FOR PUBLICATION

CAPITAL STRATEGY & GENERAL FUND CAPITAL PROGRAMME 2015/16 TO 2018/19

MEETING:	1. COUNCIL 2. CABINET 3. DEPUTY LEADER
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REPORT BY:	CHIEF FINANCE OFFICER
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1.0 PURPOSE OF REPORT

1.1 To approve the General Fund Capital Strategy and Programme.

2.0 RECOMMENDATIONS

That the Cabinet recommends to the full Council that:

2.1 The Capital Strategy be approved (**Appendix A**).

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

2.3 The new schemes in para. 8.4 are added to the Capital Programme.

2.4 The prioritised list of “waiting list” schemes be approved (para 8.5).

3.0 BACKGROUND

3.1 The Capital Programme for 2015/16 was approved as part of the budget setting process in February 2015. The Programme included two major capital schemes, the new Queens Park Sports Centre and the Waterside scheme.

3.2 Updates to the Programme were included in the budget monitoring reports to the full Council on 14th October and 16th December 2015. The December 2015 report highlighted the fact that despite a significant reduction in forecast capital receipts a balanced budget for 2015/16 should nevertheless be achieved.

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.

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 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. The Council is asset rich and has the potential to release significant capital sums from the disposal of surplus or poorly performing assets. The Strategy, therefore, includes, in the "Financing Capital Expenditure" section on the second page:

"*To minimise the revenue budget implications of prudential borrowing, it should be repaid as soon as possible from the revenue savings generated, other revenue provision or from future capital receipts".*

4.3 The planned disposal of land at Linacre, with an estimated receipt of £16 million to the General Fund, together with other significant disposals, will provide an opportunity to very quickly repay the £6 million of prudential borrowing being used to finance the new Queen's Park Sports Centre (as agreed in the 2014/15 Capital Programme report); producing a revenue budget saving of over £150k per annum, this saving has already been assumed in the draft revenue budgets. There will still be a substantial balance of the Linacre receipt available to fund new capital projects or to repay other debt. For example, repaying the £1.1m balance of the Market Hall prudential borrowing will produce an on-going revenue budget saving of £43k (this saving has not been built into the draft revenue budget forecasts).

4.4 In the Provisional Local Government Grant Settlement which was announced in December 2015 the Government included a new flexibility to allow the use of capital receipts to fund revenue expenditure provided that the expenditure is on transformation projects which are designed to deliver on-going savings. It is proposed that the flexibility will be available for capital receipts secured between 1st April 2016 and 31st March 2019. To be able to use this flexibility an authority must prepare an Efficiency Strategy that includes separate disclosure of the individual projects that will be funded or part funded through capital receipts flexibility. The strategy must be approved by the full Council before the start of the financial year as part of the annual budget setting process. The strategy can, however, be revised at any time during the year subject to approval by the full Council

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 what were approved by the full Council and added to the Capital Programme in the year included:

- Erin Road Pumping Station, £50k approved 26th Feb 2015;
- Winding Wheel Boilers, £110k approved 22nd July 2015;
- Home Repairs Assistance, increased by £75k to £275k per annum, approved 16th December 2015.

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

- Building Maintenance IT system, £126k from DLO Reserve;
- Dunston Innovation Centre Solar Panels, £55k from DIC Property Repairs Reserve
- Whitebank Close Sports Ground £13k, Section 106 funding

5.3 Progress on Current Major Schemes

5.3.1 **Queens Park Sports Centre** – the project is now complete and the Centre opened to the public in January 2016. Work is underway to agree the final account and to secure the grant funding from Sport England.

5.3.2 **Waterside Canal Infrastructure Works** –The scheme involves the Council carrying out canal related infrastructure works and financing this work through a £2.4m loan from the Sheffield City Region LEP Growing Places Fund. The Council will recover all the costs it incurs through a separate agreement with the landowner. The loan agreement with Sheffield City Region for the canal infrastructure works has been agreed and signed. No money will be drawn down until an agreement is also signed with Lavers and Bolsterstone. The protracted negotiations with the County Council over the bridge and canal adoption works has delayed the start on site. Although not technically the Council's capital expenditure it has been included in the Programme for monitoring purposes. In the Treasury Management report the £2.4 million borrowing is not included as part of the General Fund Capital Financing Requirement as the Council will be reimbursed by a third party.

5.4 Recurring Schemes

5.4.1 **Disabled Facilities Grants** – Delays can occur in the DFG process due to technical design issues, acquiring landlord consent, applicant putting work on hold due to illness, etc. In the past this has meant that the grant allocations were not fully used and the unspent balance was carried forward.

In 2014/15 some changes have been implemented to speed up the process in relation to stair lift installation and less complex bathroom installations, by transferring the adaptation design and delivery from DCC to the Chesterfield Home Improvement Service. The Home Improvement Service also took over direct ordering and delivery of stair-lifts previously organised by DCC Occupational Therapists. In 2015/16 this approach was extended to cover other DFG funded adaptations previously managed by the Occupational Therapy team e.g. metals ramps, closomats , changes to doorways, door entry systems and some adapted kitchens. This work also generates fee income (calculated at 5% the cost of work plus VAT) for the Council.

Major and potentially complex adaptations (e.g. extensions) continue to be designed and delivered by DCC architectural service, and the two teams have worked closely together to achieve efficiencies, improve delivery times and quality of work.

The Private Sector Housing Team continues to work closely with both the Occupational Therapy and Architect Services at the County Council to identify where further improvements can be made and the Private Sector Housing Manager is a member of the county wide DFG Transformational Project Working Group.

Over recent years the Council has not been required to make a contribution to DFGs as the costs incurred have been fully covered by unused grants brought forward and in year grant allocations. From April 2015 the Government grant funding has been transferred into the Better Care Fund. Derbyshire County Council will receive the BCF grant and then allocates funds to each of the District Councils for DFG's in accordance with Government guidelines. Currently the amount to be distributed to each local authority is determined and ring-fenced by the Government. The mandatory duty, under the Housing Grants, Construction and Regeneration Act 1996, to provide Disabled Facilities Grants applies to district councils in two-tier areas.

The anticipated, but net yet confirmed, allocation for 2016/17 is £557k. The unused grants from previous years will be used to supplement the BCF allocations in future years to help maintain the expenditure at £650k per annum.

The average spend on DFG's over the last three completed financial years (2012/13 to 2014/15) was only £514k, with the highest amount in any one year at £706k (2014/15).

Demand for DFGs has remained constant throughout 2015/16 with at least 20 new referrals a month received for provisional assessment, the majority of which are eligible for assistance.

A summary of the budget and commitments as at the 19th January 2016 is as follows;

DFG Applications (at 19/01/16)		
	No. Cases	£'000
Year to date spend	53	439
Commitments - approved but not yet paid	116	509
Provisional commitments – approval not yet issued	15	100
Waiting List – applications referred to OH	69	485
Current year spend & outstanding commitments	**253**	**1,533**

The budget allocation in 2015/16 and 2016/17, at £1.3m, is less than the estimated demand. However, a minority of waiting list cases may not go forward due to changes in the applicants' circumstances.

The balance in the unused grant account will allow some flexibility for Housing Services to supplement the budget if demand increases above the budget allocation.

5.4.2 **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, which includes both revenue and capital type of expenditure, are included in **Appendix C.**

5.4.3 **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.

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:

- 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 £1.5m as the final instalment of the £6.0m approved for the new Queen's Park Sports Centre. As described in Section 4 above, the aim is to repay borrowing as soon as possible from revenue savings generated by the schemes or by setting aside capital receipts from asset sales.

- Grants and contributions:
  2015/16 - £5.6m in total including Chesterfield College's £2.5m contribution and Sport England's £1.94m funding towards the Queen's Park Sports Centre scheme, £0.65m DFG's and £0.25m Section 106 contributions;

  2016/17 - £0.96m in total including £0.65m DFG's and £0.24m Flood Relief Grant.

  Future years – mainly £0.65m re DFG's.

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

- Capital Receipts – see below.

6.2 **Capital Receipts** – 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 4.4 above, 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 for revenue expenditure on transformation schemes that are designed to deliver on-going budget savings. 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 scare resource.

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:

2015-16 - The forecast of receipts at the start of the year was £5.6m but this has been revised down to just £287k. All of the major disposals have now been moved in 2016/17 or later years.

2016/17 – receipts of £1.8m have been assumed including the sale of land at Newbold School and Ashgate Road.

2017/18 – receipts of £7.3m have been assumed including land at Hollythorpe Close, Whitebank and Gorse Valley plus the first instalment of money from the sale of land at Linacre.

2018/19 – receipts of £8.8m have been assumed including the sale of the former Fire Station site and the second instalment of money from the sale of land at Linacre.

The receipts forecasts are continually changing as delays are encountered on some disposals 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

	2015/16	**2016/17**	**2017/18**	**2018/19**
In year surplus	0	0	1,013	8,568

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:

- 2015/16 – despite the significant shortfall in capital receipts a break-even position has been achieved due to reduced expenditure, increased grants and by reducing the amount of debt to be repaid from capital receipts. 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.

- 2016/17 – a break-even position is forecast but this is based on prudent level of capital receipts (£1.8m) and also assumes that £1.2m of the receipts will be used to repay previous prudential borrowing.

- 2017/18 – a net surplus of £1.0m is forecast but this is dependent on securing a number of significant capital receipts (Hollythorpe Close, Whitebank and Gorse Valley plus the first instalment of money from the sale of land at Linacre). The forecast also assumes that £5.9m of the receipts will be used to repay borrowing relating to the new Queen's Park Sports Centre.

- 2018/19 – a surplus of £8.6m is forecast after assuming £8.8m of capital receipts in the year (from Linacre and the former Fire Station).

Clearly the surpluses forecast in future years could be brought forward to an earlier financial year if disposals can be accelerated.

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 2017/18. In this climate new schemes can only be added to the Programme where:

(a) They are aligned with a Corporate 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 The Senior Leadership Team (SLT) has reviewed the capital growth requests submitted by Service Mangers and its recommendations are set out below.

8.4 SLT recommendation of schemes to be added to the Capital Programme:

Scheme Description	Capital Implications	Rationale
Staveley Healthy Living Centre – reconfigure the Admin area to create usable space.	Cost £46k Financed from reserves	Invest-to-save - £15k income per annum
GPGS – Town Hall restack (from £580k to £750k)	£170k	To align with the GPGS Business Case. Financed from the Property Repairs Fund
Winding Wheel lift	£75k	Spares are becoming increasingly difficult to source and the lift is in an integral part of the operation of the building. Financed from the Property Repairs Fund
Surface Car Parks – pay-on-foot machines	£100k from the £173k in the Cap Prog funded from reserves	Current machines do not give change, have limited payment options and will not accept the new £1 coin due in 2017. Plus some are proving difficult to maintain

8.5 SLT's prioritised list of schemes to go on a waiting list pending the availability of capital receipts after earmarking sums for the Efficiency Plan:

Priority	Scheme Description	Capital Implications	Rationale
1	Museum Store – relocate to refurbished Bedding Store r/o Winding Wheel	£127k	To facilitate the sale of the Ashgate Road site.
2 =	Car Parks pay on exit machines - Rose Hill	£78k less £73k balance in Cap Prog after surface car park machines.	Currently limited functionality/payment options and equipment not standardised. Potential revenue budget savings of £95k.
2 =	Car Parks pay on exit machines - Soresby St.	£68k	
2 =	Car Parks pay on exit machines - Beetwell St	£74k	
5	ICT development	tbc	A programme of modernisation and replacement of infrastructure, hardware and software, will need to be undertaken to ensure that ICT effectively supports our current services, and enables us to transform to successfully deliver our Council Plan.
6	Pomegranate Roof	£135k	Part roof replacement and increasing the number of rainwater outlets to relieve blockages and the lack of drainage to certain parts of the roof.

8.6 In addition to the above growth requests there were number where the SLT recommended deferring a decision, including:

- Open Market reconfiguration – to allow time for the financing and VAT recovery implications to be fully explored.
- Saltergate multi-storey car park improvements – grant funding is being sought from the Sheffield City Region Local Enterprise Partnership.
- Playgound improvements – to be considered as part of the Parks and Open Spaces Strategy Action Plan.

8.7 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 mange the number of projects and hence risks in play at any one time.	Med (3)	Unlikely (2)
Exempt VAT recovery – a number of current	V. High (5)	Possible (3)	Starts on schemes delayed until	V. High (5)	Unlikely (2)

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

10.0 EQUALITIES

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

That the Cabinet recommends to the full Council that:

12.1 The Capital Strategy be approved (**Appendix A**).

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

12.3 The new schemes in para. 8.4 are added to the Capital Programme.

12.4 The prioritised list of “waiting list” schemes be approved (para 8.5).

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.

BARRY DAWSON
CHIEF FINANCE OFFICER

You can get more information about this report from Barry Dawson Tel: 345451.

Officer recommendation supported.

Signed: Cabinet Member

Date: 16 February, 2016