For publication

Capital Strategy & General Fund Capital Programme 2017/18 (FG010R)

Meeting:	Council Cabinet
Date:	23 February, 2017 21 February, 2017
Cabinet portfolio:	Finance & Governance
Report by:	Director of Finance & Resources

For publication

1.0 Purpose of report

1.1 To approve the General Fund Capital Strategy and Programme for the financial year 2017/18.

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. 8.3 are noted for future Capital Programme allocations but their approval is subject to satisfactory Business Cases and Cabinet/Council agreement.

2.4 The prioritised "waiting list" of schemes are noted (para 8.4).

3.0 Background

3.1 The Capital Programme for 2016/17 was approved as part of the budget setting process in February 2016. Updates to the Programme were included in the budget monitoring reports to the full Council on 12th October and 14th December 2016.

3.2 Major capital additions to the programme during the year have been the expansion of the Town Hall restack to £2.7m and the Northern Gateway scheme at £9.4m over a 4 year period.

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 has assets and 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, together with other disposals, provides an opportunity to repay a proportion of prudential borrowing used to finance the new Queen's Park Sports Centre (as agreed in the 2014/15 Capital Programme report) and are required to repay the Town Hall Restack costs in 2019/20.

4.4 In the Local Government Grant Settlement 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.

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 and added to the Capital Programme in the year include:

- Northern Gateway, £9.4m approved 27th July 2016;
- Chesterfield Museum Store, £190k approved 27th July 2016;
- Winding Wheel Lifts, £95k approved 12th October 2016;
- Market Hall Café, £72k approved 12th October 2016;
- Town Hall restack, increased by £1.866m to £2.7m, approved 14th December 2016.

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

- Increase in Disabled Facilities Grants of £302k for 16/17 only, funded by the Better Care Fund;
- River Doe Lea realignment, £110k funded by Flood Risk Management grant from the Environment Agency.

5.3 Progress on Current Major Schemes

5.3.1 **Town Hall Restack** – started on site in January 2017 with the majority of the spend falling in 2017/18.

5.3.2 **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 final grant funding from Sport England of £30k.

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. 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.**

5.4 Recurring Schemes

5.4.1 **Disabled Facilities Grants** – the original capital programme included £650k for 2016/17. However Derbyshire County Council, who holds the Better Care Fund, confirmed an allocation of £952k for this year. Current combined commitment and spend is £927k so we expect to be close to fully committing this allocation in the year.

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:

- 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 £2m for the Town Hall restack but only £1.4m is currently required. 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:
  2016/17 - £3.0m in total including £1.6m SCRIF contribution for Chesterfield Waterside Basin Square, £0.95m DFG's and £0.34m Flood Relief Grant;

  2017/18 - £3.9m in total including £2.2m SCRIF contribution to Northern Gateway scheme, £1.1m SCRIF contribution for Chesterfield Waterside and £0.65m DFG's.

  2018/19 - £2.2m in total including £1.6m SCRIF contribution to Northern Gateway scheme and £0.65m DFG's.

  2019/20 - £2.7m in total including £2.0m SCRIF contribution to Northern Gateway scheme and £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** – 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 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 B are:

2016-17 – a full list of receipts is included at Appendix B including the fire station and Newbold Rd sites.

2017-18 – receipts of £2m have been assumed including land at Ashgate Rd and Whitebank Close and the first tranche of land at Poolsbrook. Receipts from the sale of land at Linacre Road have slipped from 2017/18 and are now included for 2019/20.

2018/19 – receipts of £1.4m have been assumed including land at Hollythorpe Close, Gorse Valley and the final tranche of land at Poolsbrook.

2019/20 – receipts from the sale of land at Linacre Rd are still to be confirmed. An independent valuation is to be carried out on the value of this receipt.

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

	2016/17	**2017/18**	**2018/19**	**2019/20**
In year surplus	494	(494)	0	0

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 – a surplus of £494k is forecast due to a higher level of capital receipts than originally anticipated and slippage in the start on site of major schemes.

- 2017/18 – a break-even position is forecast but this is based on a prudent level of capital receipts (£2.0m), prudential borrowing of £1.4m 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.

- 2018/19 – a break-even position is forecast again based on a prudent level of capital receipts (1.3m). The forecast also assumes that £0.1m of the receipts will be used to repay borrowing relating to the refurbishment of the Market Hall.

- 2019/20 – a break-even position is forecast based on a prudent level of capital receipts. The forecast also assumes that £4.9m of the receipts will be used to repay borrowing relating to the refurbishment of the Market Hall, Town Hall restack and the building of the new Queens Park Sports Centre. Dependent on the level of the Linacre Rd capital receipt, we may not have funds to repay borrowings as planned at this point.

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 2020/21 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 2017/18 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
Artificial pitches (redevelopment of old QPSC site)	Cost £800k to £1m	Achievement of £85k net income per annum.
Commercial catering – QPSC and North Lodge	£106k	Refurbishment of QPSC Café £46k and commercialisation of North Lodge £60k to generate income
ICT Development	£2.05m	Modernisation programme to deliver 'Digital platform' for service delivery Savings would be used to payback (tbc).
Saltergate Multi Storey car park	£0.5m to £1m	Current budgeted cost of £3.5m. Contractor 'Balvac' has indicated that specification change required for concrete and other costs may increase costs of between £0.5m to £1m. This will be reviewed by the client.

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

- Further capital receipts of £4m in 2017/18, or
- PWLB borrowing of £4m

8.4 2016/17 schemes outstanding and prioritised by SLT but waiting for availability of capital receipts/borrowings after earmarking sums for the Efficiency Plan are:

Priority	Scheme Description	Capital Implications	Rationale
1	Car Parks pay on exit machines - Beetwell St	£74k	Replace/update ticket machinery
2	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.

8.5 In addition to the above growth requests there were a number where the SLT in 2016/17 recommended deferring a decision, including:

- Open Market reconfiguration – to allow time for the financing and VAT recovery implications to be fully explored.
- Playground improvements – to be considered as part of the Parks and Open Spaces Strategy Action Plan.

8.6 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	Medium	Possible	Regular and effective	Medium	Unlikely

schemes	(3)	(3)	monitoring	(3)	(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 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)

10.1 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. 8.3 are noted for future Capital Programme allocations but their approval is subject to satisfactory Business Cases and Cabinet/Council agreement.

12.4 The prioritised "waiting list" of schemes are noted (para 8.4).

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	**692**
Wards affected	**ALL**
Links to Council Plan priorities	To provide value for money services

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.	
None	
Appendices to the report	
Appendix A	Capital Strategy
Appendix B	General Fund Capital Programme