For publication

Capital Strategy & General Fund Capital Programme 2018/19 (J170R)

Meeting:	Council
Date:	22nd February 2018
Cabinet portfolio:	Deputy Leader
Report by:	Director of Finance & Resources

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1.0 Purpose of report

1.1 To approve the General Fund Capital Strategy and Programme for the financial year 2018/19.

2.0 Recommendations

2.1 That the Capital Strategy be approved (**Appendix A**).

2.2 That the updated General Fund Capital Programme expenditure and financing be approved (**Appendix B**).

2.3 That the new schemes in para. 8.3 are noted for future Capital Programme allocations but their approval is subject to satisfactory Business Cases and Cabinet/Council agreement.

3.0 Background

3.1 The Capital Programme for 2017/18 was approved as part of the budget setting process in February 2017. Updates to the

Programme were included in the budget monitoring reports to the full Council on 13th December 2017.

3.2 Major capital additions to the programme during the year have been the rebuild (rather than refurbishment) of Saltergate Multi-Storey Car Park at an additional £3m, Artificial Pitches on the former Queens Park Sports Centre site of £0.75m, repairs to Beetwell Street Car Park at £0.4m and improvements to the Winding Wheel Foyer at £0.4m.

3.3 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.

3.4 This report is due to be considered by the Cabinet at its meeting on 20 February, 2018 where it is recommended that the report and its recommendations be supported and referred to Council for approval.

4.0 Capital Strategy

4.1 The Capital Strategy provides the framework which governs how the Council manages its capital expenditure. A copy of the recommended Capital Strategy is included at **Appendix A**. The aim of the Strategy is to ensure that the capital expenditure is affordable in both revenue and capital terms and is directed at the Council's priority schemes.

4.2 In the Local Government Grant Settlement 2015 the Government included a new flexibility to allow the use of capital receipts secured between 1st April 2016 and 31st March 2019 to fund revenue expenditure, provided that the expenditure is on transformation projects which are designed to deliver on-going savings. In the Local Government Grant Settlement announced in December 2017 this flexibility was extended for a further three years to 31st March 2022.

4.3 The Council's revenue budget is under severe pressure so it is important that the cost of any borrowing for capital purposes is removed from the revenue budget as quickly as possible. However the need to remove the cost of borrowing from the revenue budget needs to be balanced with the opportunity to utilise capital receipts to deliver transformation projects which will generate on-going savings, as described in paragraph 4.2. The Council has assets and the potential to release significant capital sums from the disposal of surplus or poorly performing assets.

4.4 The planned disposal of land at Linacre, together with other disposals, provides an opportunity to repay the prudential borrowing used to finance Town Hall Restack costs, as set out in the Cabinet approvals of the project.

5.0 Updated Expenditure Forecasts

5.1 **Updated Programme** – An updated capital programme forecast (expenditure and financing) is included at **Appendix B**. The Programme covers the current financial year and three years ahead. A commentary on the most significant schemes in the Programme is provided below.

5.2 **New Schemes** - the updated programme includes the schemes that were added to the Programme during the financial year and some new proposals.

5.2.1 The schemes that were approved by the full Council or Cabinet and added to the Capital Programme in the year include:

- Rebuild of Saltergate Multi-Storey Car Park, with an additional £3.0m borrowing approved 19th July 2017;
- New Artificial Sports Pitches on former QPSC Site, £750k approved 13th December 2017;
- Winding Wheel Foyer Improvements (using Theatre Restoration Fund), £426k approved 14th November 2017;
- Beetwell Street Car Park (repairs), £400k approved 13th December 2017;
- Kiosk Upgrades, £40k approved 13th December 2017.

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

- Hollingwood Play Area, £57k funded by Viridor grant and S106 contribution;

- Hazel Drive Play Area, £55k funded by Viridor grant;
- Tapton Terrace Flood Resilience Work, £157k funded by Flood Risk Management grant from the Environment Agency.

5.3 **Progress on Current Major Schemes**

5.3.1 **Town Hall Restack** – 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 until autumn 2018. The project remains currently on budget.

5.3.2 **Northern Gateway (Refurbishment of Saltergate Multi-Storey Car Park)** – Council recently approved the demolition and rebuilding of the car park on this site as a more cost effective solution than refurbishment. The car park closed to the public on 3rd February ahead of demolition works. Rebuild works are due to commence in the spring/summer of 2018 with the majority of the spend falling in 2018/19.

5.3.3 **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.

5.4 **Recurring Schemes**

5.4.1 **Disabled Facilities Grants** – the original capital programme included £1.2m for 2017/18. However Derbyshire County Council, who holds the Better Care Fund, confirmed an allocation of £1.3m for this year, of which £116k will be used to fund Home Repairs Assistance Grants.

5.4.2 **Vehicle and Plant Reserve** – services make regular contributions from their revenue budgets into the Reserve to ensure that as and when vehicles and plant need replacing the resources are in place. The Vehicle & Plant expenditure included in the Capital Programme is, therefore, fully funded by a transfer from the Vehicle and Plant Reserve.

6.0 Capital Financing

6.1 **Financing Resources** – the capital financing resources forecast is shown in **Appendix B**. 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 current Capital Programme includes borrowing that the Council has previously approved of £2m for the Town Hall restack but only £1.4m is currently required, and £3m additional funding for Saltergate Multi-Storey Car Park. 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 - £5.0m in total including £3.2m SCRIF contribution for Chesterfield Waterside Basin Square, Peak Resort and Northern gateway schemes, £1.3m DFG's, £0.18m Viridor contributions towards play area schemes and £0.12m Flood Relief Grant. The £2.4m SCRIF loan for the Waterside Project was repaid in 2017 as it was not required;

  2018/19 - £3.5m in total including £2.2m SCRIF contribution to Northern Gateway scheme, £1.2m DFG's and £0.13m Flood Relief Grant.

  2019/20 - £3.6m in total including £2.9m SCRIF contribution to Northern Gateway scheme and £0.65m DFG's.

  2020/21 - £0.66m in total including £0.65m DFG's.

- Reserves - contributions from earmarked reserves towards ICT, vehicle and plant replacements and match funding contributions re other grant funded schemes.

- Capital Receipts – see below.

6.2 **Capital Receipts Flexibility**– the general rule is that capital receipts can only be used either to repay debt or to finance new capital expenditure. As reported in paragraph 4.2 above, the Government has introduced a relaxation to this rule for the period April 2016 to March 2022 which provides the flexibility to use capital receipts for revenue expenditure on transformation schemes that are designed to deliver on-going revenue savings.

6.3 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 2022.

6.4 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 B are:

2017-18 – a full list of receipts is included at Appendix B including land at Rose Hill/Clarence Road, Compton Street Car Park and garage sites at Hardwick Street and Newbridge Street.

2018-19 – receipts of £2.3m have been assumed including 87 New Square, Spital Cemetery chapel, Chester Street garage site, land at Ashgate Rd and Whitebank Close and the first tranche of land at Poolsbrook.

2019/20 – receipts of £4.1m have been assumed including land at Gorse Valley, the final tranche of land at Poolsbrook and the first tranche of land at Linacre.

2020/21 – receipts of £3.5m have been assumed including land at Hollythorpe Close and the final tranche of land at Linacre.

The receipts forecasts are continually changing as delays are encountered on some disposals such as assets having to be re-marketed when sales fall through or when there are opportunities to accelerate others.

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:

Forecast of Capital Resources Surplus / (Deficits) - £'000

	2017/18	**2018/19**	**2019/20**	**2020/21**
In year surplus	(653)	(702)	729	3,290

The forecasts are based on the latest profile of expenditure on currently approved schemes only i.e. before the inclusion of any new schemes. The key points to note are:

- 2017/18 – an in- year deficit of £653k is forecast due to re-profiling of capital receipts. This deficit will be financed from the cumulative surplus carried forward from 2016/17.

- 2018/19 – an in- year deficit of £702k is forecast based on a prudent level of capital receipts (£2.3m) and prudential borrowing of £3.5m. The forecast also assumes that £0.7m of the receipts will be used to repay borrowing relating to the Ex Fire Station Site and the refurbishment of the market hall. This deficit will be financed from the cumulative surplus carried forward from 2017/18.

- 2019/20 – an in-year surplus of £0.7m is forecast based on a prudent level of capital receipts (£4.1m). The forecast also assumes that £1.4m of the receipts will be used to repay borrowing relating to the refurbishment of the Town Hall.

- 2020/21 – an in-year surplus of £4.2m is forecast based on a prudent level of capital receipts (£3.5m).

The funding surpluses provide available resources for IT investment or future capital programmes.

8.0 Growth Requests

8.1 The forecast Capital Programme in **Appendix B** shows that based on current forecasts there will be no surplus resources available to fund new schemes until 2019/20 without PWLB/internal borrowing. 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 costs are affordable and sustainable.
- Securing external **grant** support.

8.3 **Growth Request Schemes** proposed for the Capital Programme in 2018/19 are shown below. These schemes are not included in the current capital programme set out in this report and Appendix B.

Scheme Description	Capital Implications	Rationale
Winding Wheel Redecoration Works	£92K	Enhanced appearance of the Winding Wheel which will assist in efforts to promote the venue to hirers
Winding Wheel Refurbishment of Public Toilets	£118k	Enhanced appearance of the Winding Wheel which will assist in our efforts to promote the venue to hirers

In order to finance the schemes listed above, we require either:

- Further capital receipts of £210k in 2018/19, or
- Prudential borrowing of £210k.

8.4 Starts on any scheme that is 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)
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 have exempt VAT implications. The cumulative impact could cause the Council to exceed its exempt VAT recovery	V. High (5)	Possible (3)	Starts on schemes delayed until VAT issues resolved. In-year monitoring. VAT planning for a number of years ahead. Obtaining expert external advice.	V. High (5)	Unlikely (2)

threshold and then be unable to recover any exempt VAT in that year.					

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 to be Considered

11.1 The proposed Capital Programme is based on the previously approved schemes within the current Capital Programme plus the addition of new schemes recommended by the Senior Leadership Team. Previous commitments could be reviewed and other priorities determined for growth requests.

12.0 Recommendations

12.1 That the Capital Strategy be approved (**Appendix A**).

12.2 That the updated General Fund Capital Programme expenditure and financing be approved (**Appendix B**).

12.3 That the new schemes in para. 8.3 are noted for future Capital Programme allocations but their approval is subject to satisfactory Business Cases and Cabinet/Council agreement.

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.

Glossary of Terms	
SCRIF	Sheffield City Region Investment Fund

Decision information

Key decision number	**789**
Wards affected	**All**

Links to Council Plan priorities	To ensure value for money services.

Document information

Report author	**Contact number/email**
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	
Appendices to the report	
Appendix A	Capital Strategy
Appendix B	General Fund Capital Programme