Report To:	**STRATEGIC PLANNING AND CAPITAL MONITORING PANEL**
Date:	14 March 2016
Executive Member / Reporting Officer:	Cllr Jim Fitzpatrick – First Deputy (Performance and Finance) Peter Timmins – Assistant Executive Director of Finance
Subject:	**CAPITAL STRATEGY AND PROGRAMME 2016/17**
Report Summary:	The report sets out the Council's Capital strategy for 2016/17 and the three year Capital Programme.
Recommendations:	That the following recommendations agreed by Council on 23 February 2016 be noted: a) That the Capital Programme report as set out in **Appendix 1** (and detailed at **Appendix 5**) is approved and continuing action is taken to achieve additional sources of funding for capital development. b) That the Disposals schedule and estimated Capital receipts position in section 3 of **Appendix 1** is noted. c) That the additional revenue budget required as a result of the proposed take up of unsupported borrowing detailed in section 4.9 of **Appendix 1** be noted. d) That the Capital Strategy in **Appendix 2** is noted. e) That the Prudential Limits and indicators set out in **Appendix 3** to this report be approved with Members to receive monitoring reports during the coming year to demonstrate compliance. f) That authorised borrowing limits for 2016/17 for Tameside and for the Greater Manchester Metropolitan Debt Administration Fund (GMMDAF) are agreed as set out in **Appendix 3.** g) That the Minimum Revenue Provision statement as set out at **Appendix 4** be approved. h) That the inclusion within the proposed capital programme of the estimated investment in Active Tameside and future potential demands on the Capital Programme be noted. i) That the level of unsupported borrowing not exceed **£35.884** million in 2016/17.
Links to Community Strategy:	The Capital Strategy and programme are formulated based on the priorities of the Council outlined in the Community Strategy.
Policy Implications:	In line with Council Policies.
Financial Implications: **(Authorised by the Section 151 Officer)**	The Capital Strategy is formulated in line with the Councils priorities and the Community Strategy. It is an integral aspect of the Council's medium term service and financial planning process as reflected in the Medium Term Financial Strategy (MTFS). The three year Capital Programme has been produced incorporating new and existing grant settlements from Government along with schemes funded by Capital Contributions, Prudential Borrowing and Capital Receipts. The report sets out the proposed amount of Prudential Borrowing, the Council pays from future revenue budgets the interest and

repayment costs of the borrowing. The Council's ability to prudentially borrow to fund future schemes is limited by the budgetary pressures which the Council faces over the coming three years and beyond.

Close monitoring of resources available to fund capital expenditure is essential and is an integral part of the financial planning process.

Legal Implications:

(Authorised by the Borough Solicitor)

The report complies with the Council's financial regulation 17.3. The Council is required by statute to set and maintain a balanced budget, careful management of the finances allows the Council to achieve this and this report provides a means for Members to carefully monitor the situation.

Risk Management:

Failure to properly manage and monitor the Council's loans and investments could lead to service failure and financial loss.

Access to Information:

The background papers relating to this report can be inspected by contacting Peter Timmins, Assistant Executive Director of Finance, by:

phone: 0161 342 3864

e-mail: peter.timmins@tameside.gov.uk

1. INTRODUCTION

1.1 The attached report introduces the proposed capital programme for 2016-19, to be considered and recommended for approval at Full Council.

1.2 The proposed programme consists of schemes funded through borrowing, capital receipts or grants and other anticipated contributions from third parties.

1.3 The size of the capital programme reflects capital grant settlements that have been announced by central government, forecast capital receipts, other external and internal funding sources and proposed borrowing as set out in **Appendix 1**

1.4 The Council's ability to prudentially borrow to fund future schemes is limited by the budgetary pressures which the Council continues to face. Information regarding the revenue implications of prudential borrowing is also provided in **Appendix 1**.

2. CAPITAL PROGRAMME, FUNDING AND FINANCING

2.1 **Appendix 1** summarises the development of the proposed Capital Programme as well as providing details of the following.

- New capital grant allocations.
- New schemes approved since the quarter two Capital Monitoring report.
- Capital receipts and potential property sales
- The revenue implications of prudential borrowing.

3. CAPITAL STRATEGY

3.1 The Capital Strategy has been developed as a key document that determines the council's approach to capital, the details are provided in **Appendix 2**.

4. RISK IMPLICATIONS

4.1 There is a long term risk to the Council's ability to deliver services without sufficient investment in maintaining its assets. To mitigate this, the capital programme is aligned to the Council's asset management plans and property client function ensuring that assets are well-maintained or disposed of if surplus to requirements.

4.2 The programme requires regular monitoring, management and budgetary control to deliver schemes on time and within budget. This is addressed through quarterly capital monitoring reports to Cabinet.

4.3 The capital programme is set on the basis of best estimates of cost. Through good procurement practice, the Council will continue to manage down the costs of capital schemes where possible.

4.4 There is a risk of incurring additional borrowing costs affecting the revenue budget whenever schemes are not fully funded, or if disposal values are not realised. New unfunded schemes are being kept to a minimum. For these schemes a forecast of capital receipts has been created to ensure that capital expenditure has minimum adverse effect on the Council's revenue budget.

4.5 There is a risk that anticipated grants and other third party contributions will not be received for reasons out of the authority's control. In these circumstances, the programme will be amended to reflect the reduced funding.

5. PRUDENTIAL INDICATORS

5.1 First introduced in 2004, the Prudential Code (the Code) for local government capital investment replaced the complex regulatory framework which only allowed borrowing if specific government authorisation had been received. The Prudential system is one based on self-regulation by local authorities. All borrowing undertaken is self-determined under the Code.

5.2 Under Prudential arrangements, local authorities can determine their own borrowing limits for capital expenditure. The Government does retain reserve powers to restrict borrowing if that is required for national economic reasons.

5.3 The Code supports the framework of strategic planning, local asset management and options appraisal, ensuring that capital investment plans of local authorities are affordable, prudent and sustainable. The Code specifies indicators that must be used and factors that must be taken into account. The Code requires the Council to set and monitor performance on:

- capital expenditure
- affordability & prudence
- external debt
- treasury management

5.4 A number of specific Treasury Management prudential indicators are found in **Appendix 3**.

6. RECOMMENDATIONS

6.1 As set out on the front of the report.

APPENDIX 1

CAPITAL PROGRAMME, FUNDING AND FINANCING

1. CAPITAL GRANT ALLOCATIONS

1.1 The Single Capital Pot includes all non-ring-fenced capital allocations. The capital allocations included in the Single Capital Pot are not ring-fenced and can be spent according to authorities own priorities. However, the Council's policy has been that the relevant service areas use the allocations.

The Council has received confirmation for some of the capital allocations for 2016/17. All allocations will be made by direct grant. There will be no supported borrowing for 2016/17, so any allocations the Council makes above and beyond the direct grant allocations must be funded locally (from capital receipts, or corporate prudential borrowing, or other internal sources).

The Council is awaiting the notification of the following grant allocations for 2016/17:

- Disabled Facilities Grant.(Included in Better Care Fund)
- Capital Maintenance for Schools.
- Devolved Formula for Schools
- Community Capacity Grant (Included in Better Care Fund)

The table below shows details of the announced/estimated Capital allocations for 2016/17, compared to the corresponding figures for 2015/16. It sets out a decrease in available resources of £0.768 million, a decrease of 6%.

Table 1: Capital allocations 2015/16 and 2016/17

Capital Allocations	2015/16 Grant £000	2016/17 Grant £000	Variation £000
Children's Services			
Capital Maintenance*	1,920	1,400	-520
Devolved Formula*	487	350	-137
Basic Need	5,663	5,946	283
	8,070	**7,696**	**-374**
Adult Services			
Community Capacity Grant*	643	650	7
Local Reform Grant	208	0	-208
	851	**650**	**-201**
Transport			
Challenge Funding	1,000	1,000	0
Highways Maintenance	2,322	2,129	-193
	3,322	**3,129**	**-193**
Housing			
Disabled Facilities Grant (BC	1,158	1,158	0
	1,158	**1,158**	**0**
Total Capital Allocations	**13,401**	**12,633**	**-768**

*Estimate

2. CAPITAL RECEIPTS

2.1 Where capital receipts are generated through the sale of assets or repayments of loans by third parties, these may be: (a) used to reduce the borrowing requirement of the Council's capital programme in that year, (b) held to offset against future capital borrowing requirements or (c) used to repay existing borrowing.

2.2 The Council continues to review its assets seeking to ensure that their ongoing use supports the Council's future priorities. Assets that do not meet this need have been identified and form the basis of a draft disposal schedule.

2.3 The figures included in the schedule are currently the best estimate of the value of properties available for disposal, pending formal valuations. More detailed valuations will become available as the properties are prepared for market.

2.4 The schedule is also only an indication of the phasing of disposals. Some sales will take place later than forecast, for example when planning or legal issues arise, whereas others may be accelerated

2.5 The target for Capital receipts was set at £45m over 3 years, commencing in 2015/16.

2.6 Quarterly updates on the Capital receipts position are provided through the Capital Monitoring report and the Asset Management Update tabled at Strategic Planning and Capital Monitoring Panel.

2.7 A balance of £11.3m is owed corporately from receipts relating to former Building Schools for the Future (BSF) sites to repay temporary corporate funding of the Schools Capital Programme.

2.8 Below is a summary of the draft schedule of the assets expected to be disposed of in 2015/16 and the next two financial years.

Table 2: Capital Receipts

Category	2015/16 Capital Receipts Received £	2015/16 Estimated Total Capital Receipts to 31/3/16 £	2016/17 Estimated Capital Receipt £	2017/18 Estimated Capital Receipt £	Total £
Current Operational Property	0	0	1,140,000	650,000	1,790,000
Former School Site	4,750,000	250,000	12,995,000	0	17,995,000
Freehold Reversion	122,000	1,830,900	1,280,000	7,200,000	10,432,900
Garage Site	201,500	0	125,000	125,000	451,500
Land	890,098	3,125,085	4,165,000	3,200,000	11,380,183
Shared Equity	0	25,500	0	0	25,500
Vacant Building	532,000	156,400	1,850,000	0	2,538,400
Total Identified	**6,495,598**	**5,387,885**	**21,555,000**	**11,175,000**	**44,613,483**

3. CAPITAL PROGRAMME

3.1 A three year capital programme for 2015-16 was agreed by the Council in February 2015. This was prepared using information from the Government on known and forecast funding levels available at that time.

3.2 The proposed capital programme includes all funding re-profiled from 2015-16 as regularly reported to Strategic Planning and Capital Monitoring Panel. The 2016-17 programme reflects all amounts re-profiled up to and including month 8

3.3 The new capital programme also reflects government grant settlements for 2016-17 and beyond. These have been revised, where applicable, from indicative settlements provided in the 2015-16 programme. The programme also sets out borrowing to be approved and other funding sources identified.

3.4 A schedule of the schemes included in the capital programme is provided below along with a high level summary and the planned use of resources. Also included is an estimated amount for investment in Active Tameside.

3.5 It is also important to note that the Capital Programme will change throughout the year due to the re-profiling of Capital schemes from 2015/16 into 2016/17 and future years. The amount of re-profiling required will not be confirmed until the Capital Outturn report is produced.

3.6 The Council is aware of a number of potential new demands on the Capital Programme that may arise in the 2016/17 financial year. However there is insufficient information available at present in order to estimate the level of expenditure to be required. The Capital Programme will be revised accordingly when full details are available and proposals have been agreed with our External Auditors.

3.7 The following potential demands are anticipated on the 2016/17 Capital Programme;

- Acquisition of Guardsman Tony Downes House.
- Resolution to Plantation Industrial Estate Lease.
- Acquisition of Building Schools for Future shares.

Table 3: Capital Programme high level summary

CAPITAL PROGRAMME 2016/17 - 2018/19	ESTIMATE 2016/17 £000	ESTIMATE 2017/18 £000	ESTIMATE 2018/19 £000	TOTAL £000
Adult and Health Services	650	0	0	650
Asset Investment Partnership	17,306	20,424	0	37,730
Community Services	573	0	0	573
Development & Investment	3,758	0	0	3,758
Education	8,100	6,543	0	14,643
Engineering Services	12,199	10,373	0	22,572
Environmental Services	1,107	0	0	1,107
Public Health	5,203	9,072	2,891	17,166
Resources	4,392	5,000	5,000	14,392
Total	**53,288**	**51,412**	**7,891**	**112,591**

Table 4: Resources allocated to fund the Capital Programme

RESOURCES	2016/17 £000	2017/18 £000	2018/19 £000	TOTAL £000
Capital grants and other contributions	16,317	15,607	0	31,924
Capital receipts	480	1,309	0	1,789
Revenue contributions and reserves	607	721	0	1,328
Unsupported capital expenditure i.e. borrowing	35,884	33,775	7,891	77,550
TOTAL RESOURCES	**53,288**	**51,412**	**7,891**	**112,591**

3.8 As part of producing the Medium Term Financial Strategy (MTFS) in summer 2017, the capital programme for 2017-20 will be incorporated. It will ensure a fit to the revenue costs and opportunities for investment to reduce revenue spend.

4. REVENUE IMPLICATION OF THE CAPITAL PROGRAMME

4.1 Where the Council uses borrowing to support the capital programme, it must set aside revenue funds on an annual basis to repay the capital borrowed. This is required by statute and is known as Minimum Revenue Provision (MRP). The cost of MRP depends on the life of the underlying asset. Further information can be found in the proposed MRP policy in section 6 in the main body of the report.

4.2 In addition to MRP, the Council must fund the interest costs of the borrowing through future revenue budgets. The Council primarily borrows funds from the Public Works Loan Board (PWLB) and interest rates for 2016-17 are projected to be 5%

4.3 In preparing future revenue budgets, the cumulative revenue costs of borrowing have been included in the calculations of interest and MRP costs provided for in those budgets.

4.4 If the Council chooses to utilise reserves or Capital Receipts to fund Capital expenditure then the revenue costs are reduced.

4.5 The 2016/17 Capital Financing budget has assumed that the Council will not utilise reserves and will take up unsupported borrowing to fund unfunded schemes. The budget for 2016/17 has been set at £15.9m.

4.6 The table below provides the breakdown of the movement from the 2016/17 Capital Financing budget set at February 2015 and the revised budget as at February 2016. The Council is to achieve savings of £2.5m from the changes made to the MRP policy and a further £0.974m from a reduction in the forecast interest payments associated with Prudential Borrowing.

Table 5: Base Budget movement

	£
2016/17 Original Base Budget Feb 2015	**19,405,618**
MRP Savings	(2,500,000)
Net Savings on Interest Payable	(973,952)
Revised Base Budget Feb 2016	**15,931,666**

4.7 The table below provides a breakdown of the 2016/17 Capital Financing budget based upon assumed borrowing of £35.884m.

Table 6: Capital Financing Budget 2016/17

Funding	Amount £
Amounts take to funds/reserves	175,000
Discounts received	(205,000)
GM Debt Interest	312,526
GM Debt Principal	893,493
Interest payable	11,610,897
Interest received	(1,218,000)
MRP Post 2015/16	658,750
MRP Pre 2015/16	3,704,000
Total	**15,931,666**

4.8 It has been assumed that the Council will borrow £35.884m in 2016/17 to fund Capital Expenditure and the Capital Financing budget has been produced on this basis. The Revenue costs of this are shown in the table at section 3.9 along with a projection for 2017/18 and 2018/19.

4.9 The cumulative revenue impact of schemes funded from borrowing is set out below, assuming future revenue costs of £100,000 per annum for every £1m borrowed:

Table 7: Revenue Impact of Prudential Borrowing

	2016-17	2017-18	2018-19
Unfunded borrowing	35,884,000	33,775,000	7,891,000
Cumulative Revenue Cost (10%)	**3,588,400**	**6,965,900**	**7,755,000**

4.10 The above table shows the required demand upon the revenue budget due to the take up of unsupported borrowing to fund capital expenditure. If the Council funds the Corporate Capital Expenditure by Capital Receipts or Reserves then the impact on the Revenue budget will be reduced.

APPENDIX 2

1. CAPITAL STRATEGY

1.1 The Capital Strategy has been developed as a key document that determines the council's approach to capital. It is an integral aspect of the Council's medium term service and financial planning process as reflected in the Medium Term Financial Strategy (MTFS).

1.2 The Capital Strategy is concerned with, and sets the framework for:

- all aspects of the Council's capital expenditure over the 3 year period 2016/17 to 2019/20
- planning, prioritisation, management and funding. It is closely related to, and informed by
- the Council's priorities
- the Council's Asset Management Plans and
- capital funding grants and debt facilities provided by central government.

1.3 The Capital Strategy is reviewed on an annual basis to ensure it continues to reflect the changing needs and priorities of the Council, and its partners throughout Tameside and the region.

1.4 The key aims of the Capital Strategy are:

- how the Council identifies, programmes and prioritises capital requirements and proposals;
- provide a clear context within which proposals are evaluated to ensure that all capital investment is targeted at meeting the Council's priorities;
- consider options available to maximise funding for capital expenditure whilst minimising the impact on future revenue budgets;
- identify the resources available for capital investment over the three year planning period.

1.5 The Capital Strategy provides a framework for the allocation of resources to support the Council's objectives. The approval of new capital schemes and the allocation of available funding is undertaken when the capital programme is approved as part of the wider budget setting process.

2. INFLUENCES ON CAPITAL STRATEGY

2.1 The Council continues to be faced with significant changes and uncertainty which affects all of the public sector and the following are some of the major influences on our Capital Strategy.

2.2 The Government has put in place stringent reductions in revenue and capital grant funding for public services, with a strong drive towards austerity and value for money. Local authorities are facing rising demand and expectations for Council services. The Council is seeking creative new ways of providing services which may require capital investment to deliver best value for our communities and taxpayers.

2.3 The success of any Capital Programme is delivery to anticipated timescales and budgets. Failure to achieve either results in increases in capital costs and additional revenue pressures.

In a challenging financial environment, effective procurement, robust contract management and constant oversight are essential to manage costs and ensure all spend delivers the intended outcomes.

2.4 Formation and delivery of asset management plans are vital to the implementation of the Capital Strategy and to the delivery of the Capital Programme.

2.5 In order to minimise the impact of additional borrowing on future revenue budgets, and to reduce the cost of maintaining under-used or inefficient properties, the Council has a programme of asset disposals. The asset rationalisation and disposals policy is now a key element of delivering funding for future capital schemes.

3 CAPITAL EXPENDITURE

3.1 Capital expenditure and investment is vital for a number of reasons:

- As a key component in the transformation of service delivery and flexible ways of working
- A catalyst for economic growth
- To maintain or increase the life of existing assets
- To address the issues resulting from increasing numbers of service users
- As a lever to generate further government or regional capital investment in Tameside.

3.2 With a challenging financial environment for the foreseeable future that is influenced by a variety of external factors, there will only ever be a limited amount of capital resources available. Therefore, it is vital that we target limited resources to maximum effect with a new focus on our strategic and financial priorities.

3.3 Capital funding is limited. External capital grants can only be spent on capital. Projects funded from revenue, revenue reserves or borrowing all affect revenue budgets. Borrowing in particular has long term revenue consequences. Two costs are incurred when a capital scheme is funded from borrowing:

- A Minimum Revenue Provision – the amount we have to set aside each year to repay the loan and this is determined by the life of the asset associated with the capital expenditure; and
- Interest costs for the period of the actual loan.

3.4 On present long term interest rates every £1 million of prudential borrowing costs approximately £0.090m pa in ongoing revenue financing costs for an asset with an assumed life of 25 years, or as much as £0.250m pa for an asset with a 5 year life. This is in addition to any ongoing maintenance and running costs associated with the investment.

3.5 Given the revenue cost pressures shown in the Council's Medium Term Financial Strategy the scope for unsupported capital expenditure (capital expenditure that generates net revenue costs in the short or medium term) is severely limited.

3.6 The budget planning process is designed to reflect both capital and revenue proposals such that the revenue consequence of capital decisions, particularly as a result of increased borrowing, are reflected in future revenue budgets such that any capital investments are prudent, affordable and sustainable for the Council.

4 CAPITAL FUNDING SOURCES

4.1 There are a variety of different sources of capital funding, each having different advantages, opportunity costs and risks attached.

Borrowing

4.2 The Prudential Capital Finance system allows local authorities to borrow for capital expenditure without Government consent provided it is affordable. Local Authorities must manage their debt responsibly and decisions about debt repayment should be made through the consideration of prudent treasury management practice.

4.3 As a guide, borrowing incurs a revenue cost of approximately 9% of the loan each year for an asset with a life of 25 years, comprising interest charges and the repayment of the debt (known as the Minimum Revenue Provision or MRP). The Council needs to be satisfied that it can afford this annual revenue cost i.e. for every £1 million of borrowing our revenue borrowing costs are around £0.090 million pa, or as much as £0.250m pa for an asset with a 5 year life
.

4.4 Local Authorities have to earmark sufficient revenue budget each year as provision for repaying debts incurred on capital projects.

Grants

4.5 The challenging financial environment means that national government grants are reducing, or changing in nature. A large proportion of this funding is currently un- ring-fenced which means it is not tied to particular projects. However, capital grants are allocated by Government departments which clearly intend that the grants should be used in certain areas such as education or highways. So although technically the grants are un- ring-fenced, the political reality is not as clear cut.

4.6 Sometimes grant funding is not sufficient to meet legislative obligations and other sources of funding will be sought to fund the gap.

Capital Receipts

4.7 Capital receipts are estimated and are based upon the likely sales of assets as identified under the developing Asset Management Plan. These include development sites, former school sites and other properties and land no longer needed for operational purposes. Receipts are critical to delivering our capital programme and reducing the level of borrowing.

Revenue / Other Contributions

4.8 The Prudential Code allows for the use of additional revenue resources within agreed parameters. Contributions are received from other organisations to support the delivery of schemes with the main area being within the education programme with contributions made by individual schools and by developers.

5. LOCAL INVESTMENT

5.1 The current capital programme demonstrates the local investment that is taking place that adds value and economic benefit to the area. Examples of local investment are as follows:-

Greening Tameside - LED Street Lighting

The Council has agreed to replace all residential street lanterns with LED units. The Council faces many challenges in this area such as:

- Increasing energy costs, above the rate of inflation.
- Future carbon costs.
- Reduce carbon emissions targets.
- Reduce maintenance and operating costs.
- Achieve year on year savings.

This project is set to deliver all of the above targets and provide the residents of Tameside with state of the art lighting technology for the future.

The energy market is forecast to continue to rise above the rate of inflation, by installing LED technology we are reducing our energy consumption and therefore significantly reducing our exposure to this volatile market. Also, it is anticipated that street lighting energy will be subject to a CO2 emissions levy. In terms of financial savings, it is envisaged that for each lantern change the Council will save between 50% - 60% in energy costs and CO2 emissions per annum. In addition, further savings will accrue through the reduction of some cyclic and reactive maintenance activities and reduced demand for the purchase of materials such as lamps, control gear etc.

Improving Transport Infrastructure

5.2 After many years of campaigning and lobbying £170 million of investment has been announced to improve the Trans-Pennine road links between Manchester and Sheffield. This will include investment directly in Tameside on a new Mottram Moor dual carriageway and a single carriageway link road towards Glossop that will ease congestion in and around Mottram.

In March 2014 the Greater Manchester Local Enterprise Partnership and GMCA submitted a Growth and Reform Plan to Government setting out its aim to become "a financially self-sustaining city region". The plan seeks a £400 million share of the Local Growth Fund to support the region's transport and infrastructure requirements and within this, £32.7 million for a new Ashton Town Centre Interchange. It was announced in the summer of 2014 that this bid was successful.

The plans anticipate the old and dated bus station being completely rebuilt and moved closer to the new Metrolink tram stop, providing better access between the two by the end of 2017.

The completion of the interchange will enable the realisation of the full transport and economic benefits of the Metrolink extension to Ashton-under-Lyne and ongoing improvements to local rail services as a result of the continuing electrification of the Trans-Pennine line through Ashton-under-Lyne.

5.3 **Vision Tameside**

Tameside's economic success is dependent on a step change in the approach to tackling the skills position of the Borough and the transformation of the Borough as a place for businesses to invest.

Recent work by GMCA and the Council has identified that the two key investment priorities for Tameside are our town centres, and improving and addressing the skills levels in the Borough.

Vision Tameside has the objectives of:

- Bringing Tameside College to the heart of Ashton – helping provide a basis for a robust retail and commercial core and generating significant economic impact.
- Revolutionising the delivery of higher level skills in the Borough, increasing aspiration and creating a solid base for future investment and prosperity in Tameside.
- Making cost savings to the Council's revenue budget.
- Creating investment in other key town centres.

5.4 **Schools Investment**

The Council has successfully secured investment of £25 million to rebuild four other primary schools in the Borough through the Priority School Building Programme, which will address the forecast shortage of places for 5 year olds and support the Council's commitment to improving educational achievement in the Borough. These four schemes will be delivered by the Education Funding Agency (EFA) and will not be part of the Council's Capital Programme. However, the schools will be recognised on the Council's Balance Sheet following completion of the work.

5.5 **Ashton Old Baths**

Ashton Old Baths is a unique project to repair the external and internal fabric of the Grade II listed building. The building, built in 1870 and previously used as a Municipal Baths until the 1970s, has a domineering presence at the heart of the St Petersfield Business Quarter in Ashton and is currently in poor condition and on English Heritage's 'Heritage at Risk' register.

After 40 years of lying the Ashton Old Baths has been transported into a digital hub for small businesses and start-ups, providing them with some of the most powerful broadband connections in the country.

The Ashton Old Baths project aims to:

- Restore the derelict grade II listed major Tameside heritage asset to BREEAM "Very Good" standard and thereby securing its removal from English Heritage's 'Heritage at Risk" register.
- Secure the long-term future of Ashton Old Baths through the development of a business incubation centre with an operational structure in place for the sustainable use, management and maintenance of the building.
- Generate new business and over 60 new jobs (including 2 apprentices during the delivery phase) and help emerging businesses to grow.
- Create 605 sqm of flexible office accommodation for small to medium sized enterprises (SMEs) primarily in the creative, digital, and media sectors to encourage and support the growth and development of these sectors within Tameside.
- Provide high quality office space in flexible units with 136 sqm meeting room/conference space plus additional networking space.
- Create critical business space required to drive growth in the creative, digital, and media sectors of Tameside's economy.
- Create an innovation hub and creative hub that generates business to business activity, collaborations and new intellectual property.
- Enables Tameside to provide a ladder of progression for businesses in Tameside's creative, digital, and media sectors from start-up to high growth.

5.6 **Active Tameside Investment**

On 4 February 2015, at a joint meeting of the Executive Cabinet and the Overview (Audit) Panel, it was agreed that a planned reduction in the Active Tameside management fee for 2015/16 would be deferred until 2016/17 to enable a full strategic review to be undertaken to determine opportunities and options for the development of a financially and operationally sustainable long-term business model. In addition, other options available to the Council for the operation of sport and leisure facilities were to be explored as part of the strategic review.

Active Tameside has been embarking on a transformational journey with the Tameside Council Public Health Team to enhance the contribution they make to improving health outcomes and reducing health inequalities within Tameside. This has been underpinned by increased recurrent and non-recurrent investment from the Tameside Council Public Health Grant, and through a successful funding bid to the Sport England 'Get Healthy, Get Active' Fund.

The development of an iconic new Wellness Centre which combines a traditional sports centre offer with a wider range of services to encourage local residents to lead healthier lifestyles is viewed as a cornerstone of such an approach.

Such a facility could potentially incorporate:

- A conventional sports and leisure offer including swimming, gym, court and studio facilities;
- New and emerging sports and fitness facilities;
- Services to support wider lifestyle changes such as smoking cessation, weight loss and alcohol reduction;
- Health and Social Care services;
- Early Years provision and Children's Activities;
- A 'hub' for the borough-wide sports and leisure 'offer';
- Functional spaces for community groups and voluntary and community sector partners.

Provisional costs of the estimated budget for investment in the Active Tameside portfolio are included within the proposed capital programme to ensure funding is available and provided following the consultation.

APPENDIX 3

PRUDENTIAL INDICATORS AND LIMITS

1.1 Prudential Borrowing

The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital plans of local authorities are affordable, prudent and sustainable and to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports these objectives.

To demonstrate that local authorities have fulfilled these objectives the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios as these are for the local authority to set itself. The Prudential Indicators required by the Code are designed to support local decision making and are not comparative indicators.

This report recommends specific indicators for approval and an affordable borrowing limit for 2016/17. It also recommends an affordable borrowing limit for the Greater Manchester Metropolitan Debt Administration Fund.

Where appropriate the Council may undertake borrowing for external organisations, and this will be on the basis that the revenue costs are fully reimbursed. This will be done purely for policy reasons.

1.2 Matters to be taken into account

Prudential Indicators have been set having regard to: affordability, prudence, sustainability, value for money, stewardship of assets, service objectives and practicality.

Local authorities are required to encompass all aspects of the Prudential Code that relate to affordability, sustainability and prudence. When making a decision to invest in capital assets, the Council must ensure that it can meet both the immediate and long-term costs to ensure the long-term sustainability.

The Prudential Code requires local authorities to consider wider management processes i.e. option appraisal, asset management planning, strategic planning and achievability in accordance with good professional practice. The Strategic Planning and Capital Monitoring Panel together with the Asset Management Group is responsible for these areas.

1.3 Setting of Prudential Indicators

The Prudential Indicators for 2016/17 and the following two years must be set before the beginning of the forthcoming year and requires approval by Council as part of the budget approval process. The Section 151 Officer is responsible for ensuring that all matters required to be taken into account are reported to the Council for consideration.

The system requires a process for controlling unsupported borrowing. This ensures that all council borrowing remains affordable. The Section 151 Officer is responsible for this centralised control and has recommended approval of £35.884 million of unsupported borrowing in 2016/17, £33.775 million in 2017/18 and £7.891 million in 2018/19.

The Prudential Borrowing proposal is provisional as the Council will review its available resources at the end of each financial year. An assessment of the capital grants, contributions and capital receipts at year end may provide a more cost effective method of financing the Council's capital expenditure. The Council will endeavour to keep Prudential Borrowing and the associated costs to a minimum by utilising other available resources.

1.4 Required indicators

The required Prudential Indicators are:

- Ratio of Financing Costs to Net Revenue Stream.
- Capital Financing Requirement.
- Capital Expenditure.
- Incremental impact of capital investment decisions.
- Operational Boundary and Authorised Limit on External Debt and other long term liabilities.
- Gross debt and the capital financing requirement.
- Upper and lower limits on interest rate exposures.
- Maturity structure of borrowing for the forthcoming financial year.
- Limit for total principal sums invested for periods longer than 364 days.
- Borrowing Limits in respect of Greater Manchester Metropolitan Debt Administration Fund (GMMDAF).

The actual indicators and the methodology used to arrive at them are set out below.

1.5 Monitoring, revising and reporting Prudential Indicators

The monitoring frequency for each Prudential Indicator is determined individually. Some are monitored daily as treasury management transactions take place and others less frequently. For some indicators e.g. net external borrowing, trigger points will be set within the monitoring process to highlight when the indicator limits could be breached and allow corrective action to be taken. The Section 151 Officer receives a monthly monitoring report reviewing all indicators.

The Section 151 Officer will report to Members on the performance of all Prudential Indicators as part of the Capital Programme monitoring process. Some of the Prudential Indicators may need to be revised during the year and these will require approval by the Overview (Audit) Panel. The indicators will continually change due to factors other than the level of borrowing e.g. – capital expenditure will change when additional grant resources are received.

1.6 Ratio of Financing Costs to Net Revenue Stream

Limit/indicator	2016/17 %	2017/18 %	2018/19 %
Ratio of financing costs to net revenue stream	8	9	10

This ratio represents the total of all financing costs e.g. interest payable and minimum revenue provision (MRP) that are charged to the revenue budget as a percentage of the amount to be met from Government grants and taxpayers (net revenue stream).

This ratio has been calculated based on the future year's level of borrowing set out at **Appendix 3** section 1.3.

1.7 Capital Financing Requirement (CFR)

The CFR is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The opening balance at the 01/04/16 has been estimated together with the movement in the CFR for future years.

Following accounting changes the CFR now includes any other long term liabilities (e.g. PFI schemes and finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment. The estimated CFR is based on the same borrowing assumptions set out at Appendix 3 section 1.3.

1.8 Capital Expenditure

Limit/indicator	2016/17 £000	2017/18 £000	2018/19 £000
Capital expenditure	53,288	51,412	7,891

This is the estimate of the total capital expenditure to be incurred (from all funding sources) for future years and recommended for approval. This aligns to the total estimates for the capital programme as reported in **Appendix 2a**.

This estimate will continue to be updated as part of the monitoring process as new resources are subsequently notified.

1.9 Incremental Impact of Capital Investment Decisions

Limit/indicator	2016/17 £	2017/18 £	2018/19 £
For the Band D Council Tax	15	61	94

This is the estimate of the net incremental impact of the capital investment decisions, based on the level of borrowing set out in the report at Appendix 3 section 1.3 and reflects the total cost of this additional borrowing (interest payments and minimum revenue provision) less government supported borrowing, as a cost on Council Tax. The actual cost will depend on final funding.

1.10 Operational Boundary and Authorised Limit on External Debt and Other Long Term Liabilities

Limit/indicator	2016/17 £000	2017/18 £000	2018/19 £000
Operational Boundary for external debt	268,312	278,094	276,890
Authorised Limit for external debt	288,312	298,094	296,890

These limits include provision for borrowing in advance of our requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.
The limits are made up as follows:

Limit/indicator	2016/17 £000	2017/18 £000	2018/19 £000
Estimated 31 March 2016	119,760		
Previous year Operational Boundary		268,312	278,094
Add debt maturing in year	54	5,096	0
Add borrowing for 2016/17 and previous years requirement not taken up	119,122		
Add borrowing in advance for 2017/18 and future years	33,739	10,000	10,000
Less already borrowed in advance for future years			
Less previous year maturing fall out		(54)	(5,096)
Less MRP	(4,363)	(5,260)	(6,108)
Operational Boundary - borrowing	**268,312**	**278,094**	**276,890**
Add allowances for cash flow etc.	20,000	20,000	20,000
Authorised Limit - borrowing	**288,312**	**298,094**	**296,890**

The allowance for cash flow is made up of 2 elements. (a). it is possible that a rescheduling exercise where we borrow prior to repayment could take place. We have allowed £10 million for this. (b). Normally the amount of investments that we currently hold would mean that there would be no need to borrow, however, an allowance of £10 million has been made for liquidity purposes.

We are also required to set operational boundaries and authorised limits for Other Long Term Liabilities (e.g. PFI schemes and finance leases), which are now shown on balance sheet, following recent accounting changes. The table below includes all current PFI schemes and finance leases in place, with an allowance of £1 million for any new agreements that may arise.

Limit/indicator	2016/17 £000	2017/18 £000	2018/19 £000
Operational Boundary for other long term liabilities	110,388	107,796	104,923
Add allowance for new agreements	1,000	1,000	1,000
Authorised Limit for other long term liabilities	111,388	108,796	105,923

The total authorised limit of £400 million (including both external borrowing and other long term liabilities should be set as the Council's affordable borrowing limit for 2016/17) as required under the provisions of the Local Government Act 2003.

1.11 Gross Debt and the Capital Financing Requirement.

Limit/indicator	2016/17 £000	2017/18 £000	2018/19 £000
Core capital financing requirement	199,173	230,911	259,643
Gross borrowing	199,173	230,911	259,643

To ensure that medium term debt will only be for a capital purposes, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement (CFR).

1.12 Upper and lower limits on Interest Rate Exposures

Limit/indicator	2016/17 £000	2017/18 £000	2018/19 £000
Upper limit for fixed interest rate exposure	199,173	230,911	259,643
Upper limit for variable interest rate exposure	66,391	76,970	86,548

These limits are in respect of our exposure to the effects of changes in interest rates. The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

1.13 Maturity Structure of Borrowing for the Forthcoming Financial Year

These limits set out the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate.

		Upper	Lower
Upper/lower limit for maturity structure	Under 12 months	15	0
	12 months and within 24 months	15	0
	24 months and within 5 years	30	0
	5 years and within 10 years	40	0
	10 years and above	100	50

Future fixed rate borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter term borrowing may be used. Given the low current long term interest rates, we feel that it is acceptable to have a long maturity debt profile.

1.14 Limit for Total Principal Sums Invested for Periods Longer than 364 days

2016/17 £m	2017/18 £m	2018/19 £m
30	20	10

At present we have no long term investments maturing in 2016/17 or beyond. Whilst we do not have any specific plans for more investments of this type, if interest rates and the security of the investment were favourable, it is possible that we might decide that maturities of greater than 1 year were prudent. However, it is felt that the amounts shown above should be the limits maturing in 2016/17, 2017/18 or 2018/19.

1.15 Borrowing Limits in Respect of GMMDAF

Operational Boundaries and authorised Limits must also be set for the Greater Manchester Debt Fund. The recommended limits are:

	2016/17 £000	2017/18 £000	2018/19 £000
Operational Boundary - borrowing	109,666	93,595	76,699
Authorised Limit - borrowing	124,666	108,595	91,699

The difference between the operational boundary and authorised limit allows for temporary cash flow shortages and debt rescheduling where loans are borrowed in advance. The authorised limit of £124.7 million should be set as the affordable borrowing limit for the GMMDAF for 2016/17 as required under the Local Government Act 2003.

The Code also requires compliance with the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has adopted and adheres to this Code.

APPENDIX 4

MINIMUM REVENUE PROVISION STATEMENT (MRP)

1.1 Regulations issued by the Department of Communities and Local Government in 2008 require the Council to approve a Minimum Revenue Provision (MRP) statement in advance of each year.

1.2 MRP is the provision made in the Council’s revenue budget for the repayment of borrowing used to fund capital expenditure - the Council has a statutory duty to provide for an amount of MRP which it considers to be prudent. This provision must take into consideration the period over which the capital expenditure is likely to provide benefits to the authority.

1.3 Members must approve the MRP statement annually to confirm that the means by which the Council plans to provide for repayment of debt are satisfactory.

1.4 For 2016-17, the Council has adopted the following policy in relation to calculating the Minimum Revenue Provision:

- Borrowing taken up prior to 01/04/2015 will be provided for using a straight-line method of calculating MRP. £185,215,128 will be provided for in equal instalments over 50 years which will result in an annual charge of £3.704m. The debt will be extinguished in full by 31 March 2065. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

- The following will be required in relation to borrowing taken up on or after 01/04/2015. ‘MRP is to be provided for based upon the average expected useful life of the assets funded by borrowing in the previous year. The debt will be repaid on a straight-line basis over the average useful life calculated; the debt will be fully extinguished at the end of period. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

APPENDIX 5

CAPITAL PROGRAMME 2016/17 - 2018/19 - detail

CAPITAL PROGRAMME 2016/17 - 2018/19	ESTIMATE 2016/17 £000	ESTIMATE 2017/18 £000	ESTIMATE 2018/19 £000	TOTAL £000
ADULT AND HEALTH SERVICES				
BCF ADULTS CAPITAL GRANT	650	0	0	650
ADULT AND HEALTH SERVICES Total	**650**	**0**	**0**	**650**
AIPM				
OPPORTUNITY PURCHASE FUND (INDIVIDUAL APPROVAL REQUIRED)	500	500	0	1,000
VISION TAMESIDE	16,806	17,293	0	34,099
PUBLIC REALM	0	2,631	0	2,631
AIPM Total	**17,306**	**20,424**	**0**	**37,730**
COMMUNITY SERVICES				
LIBRARIES IN THE 21ST CENTURY	573	0	0	573
COMMUNITY SERVICES Total	**573**	**0**	**0**	**573**
EDUCATION				
BASIC NEED - FUNDING STREAM	4,045	6,543	0	10,588
ALDER BUY OUT FITNESS CENTRE	1,000	0	0	1,000
HYDE TARGETED BASIC NEED NEW SCHOOL	608	0	0	608
ALDWYN PRIMARY ADDITIONAL ACCOMMODATION	1,477	0	0	1,477
DISCOVERY ACADEMY - REMODELLING/FURNITURE	115	0	0	115
MILTON ST JOHN CREATION OF BULGE CLASS	40	0	0	40
LIVINGSTONE REMODELLING/EXTENSION	345	0	0	345
ST JAMES' HATTERSLEY - ADDITIONAL CLASSROOM	220	0	0	220
ST DAMIAN'S CLASSROOM ALTERATIONS	250	0	0	250
EDUCATION Total	**8,100**	**6,543**	**0**	**14,643**
ENGINEERING SERVICES				
ASHTON NORTHERN BYPASS - STAGE 2	230	0	0	230
PINCH POINT SCHEMES	150	0	0	150
JUNCTION IMPROVEMENTS ON/OFF AT J23 M60	250	0	0	250
ASHTON TOWN CENTRE ACCESS IMPROVEMNTS	181	0	0	181
LED STREET LIGHTING INVESTMENT	4,470	0	0	4,470
HIGHWAYS MAINTENENANCE FUNDING	2,129	2,064	0	4,193
THE LONGDENDALE INTEGRATED TRANSPORT STRATEGY	480	0	0	480
THE LONGDENDALE INTEGRATED TRANSPORT STRATEGY NOTIONAL ELEMENT	0	7,809	0	7,809
POTHOLE FUNDING	1,000	0	0	1,000
ASHTON-STALYBRIDGE CYCLE ROUTE	400	0	0	400
DENTON LINK ROAD	1,159	0	0	1,159
CHALLENGE FUNDING	1,750	500	0	2,250
ENGINEERING SERVICES Total	**12,199**	**10,373**	**0**	**22,572**
ENVIRONMENTAL SERVICES				
CARBON REDUCTION - INVEST TO SAVE SCHEMES APPROVAL REQUIRED	311	0	0	311
GUIDE LANE FORMER LANDFILL SITE	469	0	0	469
RETROFIT (BASIC MEASURES)	327	0	0	327
ENVIRONMENTAL SERVICES Total	**1,107**	**0**	**0**	**1,107**
CONTINGENCY FOR ADDITIONAL CAPITAL SCHEMES				
ESTIMATED FUTURE BORROWING APPROVALS / RECEIPTS	3,785	4,279	5,000	13,064
REPAYMENT OF PRUD BORROWING	607	721	0	1,328
CONTINGENCY FOR ADDITIONAL CAPITAL SCHEMES Total	**4,392**	**5,000**	**5,000**	**14,392**
DEVELOPMENT AND INVESTMENT				
ASHTON TOWN CENTRE AND CIVIC SQUARE	2,600	0	0	2,600
DISABLED FACILITIES GRANTS	1,158	0	0	1,158

DEVELOPMENT AND INVESTMENT Total	**3,758**	**0**	**0**	**3,758**
PUBLIC HEALTH				
HYDE LEISURE PHASE 2	355	0	0	355
ACTIVE TAMESIDE WELLNESS CENTRE & WIDER INVESTMENT	4,848	9,072	2,891	16,811
PUBLIC HEALTH Total	**5,203**	**9,072**	**2,891**	**17,166**
Total	**53,288**	**51,412**	**7,891**	**112,591**