For publication

Update on General Fund Capital Programme 2016/17

Meeting:	Cabinet Council
Date:	4th October 2016 12th October 2016
Cabinet portfolio:	Deputy Leader & Cabinet Member for Planning
Report by:	Acting Chief Finance Officer

For publication

1.0 Purpose of report

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

2.0 Recommendations

That the Cabinet recommends to the full Council that:

2.1 The updated General Fund Capital Programme expenditure and financing be approved (Appendix A) including provision for the demolition of Queens Park Sports Centre and increased spending on Disabled Facilities Grants (para 4.3.3 and 4.3.5)

2.2 The new schemes in section 6.1 are added to the Capital Programme

2.3 The prioritised list of 'waiting list' schemes be considered (para 8.3)

3.0 Background

3.1 The Capital Programme for 2016/17 was approved as part of the budget setting process in February 2016. The programme included two major capital schemes, the new Queens Park Sports Centre and the Waterside scheme.

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.

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 as growth in February 2016, schemes approved by Council on 27th July 2016 and some new proposals.

4.3 Progress on Current Major Schemes

4.3.1 **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. A provision of £30k is included in the capital programme but final figures are not yet available.

4.3.2 **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. Although this element of the scheme has not yet started, the Council drew down the loan from Sheffield City Region in July 2016 to prevent having to forfeit entitlement to the loan. The interest rate on this loan is 1.3%. We have invested this money until it is required but in the present economic climate it is not possible to invest the money at a rate equal or higher than the rate of interest payable to SCR. Work must begin by July 2017 to comply with the terms of agreement.

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.

4.3.3 **Demolition of old Queens Park Sports Centre** – The original capital programme included £184k (£92k 2015/16 carried forward and £92k 2016/17) for the demolition of the old sports centre. Current estimates suggest a cost of £265k which includes an amount to cover asbestos removal. However the extent of asbestos removal required is still being assessed so final figures are not yet known.

4.3.4 **Town Hall Alterations (GP:GS) –** a recent survey of the Town Hall has identified areas of asbestos that will need to be removed before the alterations to the building can be completed. Costs are still being finalised and a separate report will be brought to members. The current approved spend of £850k is included in the capital programme.

4.3.5 **Disabled Facilities Grants** – the original capital programme includes £650k for 2016/17. Derbyshire County Council, that holds the Better Care Fund, has confirmed an allocation of £952k for this year. Current combined commitment and spend is £720k so we expect to be close to fully committing this allocation in the year.

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:

- Prudential borrowing – capital expenditure can be financed from borrowing provided the borrowing is affordable, prudent and sustainable. 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:
  2016/17 - £1.33m in total including £0.95m DFG's and £45k Flood Relief Grant

  2017/18 - £4.3m in total including SCRIIF grant of £3.6m and grant of £0.65m DFG's

  2018/19 - £2.4m in total including SCRIIF grant of £1.8m 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 – 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 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 scarce 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:

2016-17 - The forecast of receipts at the start of the year was £1.8m but this has been revised down to £1m. All of the major disposals have now been moved in to 2017/18. Chesterfield Football Club has repaid the balance of their loan, providing a capital receipt of £850k although this was previously earmarked for the repayment of temporary borrowing. This receipt is not included in the capital receipts figure.

2017/18 – receipts of £8m have been assumed including land at Whitebank, Gorse Valley and Newbold School. The former fire station receipt and the first instalment from the sale of land at Linacre have been brought forward into 2017/18.

2018/19 – receipts of £7.8m have been assumed including land at Hollythorpe Close 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.

6 New Schemes

6.1 There are a number of capital schemes which have recently been approved by Cabinet and Council that require inclusion in the capital programme.

- Chesterfield Museum Store – refurbishment of Unit 1, Somerset Yard to allow museum storage to be moved from 6 Ashgate Rd to enable the sale of this site to complete. The cost of this is £189,970 with £61,100 funded from the Property Repairs Fund and the remaining £128,690 to be met from temporary borrowing to be repaid when capital receipts are realised

- Northern Gateway – this will require a contribution of £3.6m from the authority. This can be funded from capital receipts in future years but due to timing differences may require temporary borrowing until the receipts are realised.

- Market Hall café – this was approved by Cabinet on 20th September. Refurbishment costs of £72,400 are required which will be funded from the Service Improvement Reserve.

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:

	2016/17	2017/18	2018/19	2019/20
In year surplus/(deficit)	-	127	4,717	(190)

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:

- 2016/17 – despite the significant shortfall in capital receipts a breakeven position is forecast. New prudential borrowing of £383k is required to meet the additional costs of the capital programme. Breakeven has been achieved by deferring repayment of temporary borrowing into future years. 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. It has been assumed that the capital receipt from early repayment of the Chesterfield Football Club loan will be used to cover prudential borrowing associated with this loan.

- 2017/18 – a surplus of £127k is forecast but this is dependent on securing a number of significant capital receipts (Whitebank and Gorse Valley, Newbold School, the former fire station plus the first instalment of money from the sale of land at Linacre). The forecast also assumes that £4.3m of the receipts will be used to repay borrowing relating to the new Queen's Park Sports Centre and a further £1.2m of receipts used to repay temporary borrowing on other schemes.

- 2018/19 – a surplus of £4.7m is forecast after assuming £7.8m of capital receipts in the year (from Linacre and land at Hollythorpe Close).

- 2019/20 – a deficit of £190k is forecast but this can be met from previous year's surpluses.

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 A** shows that based on current forecasts there will be no surplus resources available to fund new schemes until 2018/19. 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 costs are affordable and sustainable.
- Securing external **grant** support.

8.3 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=	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.

1 =	Car Parks pay on exit machines - Soresby St.	£68k	
1 =	Car Parks pay on exit machines - Beetwell St	£74k	
4	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.
5	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.

8.4 In addition to the above growth requests, there were others 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.
- Playgound improvements – to be considered as part of the Parks and Open Spaces Strategy Action Plan.

8.5 Further requests for landscaping at Queens Park Sports Centre and renewal of the vehicle fleet have come from CMT.

8.6 Additional resources for Town Hall alterations will be considered separately when final costs are known.

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 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 threshold and then be unable to recover <u>any</u> exempt VAT in that year.	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)

10.0 **Equalities Impact Assessment (EIA)**

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

11 Alternative options and reasons for rejection

11.1 The amendments to the Capital Programme are 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

That the Cabinet recommends to the full Council that:

12.1 The updated General Fund Capital Programme expenditure and financing be approved (Appendix A) including provision for the demolition of Queens Park Sports Centre and increased spending on Disabled Facilities Grants (para 4.3.3 and 4.3.5)

12.2 The new schemes in section 6.1 are added to the Capital Programme

12.3 The prioritised list of 'waiting list' schemes be considered (para 8.3)

13 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	654
Wards affected	(All Wards);
Links to Council Plan priorities	

Document information

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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	General Fund Capital Programme