FOR PUBLICATION

CAPITAL STRATEGY & GENERAL FUND CAPITAL PROGRAMME 2013/14 TO 2016/17 – J050

MEETING:	1. COUNCIL 2. CABINET 3. DEPUTY LEADER & EXECUTIVE MEMBER FOR PLANNING
DATE:	1. 27TH FEBRUARY 2014 2. 18TH FEBRUARY 2014 3. 11TH FEBRUARY 2014
REPORT BY:	HEAD OF FINANCE
WARD:	ALL
COMMUNITY FORUM:	ALL
KEY DECISION REFERENCE:	363

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1.0 PURPOSE OF REPORT

1.1 To approve the General Fund Capital Programme.

2.0 RECOMMENDATIONS

2.1 That the updated General Fund Capital Programme expenditure and financing be approved.

2.2 That approval be given to use short term prudential borrowing in 2013/14 to cover any shortfall in the forecast capital receipts for the remainder of the financial year (maximum £871k).

3.0 BACKGROUND

3.1 The Capital Programme was last approved as part of the budget setting process in February 2013 and updated in a report to the Cabinet on 24th July 2013. The July 2013 report highlighted a potential funding shortfall in 2013/14 of £623k due mainly to

moving the Newbold School capital receipt into a later year; by the end of the third year of the programme, however, there was a forecast surplus of resources of £219k. The Programme includes two major capital schemes, Queens Park Sports Centre new build and Market Hall Refurbishment, and the other recurring items such as Disabled Facilities Grants, Home Repairs Assistance, etc.

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. To try and accelerate asset disposals Kier, who provide the Council's Property Management Service, were asked to devote more resources to the activity, the cost of which was to be met from a commission charge on the receipts generated.

3.3 The framework which governs how the Council manages its capital expenditure is included in the Capital Strategy at **Appendix D**.

3.4 The report was considered by Cabinet at its meeting on the 18th February, 2014 and the recommendations were approved.

4.0 UPDATED EXPENDITURE FORECASTS

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

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

4.2.1 The schemes what were added in the year include:

- Great Place:Great Service – funded from capital receipts and various reserves.
- Parking Services – funded from the Vehicle & Plant fund and the Invest to Save reserve.
- Brampton flood resilience work – funded from the Environment Agency grants.
- ICT Disaster Recovery – funded from the Invest to Save reserve.

4.3 **Waterside Registered Social Landlord Housing Scheme** – this scheme was originally approved by Cabinet in May 2011. The original funding package included S106 monies from a housing development but the monies have not materialised as quickly as was originally forecast. There is still no certainty about when the S106 monies are likely to be received so an alternative, and hopefully interim, funding source needs to be identified if the scheme is to progress.

The Council's contribution to the scheme is now estimated to be £594k (previously £745k), with earmarked funding of £166k from Affordable Housing capital funding and £208k from New Homes Bonus, leaving a funding gap of £220k. It is proposed to fund the gap from resources available within the Capital Programme i.e. capital receipts.

4.4 **Waterside Canal Infrastructure Works** – this scheme is not included in the capital programme but involves the Council in carrying out canal related infrastructure works on land owned by a third party. The Council will apply for a Growing Places Fund (GPF) loan of £2.4m from Sheffield City Region LEP to finance this work but the landowner will pay the Council for the work done and this money will be used to finance the original GPF loan. Current expectations are that the council will be acting as a contractor in this instance, so the expenditure will not classed as capital and will be included in the General Fund Income and Expenditure statement.

As the loan will be advanced at a preferential rate of interest, it would have to be treated as a soft loan and adjustments credited to the Income and Expenditure statement on initial recognition of the loan. This would then be gradually unwound over the term of the loan and would impact directly on the General Fund balance.

At this stage it has been assumed that no borrowing approval is required for the loan and that there will be no impact on the Capital Financing Requirement as the Council will be reimbursed by a third party.

The accounting treatment, however, is heavily dependant on the legal agreement that is drawn up and there is a possibility that the scheme will eventually be classed as capital. If this does occur, then the scheme, with any associated borrowing approval, will be included in a future revision to the capital programme.

4.5 Progress on Current Major Schemes

4.5.1 **Queens Park Sports Centre** – the design work for the scheme has progressed well. A contractor to build the new centre is currently being procured. Planning permission for the scheme has been delayed due to various factors such as the need to satisfy the requirements of the highways authority (DCC). There are also other risks and opportunities which need to be resolved before work on the scheme can start including the planning issues, entering into the legal agreement with the college and exempt VAT recovery issues.

4.5.2 **Market Hall Refurbishment** – The scheme is now complete, however there is an over-spend on the original approved budget. A revised figure of £5,106k (up from £4.79m) was reported to the Financial Planning Group in September 2013 and is now included in the Capital Programme. We are awaiting information from Kier on whether this is the final figure or if it is likely to change. The original Capital Programme included a contribution from the Service Improvement Reserve to the project but in the update Programme the contribution from the reserve has now been removed, to preserve the balance in the reserve, leaving the £0.5m to be financed from other capital resources within the Programme i.e. capital receipts.

4.5.3 **Eastwood Park** – The scheme is complete. The budget is on target.

4.6 Recurring Schemes

4.6.1 **Disabled Facilities Grants** –The DFG budgets in the updated programme are financed as follows:

	2013/14 £'000	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**
Government Grant	465	543	650	650
PCT Grant	-	107	-	-
CBC – capital resources	-	-	-	-
Planned Expd/Financing	**465**	**650**	**650**	**650**

A summary of the budget and commitments as at the 29th January 2014 is as follows;

Year to date spend at 29/1/14 (49 cases) Commitments at 29/1/14 (84 cases)	217,610 436,755
Total Spend & commitments 2013/14 Less - Planned Financing (as per table above)	**654,365** 465,000
Over commitment against financing at 29/1/14	**189,365**
Plus: Waiting List (42 applications)	343,500

Housing Services need to be able to commit over and above the £465,000 budget for 2013/14 on the basis that this over commitment will be met from 2014/15 funds. It is highly unlikely that the over commitment would be spent in 2013/14, as once a DFG has been approved the work must be carried out within the following 12 month period. However, should this unlikely situation arise then monies would need to be brought forward from 2014/15.

The table below shows the actual and forecast levels of expenditure on DFG's in each financial year starting from 2009/10:

Table – DFG Actual/Planned Expenditure

		Expenditure	Grant	CBC
		£'000	£'000	£'000
Actuals	2009/10	506	506	0
	2010/11	428	428	0
	2011/12	423	423	0
	2012/13	453	453	0
Latest estimates	**2013/14**	**465**	**465**	**0**
	2014/15	**650**	**650**	**0**
	2015/16	**650**	**650**	**0**
	2016/17	**650**	**650**	**0**

Officers from CBC meet the contracted service supplier organisation (DCC) regularly to ensure that the Central Government required spending is achieved in order to prevent claw-back of grant as well as ensuring that service users receive their adaptations.

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

Vehicle and Plant Reserve. Details of the proposed uses of the Fund are included in **Appendix B.**

4.6.3 **ICT Reserve** – An amount of £146k is set aside from the ICT revenue budget each year into the reserve to provide funding for new and replacement systems or equipment. The funding is being used over the next few years to pay for some of the ICT projects included in the Great Place: Great Service Programme.

4.6.4 **Major Property Repairs** – the Capital Programmes has previously included a contingency allocation under this heading. Starts on individual projects, however, are contingent on (a) a robust business case being produced and (b) the finance i.e. capital receipts being available to fund the project. With the slowdown in capital receipts and the introduction of other higher priority schemes into the Programme there has been little money available for these projects. The latest list of priority major repairs works is included at **Appendix C**. To enable a start to be made on the most urgent works a contingency budget of £200k is included in all future years of the updated Capital Programme, but starts on individual schemes will be subject to business case approvals. The contingency might not be sufficient in any one year and urgent requests for funding might still have to be made. Over the medium term it is anticipated that the work on the Asset Management Plan will generate capital receipts from the disposal of under-used assets and that some of this money will be reinvested in the retained property portfolio.

5.0 CAPITAL FINANCING

5.1 **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:

- Prudential 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 £0.6m for the Fire Station scheme, £0.9m for the Market Hall Scheme, £0.2m for the SpirePride Depot and £6.0m for Queen's Park Sports Centre. The intention is to repay the Sports Centre borrowing as soon as possible by setting aside capital receipts from future asset sales.

- Grants and contributions:

  2013/14 - £3.5m in total including £0.47m DFG grant, £1.4m ERDF towards the Market Hall scheme, £0.66m Heritage Lottery Funding towards the Eastwood Park and Market Hall schemes and £0.1m from the Environment Agency for flood resilience schemes;

  2014/15 - £2.3m in total including £0.65m DFG, £0.48m from the Environment Agency for flood resilience schemes, £0.46m from the Arts Council for Venues Refurbishment and £0.24m ERDF grant towards Chesterfield Gateway Enhancement;

  2015/16 - £3.2m in total including £2.5m Chesterfield College's contribution to the Queen's Park Sports Centre scheme and £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** – can be either set-aside to repay debt or used to finance capital expenditure. The funding of the programme is heavily reliant on the generation of capital receipts and this will be a challenge if the current market conditions continue.

Capital receipts are only included in the programme once potential disposals have been identified and the property concerned is being actively marketed. Kier have been tasked with providing a programme to accelerate the sale of assets in order to release a higher level of capital receipts to fund the Council's priorities.

The key points to note are:

2013-14 - The last reported forecast of capital receipts for 2013/14 in July 2013 was £1,285k). To date there have been no receipts but the revised forecast for the year includes £871k which it is anticipated will be received before the 31st March. The reduced forecast is due to a number of factors as follows:

Receipts b/fwd from 2014/15	200
Receipts moved to future years	(465)
Reduced valuations	(149)
New receipts	-
Net Reduction in 2013/14	**(414)**

2014/15 – The last forecast (July 2013) was for £1.98m. The revised forecast of £4.108m includes £105k of receipts re-profiled, other revaluations of £148k and £1.875m of new receipts.

2015/16 – the previous forecast (July 2013) assumed receipts of £1.13m. The revised forecast now includes £330k which has been reprofiled from earlier years, revaluations of £98k and new receipts of £500k, to give a revised forecast of £2.058m.

6.0 NET FINANCING POSITION

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

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

	2013/14	2014/15	2015/16	2016/17
In year only	(45)	1,290	58	(946)
Cumulative	(45)	1,245	1,303	357

The forecasts are based on the latest profile of expenditure on currently approved schemes and a number of new scheme proposals. The forecast balance and the key issues to consider are:

- 2013/14 - a deficit of £45k, it is anticipated that this can be financed from slippage. If the £871k of capital receipts forecast between now and the 31st March do not materialise approval for short term prudential borrowing will be needed.
- 2014/15 – a cumulative surplus of £1,245k after assumed capital receipts of £4.1m, which includes the Newbold School site, land at Winsick and the Ashgate Road site.
- 2015/16 – a cumulative surplus of £1,303k after assumed capital receipts of £2.0m, which includes the Fire Station site and land at Whitebank.

- 2016/17 - a surplus of £357k before any new capital receipts are included.

7.0 FUTURE GROWTH REQUESTS

7.1 In the current financial climate the Council will have to ration the resources available. All bids will have to be scrutinised and only those with a robust and low-risk business case should be approved. The bids may have to be prioritised in order to produce a fully financed Capital Programme with some rejected or deferred as being unaffordable or a lower priority.

8.0 RISK MANAGEMENT

8.1 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	Impact	Likelihood	Mitigating Action
Overspends on schemes	Medium	Low	Regular and effective monitoring
Slippage on schemes	Low	High	Regular and effective monitoring
Capital receipts – disposals delayed or unable to complete	High	High	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.
Reductions in Government Grants	High	Possible	Other external funding opportunities. Asset Management Plan to generate capital receipts.
Contractor failure	Medium	Low	Financial tests. Performance bonds.
Capacity to deliver a number of major schemes	High	Possible	Carefully mange the number of projects and hence risks in play at any one time.
Exempt VAT recovery – a number of current schemes have	High	Possible	Starts on schemes delayed until VAT issues resolved.

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.			In-year monitoring. VAT planning for a number of years ahead. Obtaining expert external advice.

9.0 EQUALITIES

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

10.0 ALTERNATIVE OPTIONS TO BE CONSIDERED

10.1 The report presumes that previously approved schemes within the current Capital Programme remain priorities and seeks decisions only on new growth bids. The Cabinet could of course reconsider whether the previous approved schemes remain as priority schemes.

11.0 RECOMMENDATIONS

11.1 That the updated General Fund Capital Programme expenditure and financing be approved.

11.2 That approval be given to use short term prudential borrowing in 2013/14 to cover any shortfall in the forecast capital receipts for the remainder of the financial year (maximum £871k).

12.0 REASON FOR RECOMMENDATIONS

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

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You can get more information about this report from Barry Dawson Ext 5451.