

Capital Expenditure Flows and Financing Resources 2017/18 to 2020/21

1 Capital expenditure flows

- 1.1 The level of capital expenditure (or 'payment') flows is one of the factors taken into account in determining the size of the capital starts programme, together with forecasts of financing resources.
- 1.2 Expenditure flows in 2017/18 and the following three years will result from works in progress (schemes started in 2017/18 and earlier years) plus those arising from the proposed programme for 2018/19 to 2020/21, as Table 5 below shows.

Table 5 – Capital expenditure flows

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Works in progress at 31 March 2017 and schemes starting in 2017/18	237,515	155,110	89,091	34,360
Programmes starting in 2018/19, 2019/20 and 2020/21	0	127,249	178,021	165,315
Land acquisition	559	646	646	646
Total expenditure flows	<u>238,074</u>	<u>283,005</u>	<u>267,758</u>	<u>200,321</u>

- 1.3 In practice, expenditure flows in the years after 2017/18 may vary from those shown in Table 5 if further developer and other external contributions become available to fund additional capital schemes, or if the levels of Government support differ from those currently assumed.

2 Resources available for capital financing

- 2.1 The following table shows the latest estimate of the resources available to finance capital expenditure.

Table 6 - Resources to fund capital expenditure

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Prudential borrowing	38,664	46,561	45,656	31,104
less repayments from capital	-10,199	-11,415	-9,957	-9,624
Capital grants	104,624	134,720	175,098	147,370
Contributions from other bodies including developers	46,601	64,373	56,933	31,542
Capital receipts	5,880	12,097	8,198	3,553
Contributions from reserves	558	0	0	0
Revenue contributions to capital *	10,937	10,582	8,215	7,582
New resources in the year	197,065	256,918	284,143	211,527
Use of the capital reserve: added to the reserve (-), or taken from the reserve (+)	41,009	26,087	-16,385	-11,207
Total resources available	238,074	283,005	267,758	200,320

* Including additions agreed by Executive Members in January 2017

- 2.2 Most of the capital receipts forecast in Table 6 are required to repay prudential borrowing for school and other rationalisation schemes started in advance of the site disposals.

3 Capital reserve

- 3.1 Resources previously identified in 2012/13 to fund the additions to the capital programme agreed in February 2012 have been added to the Capital Reserve until they are required to fund capital payments in 2013/14 onwards, as shown in Table 7.

Table 7 – Capital reserve

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Opening balance	126,075	85,066	58,979	75,364	86,571
Used in year	-41,009	-26,087			
Added in year			16,385	11,207	24,479
Closing balance	85,066	58,979	75,364	86,571	111,050

4 Revenue implications

4.1 The revenue implications of the new programme are shown in the following table.

Table 8 – Revenue effects

	Running costs £000	Capital charges £000	Total £000
2018/19 starts	1,238	7,988	9,226
2019/20 starts	563	5,553	6,116
2020/21 starts	62	3,676	3,738
Total	1,863	17,217	19,080

4.2 The capital charges represent depreciation over the estimated life of the asset for most schemes. The capital charges do not affect the County Council's overall expenditure as the charges to services will be counter-balanced by a corresponding credit to the centrally managed capital adjustment account.

4.3 Although the capital charges in Table 8 do not affect the County Council's overall expenditure, it will be increased by the capital financing costs on the loans raised to finance the programme. The full year revenue impact of the additional prudential borrowing over the proposed three-year programme will be £5.2 million.

5 Debt outstanding

5.1 Table 9 below shows the estimated debt to be financed by the County Council including the new borrowings necessary to finance the proposed three-year programme.

Table 9 – Debt outstanding

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Debt outstanding at the beginning of the year	756.0	772.2	791.2	809.0	810.3
New borrowings	38.7	46.6	45.7	31.1	14.0
Repayments from:					
- the revenue account	(13.8)	(16.2)	(18.1)	(20.1)	(28.2)
- capital receipts and developers' contributions	(8.6)	(11.4)	(9.8)	(9.6)	(5.6)
Debt outstanding at the end of the year	772.3	791.2	809.0	810.4	790.5

5.2 As the table shows, the amount of debt outstanding will increase by 2020/21 and then decrease.

6 Prudential borrowing

6.1 In November 2003, Cabinet agreed a framework for the use of prudential borrowing from 2004/05 onwards under the Prudential Code for Capital Finance introduced by the Local Government Act 2003. 'Prudential borrowing' does not attract Government revenue grants towards the loan charges. Instead, the loan repayments and interest charges have to be financed by the County Council from its own resources. Because of the potential impact on the County Council's overall financial position, it is important that the use of prudential borrowing is very closely controlled and monitored.

6.2 The framework, as updated by Cabinet in February 2006, includes:

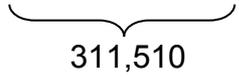
- borrowing for which loan charges are financed by virement from the Executive Member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income
- 'bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred
- capital investment by business units
- temporary borrowing to accommodate shortfalls in general capital resources.

6.3 The overall level of the County Council's prudential borrowing since 2004/05, including the proposals in this report, is summarised in the following table.

Table 10 – Prudential borrowing

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
2004/05 actuals to 2009/10	132,643	-29,648	-	102,995
2010/11 actuals	22,294	-7,851	-	14,443
2011/12 actuals	15,628	-27,558	-	-11,930
2012/13 actuals	13,078	-35,548	-	-22,470
2013/14 actuals	18,981	-1,730	-	17,251
2014/15 actuals	14,124	-5,147	-	8,977
2015/16 actuals	19,099	-5,088	-	14,011
2016/17 actuals	16,280	-4,041	-	12,239
2017/18 estimate	38,664	-	-10,199	28,465
2018/19 estimate	46,561	-	-11,415	35,146
2019/20 estimate	45,656	-	-9,957	35,699
2020/21 estimate	31,104	-	-9,624	21,480
2021/22 estimate	14,009	-	-5,576	8,433

Table 10 – Prudential borrowing

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
Total	428,121	-116,611	46,771	264,739
	 311,510			

6.4 The schemes funded by these advances are summarised in Table 11.

Table 11 – Summary of outstanding and planned prudential borrowing advances

	£000
Financed from savings in the revenue budget	198,478
'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions	78,619
Capital investment to be financed from future charges to services	34,413
Total	<u>311,510</u>

6.5 The 'bridging loans' in advance of capital receipts or developers' contributions are expected to be fully repaid by 2022/23. In addition to these lump sum repayments, £198.5 million of the prudential borrowing will be repaid from savings in the revenue budget, including the Enhance nursing care homes, waste management infrastructure and structural maintenance of highways.

6.6 The prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance. The prudential indicators used as part of the process of assessing compliance are included in Appendix 8 of the report on this Agenda on the Revenue Budget.