in Altrincham and Stretford town centres. Funded from a mixture of developer contributions including the anticipated S.106 and S.111 contributions relating to the redevelopment of Barton Square.
 - **£0.78m** in respect of the Council's outstanding contributions to TfGM in respect of the improvement works at Altrincham Interchange.
 - **£2.3m** contributions to support proposed improvements in leisure facilities.
 - **£4.54m** of contributions to support a range of other projects.
17. Included in the estimate are new developer contributions of £1.09m to support the continuing Altrincham Town Centre public realm works and highway junction improvements at Carrington village.

Internal Resources

18. The restrictions on the ability to apply external resources to specific schemes means that only internal resources are available for application on discretionary investment. Internal resources mainly comprise prudential borrowing and capital receipts.

Prudential Borrowing

19. **Prudential Borrowing - £55.36m** : Current investment financed from borrowing is £14.55m and includes:
- £4.61m for the relocation and development of depot facilities.
 - £3.85m for the development of Urmston Leisure Centre and
 - £1.46m for the completion of the LED replacement programme
 - £4.63m of other borrowing supporting a number of schemes.
20. As part of the review of new bids the ability to provide additional income or savings to support borrowing was assessed and a number of schemes can support being funded in this manner. The proposals put forward for inclusion in the Capital Programme are:

- **Leisure Centre Development £29.35m** – Proposals are currently being considered for new leisure centres in Altrincham and Stretford as well as refurbishment of Sale and Urmston leisure centres and investment in other community facilities. The total estimated cost is likely to be in the region of £46.6m for which business cases are currently being developed. Financing will be in the form of a mix of external grants and contributions (£2.3m), capital receipts (level based on extent of outstanding condition works £9.95m); the balance from other resources, to be identified, of £5.0m and borrowing. The total borrowing requirement is estimated at £29.35m and specific business cases will be brought to Executive for each project. These business cases will include proposals for how the cost of borrowing will be financed.
- **ICT – SAP Developments £1.9m** – Proposed replacement / upgrade of the existing SAP finance system. Scheme to progress only if the borrowing requirements can be funded through revenue savings.
- **CCTV Transformation Programme £0.56m** – Continuing the CCTV transformation programme with the provision of a new WIFI network along with the replacement and upgrading of cameras at 50 sites to be financed from revenue savings.
- **General borrowing £9m over three years** – provision was included in the MTFP in February 2017 to support an element of borrowing to offset the impact of the new capital receipts flexibility which was intended to be used to support the cost of transformational activity. Alternative resources were identified during the year which meant this borrowing was never undertaken. Given a sooner than expected increase to base rates this has contributed to a small element of headroom in the treasury management budget which can be used to support further new borrowing. This represents an increase of £7.2m on the borrowing levels previously agreed and is necessary given the scale of priority capital bids received.

21. In September 2017 the Executive gave approval for the development of Urmston Leisure Centre. The estimated cost of £6.45m to be financed from a combination of capital receipts and borrowing. The total borrowing element is £3.85m, of which £2.7m was approved as part of setting the budget for 2017/18. Therefore approval is now sought for the remainder **of £1.15m**. This is already included in the borrowing figures shown in Table 2 and Table 3 – see paragraph 19 above.

Reserves and Revenue

22. **Reserves and Revenue – £12.88m** : There are currently a range of projects supported by the application of reserve including:

- **£9.93m** for strategic investment in the Manchester Airport Group to assist with the development of airport infrastructure and facilities.
- **£2.00m** for investment in structural maintenance works to the highways
- **£0.82m** in support of a range of ICT initiatives and developments.
- **£0.13m** supporting other minor capital projects.

Capital Receipts

23. **Capital Receipts – £31.15m** : A review of the sites included in the current Land Sale Programme has been undertaken and an estimate for 2020/21 has been built-in. These will be subject of a future report to the Executive.

24. The table below gives the current position of capital receipts for 2017/18 to 2019/20 and the commitment against them along with an estimate for 2020/21 to give the value of receipts available to support any new investment. A proportion of the capital receipts are already allocated to a number of projects in the capital programme leaving £9.81m available to support new investment.

Table 5 : Capital Receipts	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
<i>Land Sale Programme</i>					
Carried forward from 2016/17	8.53				8.53
Land Sales Programme	2.10	8.18	2.05	9.15	21.48
Less costs (at 4%)	(0.08)	(0.33)	(0.08)	(0.37)	(0.86)
Net Land Sale Programme	10.55	7.85	1.97	8.78	29.15
<i>Other Receipts</i>					
Local Authority Mortgage Scheme repayment	2.00				2.00
Other Receipts Total	2.00				2.00
Total Estimated Receipts	12.55	7.85	1.97	8.78	31.15
Capital Programme requirement					
Committed (Appendix 3)	15.63	5.71			21.34
Net Receipts	(3.08)	2.14	1.97	8.78	9.81

25. Allowing for the capital receipts availability of £9.81m (Table 5) and general prudential borrowing of £9.0m (Paragraph 20) the level of internal resources forecasted to be available for new general capital investment purposes during the period 2018/21 is £18.81m.

26. As reported in paragraph 11 the value of remaining bids totals £25.18m and is significantly higher than the £18.81m of resources available.

27. All bids have been assessed under the priorities reported in paragraph 4 given the limited resources available. During this process a number of bids were identified as a lower priority or the level of bid was able to be reduced. Appendix 1 provides a proposed list of new schemes with a value of £21.03m recommended for addition to the 2018/21 capital investment programme to be financed from discretionary capital resources.

28. This equates to £2.22m of over-programming over the three year programme which will be reviewed each year to ensure actual capital resources are not overcommitted.

29. It is proposed that those non scheme specific approvals such as public building repairs, highways and parks & greenspace will be the subject of a further report

to the Executive in March 2018 providing details of the programme of projects to be undertaken.

FUTURE DEVELOPMENTS

30. **Investment in Highways** – The proposals in this report will provide for a structural maintenance budget, financed by a combination of capital grants and receipts, of £3.2m each year. A full review is currently being conducted with the objective of identifying a strategy for addressing the current condition of the highway network and a further report will be presented to the Executive in March 2018.
31. **Stretford Masterplan and UA'92.** Further reports will be brought to the Executive once former proposals are known, particularly around the development of student accommodation.
32. Section 4.8 of the CIPFA code of Practice 2016/17 permits authorities to select an accounting policy of expensing or capitalising borrowing costs on qualifying assets. The costs for the purchase of the Kellogg's site on Talbot Road, Stretford are £12.0m and will be funded from borrowing with the interest costs, whilst the development of the site is being undertaken, being capitalised. The development is expected to take 18 months to complete and the amount of interest to be capitalised will be approximately £450k.
33. **Parklife initiative** – in partnership with the Football Association a range of locations are being reviewed to provide 3G pitches at 3 sites across the borough for which the Council will be responsible for 40% of the capital costs. If schemes are viable and there is a business case that demonstrates that any borrowing costs can be repaid then further reports will be brought back to the Executive.
34. Costs associated with the planning and development of proposals will be incurred however any abortive costs will have to be charged to revenue and will be met from reserves.

SECTION 2 – THE CAPITAL INVESTMENT STRATEGY

35. The Council's Investment Strategy was approved by Executive in July 2017 and at this time Council gave approval to increase the capital programme to £300m, financed by prudential borrowing, to support the approach. To date five transactions have been made at a total capital cost of £90.68m with others currently under consideration.

Table 6 : Capital Investment Strategy	2017/18 £m	2018/19 £m	Total £m	
Total Investment Fund	295.00	5.00	300.00	
Activity to date :				Average 10 yr.net return (%)
Projected Cost				
K Site, Stretford (*)	1.13	11.38	12.51	n/a
Sonova House, Warrington	12.17		12.17	0.69
DSG, Preston	17.39		17.39	2.60
Grafton Centre incl. Travelodge Hotel, Altrincham	10.81		10.81	1.34
Provision of debt financing for residential development	37.80		37.80	6.00
Total investments	79.30	11.38	90.68	
Balance available			209.32	

(*): Projected costs include £450k for the capitalisation of temporary borrowing for the period covering the development of the site.

Objectives

36. The key objective of the overall strategy is:

The Capital Investment Strategy seeks to acquire a balanced portfolio of investment assets capable of providing sustainable income streams to support the MTFP, facilitate development and regeneration and support local authority functions.

37. The details of the strategy:

- The target income return should be between 5.0% and 6.5% to deliver sufficient margin over borrowing costs and MRP requirements, whilst still providing the investment security required. The actual returns required will depend in part on the specific MRP approach adopted.
- To achieve sustainable returns, without being over-exposed to risk, to target direct investment in prime and good secondary assets across a variety of sectors.
- Based on sector performance and the objectives, it is recommended to focus on Industrial, Retail Warehousing (including Food Stores) and alternative sectors (i.e. budget hotels).
- Other asset classes should be considered on an opportunity basis to help meet the objectives, especially where they may help achieve longer term strategic growth (i.e. regeneration).
- Creating a diversified portfolio is important, whilst balancing the need to generate a return to support local authority functions. A target **average** lot size of between £20m and £30m (so a fund made up of between 10 – 15 assets with a total

investment of £300m). Investments outside of this range will be considered on an opportunity-led basis and considered on their merits.

- Multi-let properties will help reduce asset and tenant specific risk. No more than 10% of the portfolio income should be from a single tenant to maintain the tenant specific risk at a manageable level.
- Initial geographical focus will be on the North West of England. However, opportunities that are outside the region will be considered on a case by case basis if they meet the objectives of the fund.
- Consideration to be given to lending to fund investment or development as part of the strategy, as this can have additional benefits especially when focused in the local area. Up to 30% of the portfolio could be allocated to debt, but consideration to a higher level on a case by case basis.

38. The objectives to be achieved through either:-

- Direct Investment (Medium to high risk and return),
- Development Debt (Medium risk; medium to high return), or
- Debt Investment (low to medium risk and return).

Governance and Stewardship

39. CBRE have been appointed as the Council's investment advisors and assist the Council with developing the Investment Strategy, identifying investment opportunities aligned with the objectives and strategy and to make recommendations for investments opportunities. They also assist in due diligence on any purchases.

40. It is crucial that the Council is able to act quickly in order to secure investments and therefore have procured a legal and technical team capable of supporting the completion process for each acquisition.

41. As part of the decision making process an Investment Management Board has been established to oversee the approval of new acquisitions and to undertake a performance management role. The Board to comprise the Executive Member for Investment, the Leader of the Council, Leader of the Opposition, Leader of the Liberal Democrats and the Chief Executive. The IMB acts under advisement from the Director of Legal and Democratic Services, Chief Finance Officer and the Corporate Director EGEI. This process is supported by independent external advice from CBRE on each acquisition and also a robustness statement from the Chief Finance Officer.

42. The financial performance of the investment portfolio and of each property within the portfolio will be measured and reported on a quarterly basis by an officer group to the IMB and subsequently to Executive. Performance measurement will be based on external revaluations and net yield generated and reporting will be undertaken with a view to making recommendations concerning sales or purchases and any amendments to the adopted strategy to ensure that the main objectives continue to be achieved.

Risk Management

43. A rigorous assessment of all risks is required for each investment in order firstly to value each property and then to check its suitability for inclusion in the portfolio. The risks fall into two categories, firstly economic and property market risks in specific property market sub-sectors and locations and secondly asset-specific risks including:-

- Location of property
- Building specification quality
- Tenure
- Length of lease unexpired
- Occupational Demand
- Liquidity
- Financial strength of tenant(s)
- Rental levels payable relative to current open market rental values
- Residual value

44. Reputational risks will also be considered particularly in relation to the types of commercial properties to be acquired and the type of tenant.

45. The performance of the assets will be reviewed annually to ensure the assets are performing sufficiently well and delivering the estimated returns originally envisaged. This will be undertaken by our investment property advisors.

2018/21 INDICATIVE CAPITAL PROGRAMME

46. The value of the indicative three year Capital Programme is £144.65m and a summary shown in the table below, with detailed analysis shown in Appendix 2. At this stage the figures for 2018/19 are known in detail, whereas the resource position for 2019/20 and 2020/21 is less certain, but these will be updated as resources are confirmed.

Table 7: Capital Programme and funding 2018/21	Budget 2018/19	Budget 2019/20	Budget 2020/21	Budget Total
	£m	£m	£m	£m
Children, Families & Wellbeing	11.85	23.01	4.90	39.76
Economic Growth, Environment & Infrastructure	13.97	18.60	5.59	38.16
Transformation & Resources	28.60	20.15	12.98	61.73
General Programme Investment	54.42	61.76	23.47	139.65
Capital Investment Portfolio	5.00			5.00
Total Investment	59.42	61.76	23.47	144.65
Grants	11.61	25.10	6.99	43.70
External Contributions	9.40	13.41	0.50	23.31
Prudential Borrowing	27.48	12.73	9.69	49.90
Revenue & reserves	5.02	4.97		9.99
Capital Receipts	4.77	1.97	8.79	15.53
Total Funding	58.28	58.18	25.97	142.43

PRUDENTIAL AND LOCAL INDICATORS

47. The Council is required to set indicators that are designed to support and record decisions taken on affordability and sustainability. There is also a requirement to impose *limits* on the Council's treasury management activities to ensure decisions are made in accordance with professional good practice and risks are appropriate (These are included in the Treasury Management Strategy Report). The Chief Finance Officer will monitor these and report on them at appropriate times. The Council can revise these indicators and limits at any time.
48. All the indicators take account of the proposals in this report and a list of Prudential and Local Indicators is included at Appendix 4.

RECOMMENDATIONS

49. That the Executive:-

- approve the Capital Expenditure Strategy as detailed in the report;
- recommends the Council to approve the Capital Programme in the sum of £144.65m for the period 2018/21;
- recommends the Council to approve £41.96m of additional prudential borrowing to support revenue generating investment opportunities as detailed in paragraphs 20 and 21
- recommends the Council to approve the Prudential and Local Indicators as set out at Appendix 4 of this report.
- Approves the Investment Strategy as detailed in the report.

Other Options

The Executive could decide to use capital receipts to repay debt which would generate revenue savings on the Medium Term Financial Plan. Based on the level of receipts available this could save approximately £0.3m in 2018/19. However, the proposed application of the capital receipts are to schemes with mandatory requirements, schemes to protect the long-term viability of the Council's assets; enabling efficient and effective service delivery and avoiding potential increases in maintenance costs in future years, the benefits of which are greater than just using the receipts to repay debt.

Consultation

Consultation has taken place with budget holders, responsible officers and professional services to ascertain the new projects to be put forward for inclusion in the Capital Investment Programme for 2018/21. Consultation with the public and user-groups will follow, where appropriate, once the programme is set and specific proposals within the budget allocations are developed.

Reasons for the Recommendation

The Authority is regularly assessed on the performance of its Capital Programme and how delivery matches corporate policies and proposed spending plans. To reflect budgets in line with revised expectations will assist in evidencing that compliance with the above is being met.

Finance Officer Clearance (type in initials)GB.....

Legal Officer Clearance (type in initials)TR.....

CORPORATE DIRECTOR'S SIGNATURE

Juanne Hyde

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

2018/21 CAPITAL PROGRAMME : NEW START PROPOSALS (includes schemes funded from general borrowing provision of £9.0m)	2018/19 £'m	2019/20 £m	2020/21 £m	Total £m
Invest to save schemes				
Foster Carers - Accommodation Improvements	0.20	0.18	0.17	0.55
Care Leaver Accommodation - Improvements	0.03			0.03
Assistive Technology/Technology Innovation	0.17	0.17	0.17	0.51
Development Sites - Pipeline Programme	0.25			0.25
Sale Waterside - Fixed furniture & equipment	0.10			0.10
Waterside Arts Centre - Building Refurbishment	0.12			0.12
Sub-total	0.87	0.35	0.34	1.56
Schemes that protect the asset base				
Public Building Repairs Programme (Note)	0.88	0.76	0.76	2.40
Disability Discrimination Act – Compliance works (Note)	0.20	0.20	0.20	0.60
Highway Structural Maintenance (Note)	0.75	0.75	0.75	2.25
Street Lighting – Column testing & replacement programme	0.40	0.50	0.40	1.30
Parks Infrastructure (Note)	0.10	0.10	0.10	0.30
Play Areas : Refurbishment Programme (Note)	0.10	0.10	0.10	0.30
Parking - Signs & software improvements	0.02			0.02
Parking - Legacy Non-electronic Signs Improvements	0.03			0.03
Flixton House, Flixton : Refurbishment (Phase 2)	0.26			0.26
ICT - Windows 10 : Implementation & Roll-out	0.75	0.25		1.00
Sub-total	3.49	2.66	2.31	8.46
Council Priorities				
Leisure Facilities Development	3.35	3.30	3.30	9.95
Integrated Transport Plan (Note)	0.30	0.30	0.30	0.90
Owner Occupier Grants	0.04	0.04	0.04	0.12
Talkshop, Sale Waterside – Medical room conversion	0.03			0.03
Vehicular Activated Signs (VAS) & Variable Message Signs (VMS)	0.01			0.01
Sub-total	3.73	3.64	3.64	11.01
TOTAL PROPOSALS	8.09	6.65	6.29	21.03

Note: Approval of the individual projects to be undertaken will be the subject of a further report to the Executive in March 2018.

NEW PRUDENTIAL BORROWING SPECIFIC PROPOSALS	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Leisure Facilities Development	9.99	9.68	9.68	29.35
CCTV Transformation Programme - Phase 2	0.51	0.05		0.56
ICT - SAP Developments		1.90		1.90
TOTAL BORROWING PROPOSALS	10.50	11.63	9.68	31.81
SELF-FUNDED PROPOSALS				
Supported Living Flats - Development of enhanced facilities	0.02			0.02
Parks - Mandatory Signage	0.05	0.01		0.06
Carrington Village - Flixton Road junction works	0.51			0.51
Wilding Trafford	0.08			0.08
Altrincham Public Realm			0.50	0.50
TOTAL SELF-FUNDED PROPOSALS	0.66	0.01	0.50	1.17
TOTAL OF NEW SCHEMES PROPOSALS	19.25	18.29	16.47	54.01

2018/2021 INDICATIVE CAPITAL PROGRAMME				
	2018/19	2019/20	2020/21	Total
DESCRIPTION	£000	£000	£000	£'000
Schools				
Basic Need : School Places & Condition Issues	6,576	18,102		24,678
Devolved Formula Capital	471	371	371	1,213
Capital Maintenance Grant	1,805	1,805	1,805	5,415
Special Educational Needs Grant	344	344	344	1,032
Healthy Pupils Capital Grant	187			187
Sub-total	9,383	20,622	2,520	32,525
Children & Adults Social Care				
Disabled Facility Grants	2,017	2,040	2,040	6,097
Supported Living Flats - Development of enhanced facilities	23			23
Assistive Technology/Technology Innovation	170	170	170	510
Foster Carers - Accommodation improvements	198	175	175	548
Care Leaver Accommodation - Improvements	30			30
Talkshop, Sale Waterside - Medical Room Conversion	26			26
Sub-total	2,464	2,385	2,385	7,234
Economic Growth, Environment & Infrastructure				
Public Building Repairs	880	760	760	2,400
Disability Discrimination Act Compliance Works	200	200	200	600
Sale Waterside – Fixed furniture & equipment	100			100
Development Sites - Pipeline Programme	250			250
Altair Development, Altrincham	450			450
Altrincham Town Centre – Public Realm	560	2,385	500	3,445
Stretford Town Centre – Public Realm	360	1,520		1,880
9/11 Market Street, Altrincham – Redevelopment	239			239
Affordable Housing : S.106 Funded Programme	255	546		801
Integrated Transport Schemes	300	300	300	900
Vehicular Activated Signs (VAS) & Variable Message Signs (VMS)	10			10
Integrated Transport : S106 Funded Programme		68		68
Altrincham Interchange	700			700
Metrolink extension into Trafford Park - Contribution	5,000	8,000		13,000

Highways Structural Maintenance	2,623	2,623	2,623	7,869
Highways Incentive Funding	390	390	390	1,170
Pot Hole Funding	175	175	175	525
Street Lighting - Column Testing & Replacement Programme	400	500	400	1,300
Carrington Village - Flixton Road junction works	511			511
Highways - S106 Funded Programme		68		68
Parks Infrastructure	100	100	100	300
Parks - Mandatory Signage	54	6		60
Wilding Trafford	75			75
Play Area Refurbishments	100	100	100	300
Parks & Open Space - S.106 Funded Programme	141	823		964
Assistance to Owner Occupiers	40	40	40	120
Parking - Signs & software improvements	25			25
Parking - Legacy Non-electronic Signs Improvements	30			30
Sub-total	13,968	18,604	5,588	38,160
Transformation & Resources				
Timperley Sports Club - Artificial Pitch contribution (*)	350			350
Waterside Arts Centre - Building upgrade	128			128
CCTV Transformation Programme - Phase 2	513	50		563
Flixton House, Flixton : Refurbishment (Phase 2)	258			258
Strategic Investment - Manchester Airport	4,965	4,965		9,930
Leisure Facilities Development	21,583	12,984	12,983	47,550
CRM Upgrade	51			51
ICT - SAP Development / Replacement	0	1,900		1,900
Windows 10 - Implementation & Rollout	750	250		1,000
Sub-total	28,598	20,149	12,983	61,730
GENERAL PROGRAMME TOTAL	54,413	61,760	23,476	139,649
Capital Investment Portfolio	5,000			5,000
TOTAL INVESTMENT	59,413	61,760	23,476	144,649

(*) Contractual obligation to contribute to the replacement of an artificial pitch

Capital Programme – Committed projects funded internally	2017/18 £m	2018/19 £m	Total £m
Children, Families & Wellbeing			
Gorse Hill Primary School	0.50	2.00	2.50
Other Schools projects	0.30	0.31	0.61
LDD Assessment Unit - Shawe View, Flixton	0.05		0.05
ICT - Replacement SAP/CRM Softbox	0.13		0.13
ICT - Agile Working Programme (note)	0.08		0.08
Assistive Technology/Technology Innovation	0.65		0.65
CFW Total	1.71	2.31	4.02
Economic Growth, Environment & Infrastructure			
Corporate Landlord Schemes	2.36		2.36
Altrincham - Library / Community Facility	1.74		1.74
Highways Structural Maintenance	1.29		1.29
Integrated Transport Schemes	1.28		1.28
Street Lighting & LED Programme	0.92		0.92
Altair Development, Altrincham	0.72	0.45	1.17
Parks, Play Areas & Greenspaces	0.67		0.67
Claremont Centre, Sale - Purchase	0.64		0.64
Bridge Assessments & Strengthening	0.59		0.59
Relocation of Depot Facilities	0.40		0.40
Stretford Town Centre Public Realm Works	0.38		0.38
Land Purchase : Sinderland Road Broadheath	0.35		0.35
Waste – Tri Bin : “Recycling on the Go”	0.26		0.26
Altrincham Crematorium and Cemetery	0.20		0.20
Parking related projects	0.15		0.15
Housing Grants	0.12		0.12
Lancashire County Cricket Club - development	0.10		0.10
Altrincham Town Centre Public Realm Works	0.05		0.05
Bringing Town Centres Alive	0.04		0.04
EGEI Total	12.26	0.45	12.71
Transformation & Resources			
Sale Waterside - Fixed furniture & equipment	0.09		0.09
Waterside Arts Centre - building refurbishments	0.14		0.14
Trafford & GMP - New HR Shared Service Centre	0.10		0.10
Leisure Services Assets - Improvement Programme	0.61		0.61
Timperley Sports Club - Artificial Pitch contribution		0.35	0.35
Leisure Strategy - Urmston Leisure Centre		2.60	2.60
ICT Related Projects	0.72		0.72
T&R Total	1.66	2.95	4.61
Committed Projects Total	15.63	5.71	21.34

Note: The total budgets for a number of these schemes are in excess of the figures above as they include external grants and contributions.

Prudential and Local Indicators – Estimates 2018/21

Capital Prudential Indicators	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Expenditure: General Programme Investment Strategy	59.12 295.00	54.42 5.00	61.76 0.00	23.47 0.00
Capital expenditure - the table above shows the estimated capital expenditure to be incurred for 2017/18 and the following three years.				
Capital Financing Requirement as at 31 March	447.94	462.73	466.86	463.04
Capital Financing Requirement (CFR) - this reflects the estimated need to borrow for capital investment (i.e. the anticipated level of capital expenditure not financed from capital grants and contributions, revenue or capital receipts).				
Financing Cost to Net Revenue Stream	5.5%	6.7%	6.1%	7.7%
Financing costs to net revenue stream - this indicator shows the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the Council's net revenue stream. The movement from 2019/20 to 2020/21 reflects a change to the Minimum Revenue Provision calculation in respect of the completion of Investment Fund Reserve.				
Incremental Impact on Band D Council Tax (£)	0.00	0.00	0.00	0.00
Incremental impact on band D council tax – reflects the incremental impact on the Council Tax arising from new borrowing undertaken in order to finance the capital investment decisions taken by the Council during the budget cycle. The figures above reflect that any additional borrowing is supported by revenue savings or external support.				

All the indicators are monitored on a regular basis. If the situation arises that any of the prudential indicators appear that they will be breached for a sustained period, then this will be reported to the Council at the earliest opportunity.

Local Indicators on the Investment Strategy

Local Indicators	2017/18 Revised	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Commercial Net Income to Net Revenue Stream	0.0%	0.7%	1.4%	0.3%
Commercial income to net revenue stream - this indicator shows the proportionality of the net income realised from the Council's Capital Investment Strategy (Lease/rental income less cost of borrowing) against the Council's net revenue stream.				
Estimated Gross Income	£0.621m	£2.821m	£4.157m	£2.011m
2018/19 and 2019/20 include estimated one-off income associated with a short term debt finance arrangement.				
External Interest Cost	£0.234m	£0.823m	£1.021m	£0.728m
Minimum Revenue Provision (2.5% = 40 years)	£Nil	£0.739m	£0.739m	£0.739m
Each year the fair value of investments will be assessed. If the value is less than the level of outstanding debt then consideration will be given to making an additional charge to the revenue budget.				