

For publication

Update on General Fund Capital Programme 2017/18 (J000)

Meeting: Council

Date: 13th December 2017

Cabinet portfolio: Deputy Leader of the Council

Report by: Director of Finance & Resources

For publication

1.0 Purpose of report

1.1 To provide an update to the General Fund Capital Programme.

2.0 Recommendations

2.1 The updated General Fund Capital Programme expenditure and financing arrangements, as set out in Appendix A to the report, be approved.

2.2 The new schemes, as outlined in paragraph 6.1 of the report, be noted.

2.3 The proposal to undertake further work to finalise the strategy document required to take advantage of the Government's capital receipts flexibility rules, as detailed in paragraphs 5.3 and 6.1 of the report, be approved.

2.4 The proposal to defer the repayment of prudential borrowing from capital receipts, including that in respect of the Queens Park Sports Centre and Market Hall refurbishment projects, as set out in paragraphs 5.4 and 7.1 of the report, be approved.

- 2.5 The proposed changes to the methods used to finance current schemes, as set out in paragraph 5.7 of the report, be approved.

3.0 **Background**

- 3.1 The Capital Programme for 2017/18 was approved as part of the budget setting process in February 2017. The programme included two major capital schemes, the Town Hall alterations and the Northern Gateway project.

- 3.2 The programme is heavily dependent on financing from capital receipts but in the current economic climate generating the receipts continues to be a challenge. Kier continue to provide an accelerated receipts programme which is incentivised through a commission payment on the receipts generated.

- 3.3 This report was considered by the Cabinet meeting on 3 October, 2017, where it was resolved that the recommendations at paragraphs 2.1 – 2.5 be approved by full Council.

4.0 **Updated Expenditure Forecasts**

- 4.1 Updated Programme – An updated capital programme forecast (expenditure and financing) is included at **Appendix A**. The Programme covers the current financial year and three years ahead.

- 4.2 New Schemes - the updated programme includes the schemes that were approved in February 2017 and some new proposals.

4.3 Progress on Current Major Schemes

- 4.3.1 **Town Hall Alterations** – the building services division won the tender to carry out the alterations to the Town Hall required by Derbyshire County Council before the Registry Office is transferred here. This along with the removal of asbestos taking longer than anticipated means that the completion of this scheme has slipped. The project remains currently on budget.

4.3.2 **Northern Gateway (Refurbishment of Saltergate MSCP)** -

Council recently approved the demolition and rebuilding of the car park on this site as a more cost effective solution than refurbishment. The £3m additional borrowing associated with this change was approved by Cabinet in July 2017 and are included in Appendix A.

4.3.3 **Peak Resort** – this scheme provides upfront infrastructure works to provide access to the site prior to the first phase of the commercial development. This is fully financed by SCRIF funding.

4.3.4 **Chesterfield Museum Store** – this scheme involves the refurbishment of a unit at Somerset Yard to allow museum storage. However due to unforeseen difficulties with the building, the museum storage is now to be housed in an industrial unit. It is proposed to delete this refurbishment scheme from the capital programme.

4.3.5 **Waterside (loan)** – Sheffield City Region (SCR) provided a loan of £2.4m in July 2016 to fund certain elements of the Waterside scheme. The capital spend and loan from SCR are included in the current capital programme. Once the scheme was underway, it was discovered that it can be delivered without this loan facility and the loan was repaid in July 2017. It is proposed to delete this element of the Waterside project from the capital programme.

5 **Capital Financing**

5.1 Financing Resources – the capital financing resources forecast is shown in **Appendix A**. The main sources of capital finance and how they are being used to fund the current capital programme are summarised below:

- Borrowing – capital expenditure can be financed from borrowing provided the borrowing is affordable, prudent and sustainable. The aim has been to repay borrowing as soon as possible from revenue savings generated by the schemes or by setting aside capital receipts from asset sales. However due to the ongoing scarcity of capital receipts and the need for investment on

several schemes, other borrowing will be required to finance the capital programme.

- Grants and contributions:
2017/18 - £4.8m in total including £1.2m DFG's and £3.2m SCRIF Grant;

2018/19 - £5.3m in total including SCRIF grant of £4.6m and grant of £0.65m DFG's

2019/20 - £1.1m in total including SCRIF grant of £0.5m and grant of £0.65m DFG's
- Reserves - contributions from earmarked reserves towards ICT, vehicle replacements and match funding contributions re other grant funded schemes.
- Capital Receipts – see below.

5.2 Capital Receipts Flexibility – the general rule is that capital receipts can only be used either to repay debt or to finance new capital expenditure. The Government has introduced a relaxation to this rule for the period April 2016 to March 2019 which provides the flexibility to use capital receipts from property, plant and equipment for revenue expenditure on transformation schemes that are designed to deliver ongoing revenue savings.

5.3 To take advantage of this flexibility, the Council would need to produce a strategy document giving details of any projects to be funded in this manner, the level of revenue savings expected and show the impact of this on our prudential indicators. This would need to be approved by full Council and then submitted to DCLG for their approval. All spend would have to be incurred by March 2019.

5.4 Repayment of prudential borrowing planned for 2016/17 was not done to allow the Council to explore the opportunity to use capital receipts to fund business transformation projects. The revised capital programme assumes that the planned repayment of prudential borrowing from 2016/17 is deferred until 2018/19 pending a decision on whether the capital receipts generated will be needed for business transformation projects.

- 5.5 The funding of the capital programme is heavily reliant on the generation of capital receipts so this additional use puts further pressure on what is already a scarce resource.
- 5.6 Capital receipts - are only included in the programme once potential disposals have been identified and the property concerned is being actively marketed. Kier continue to provide additional resources to help accelerate the sale of assets in return for a commission payment on the sales concluded. Given the experience of recent years where the planned receipts at the start of the year were not achieved a more prudent approach has now been adopted for forecasting future receipts. Officers will continue to review whether additional resources are required to further accelerate disposals.

The capital receipts included in the Programme at Appendix A are:

2017-18 - The forecast of receipts at the start of the year was £2.0m but this has been revised to £2.4m. The increase is due to the inclusion of the sale of garage sites and increased estimates on some assets. It includes the sale of land at Ashgate Rd, 87 New Square and the first tranche of land at Poolsbrook.

2018/19 – receipts of £0.5m have been assumed including the second tranche of land at Poolsbrook.

2019/20 – receipts of £0.5m have been assumed. The sale of land at Linacre Rd has been omitted from the capital receipts forecast until a development decision is made.

The receipts forecasts are continually changing as delays are encountered on some disposals or when there are opportunities to accelerate others.

- 5.7 Due to pressure on the General Fund revenue position and the need to identify savings, it is proposed to amend the previously approved financing of the Winding Wheel lift refurbishment from the Property Repairs Reserve to external borrowing which will reduce the level of contributions into this reserve from General Fund revenue.

6.0 New Schemes

- 6.1 There are a number of capital schemes coming to Cabinet and Council for approval in the near future. These are as follows:

- **Development of old Queens Park Sports Centre site** – a public consultation was undertaken in 2016/17 which gave support for the development of this site for artificial pitches. A business case is being commissioned for the scheme.
- **ICT Development** – a modernisation programme being assessed could provide a 'Digital Platform' for service delivery which is expected to generate significant revenue savings when complete. The estimated costs are yet to be finalised in a business plan, an element of which will be revenue costs. These revenue costs could be met by using the capital receipts flexibility referred to in para 5.2 for business transformation projects and must therefore be spent by 31st March 2019.

Other fully funded schemes that have been added to the Programme include:

- Increase in Disabled Facilities Grants of £386k for 17/18 only, funded by the Better Care Fund;
- Langer Lane play space upgrade of £70k funded by Derbyshire County Council and Viridor
- Eastwood Park skate park of £51k funded by Viridor
- Whitebank Close bowls upgrade £33k by Viridor

7.0 Net Financing Position

7.1 The funding surpluses / (deficits) for each of the financial years covered by the updated capital programme are summarised in the table below:

| | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| In year surplus/(deficit) | 2,009 | - | 12 | 51 |

The key points to note are:

- 2017/18 – internal borrowing of £1.4m is required to fund the Town Hall alterations. Repayment of prudential borrowing has been deferred pending a review of the decision on how these capital receipts can best be utilised leading to a surplus of £2m.

- 2018/19 – borrowing of £5.2m is required to fund the programme. This will create further pressure on the revenue budget to meet the minimum revenue provision for debt repayment. It is expected that some schemes will generate revenue savings in future years (Saltergate Car Park) which will more than offset the additional revenue cost of borrowing.
- 2019/20 – a small surplus of £12k is forecast. The original capital programme assumed that a proportion of the prudential borrowing for the Market Hall refurbishment and the new Queens Park Sports Centre of £4.9m, could be repaid in this year. This is deferred from the capital programme until the outcome of future capital receipts linked to the repayment (i.e. Linacre) is known. The deferral of debt repayment, however, does add further pressure to the revenue budget as a minimum revenue provision for debt repayment, based on the estimated life of the asset being financed, has to be charged to the revenue account whilst the debt remains in place.
- 2020/21 – a small surplus of £51k is forecast.

8.0 Growth Requests

8.1 The forecast Capital Programme in **Appendix A** shows that based on current forecasts there will be no surplus resources available to fund new schemes until 2019/20. In this climate new schemes can only be added to the Programme where:

- (a) They are aligned with a Council Plan priority; and
- (b) The additional funding required has been identified and secured.

Where the funding cannot be identified the schemes will be added to a prioritised list of growth requests and added to the Programme as resources become available.

8.2 The options for creating some additional financing resource include:

- Accelerating **capital receipts** into an earlier year or identifying new assets for a quick disposal.
- **Prudential borrowing** where there is a strong invest-to-save case which shows that the borrowing cost are affordable and sustainable.

- Securing external **grant** support.

8.3 Starts on schemes that are included in the Capital Programme will not be made until the Cabinet has approved the detailed business case.

9.0 Risk management

9.1 The risks relating to the capital programme generally are set out in the table below. For individual capital projects the risks are considered in detail at the project appraisal stage.

| Description of the Risk | Current Risk | | Mitigating Action | Target Risk | |
|--|---------------|--------------|---|-------------|--------------|
| | Impact | Likelihood | | Impact | Likelihood |
| Overspends on schemes | Medium (3) | Possible (3) | Effective planning & monitoring | Medium (3) | Unlikely (2) |
| Slippage on schemes | Medium (3) | Possible (3) | Regular and effective monitoring | Medium (3) | Unlikely (2) |
| Capital receipts – disposals delayed or unable to complete | Very High (5) | Likely (4) | Control starts on uncommitted schemes until finance in place. Include only planned disposals in resources forecast. Borrow internally from reserves or short term prudential borrowing. | High (4) | Possible (3) |
| Reductions in Government Grants | High (4) | Possible (3) | Other external funding opportunities. Asset Management Plan to generate capital receipts. | Medium (3) | Possible (3) |
| Contractor failure | Medium (3) | Unlikely (2) | Financial tests. Performance bonds. | Low (2) | Unlikely (2) |
| Lack of capacity to deliver a number of major schemes at the same time | High (4) | Likely (4) | Carefully manage the number of projects and hence risks in play at any one time. | Med (3) | Unlikely (2) |
| Exempt VAT recovery – a number of current schemes | V. High (5) | Possible (3) | Starts on schemes delayed until VAT issues resolved. | V. High (5) | Unlikely (2) |

| | | | | | |
|---|--|--|--|--|--|
| have exempt VAT implications. The cumulative impact could cause the Council to exceed its exempt VAT recovery threshold and then be unable to recover <u>any</u> exempt VAT in that year. | | | <p>In-year monitoring.</p> <p>VAT planning for a number of years ahead.</p> <p>Obtaining expert external advice.</p> | | |
|---|--|--|--|--|--|

10.0 Equalities Impact Assessment (EIA)

10.1 The equalities issues relating to particular capital projects are considered separately at the project appraisal stage.

11.0 Alternative options and reasons for rejection

11.1 The amendment to the Capital Programme is based on the previously approved schemes within the current Capital Programme plus the addition of new schemes since that report was approved. Previous commitments could be reviewed and other priorities determined for growth requests.

12.0 Recommendations

12.1 The updated General Fund Capital Programme expenditure and financing arrangements, as set out in Appendix A to the report, be approved.

12.2 The new schemes, as outlined in paragraph 6.1 of the report, be noted.

12.3 The proposal to undertake further work to finalise the strategy document required to take advantage of the Government's capital receipts flexibility rules, as detailed in paragraphs 5.3 and 6.1 of the report, be approved.

12.4 The proposal to defer the repayment of prudential borrowing from capital receipts, including that in respect of the Queens Park Sports Centre and Market Hall refurbishment projects, as set out in paragraphs 5.4 and 7.1 of the report, be approved.

12.5 The proposed changes to the methods used to finance current schemes, as set out in paragraph 5.7 of the report, be approved.

13.0 Reasons for recommendations

13.1 To update the Council's General Fund Capital Programme and ensure that it is affordable and deliverable over the medium term.

Decision information

| | |
|---|--------------|
| Key decision number | 770 |
| Wards affected | (All Wards); |
| Links to Council Plan priorities | All |

Document information

| Report author | Contact number/email |
|---|--|
| Helen Fox | Tel: 01246 345452/helen.fox@chesterfield.gov.uk |
| Background documents These are unpublished works which have been relied on to a material extent when the report was prepared. | |
| <i>This must be made available to the public for up to 4 years.</i> | |
| Appendices to the report | |
| Appendix A | General Fund Capital Programme |