FOR PUBLICATION

CAPITAL STRATEGY & GENERAL FUND CAPITAL PROGRAMME 2014/15 TO 2017/18 – J000R

MEETING:	1. COUNCIL 2. CABINET 3. DEPUTY LEADER AND EXECUTIVE MEMBER FOR PLANNING
DATE:	1. 26 FEBRUARY 2015 2. 17 FEBRUARY 2015 3. 9 FEBRUARY 2015
REPORT BY:	CHIEF FINANCE OFFICER
WARD:	ALL
COMMUNITY ASSEMBLY:	ALL
KEY DECISION REFERENCE:	490

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1.0 PURPOSE OF REPORT

1.1 To approve the General Fund Capital Strategy and Programme.

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 only the Erin Road Pumping station scheme (para. 7.3) be added to the Capital Programme at this stage with all other growth requests be considered later in the financial year as resources become available.

3.0 BACKGROUND

3.1 The Capital Programme for 2014/15 was approved as part of the budget setting process in February 2014. 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 15th October and 17th December 2014. The December 2014 report highlighted the fact that despite a significant reduction in forecast capital receipts a balanced budget for 2014/15 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 has, therefore, been updated to include, 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 £18 million for 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) and the £1.2 million relating to the Council House offices acquisition. This will still leave a substantial sum of money available to fund new capital projects or to repay other debt.

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 Programme in the year included:

- Innovation Centres Telephony System (15th Oct 2014)
- Council House Offices - £1.7m (17th Dec 2014)

5.2.2 Other fully funded schemes that were added to the Programme and reported to the full Council in December 2014 included:

- Inkersall Green Road Play Area £40k, Section 106 funding
- Staveley King George V Bowls Pavilion £50k, Sport England
- Inkerman Park footpath £31k, Landfill Credit and S106
- Whitebank Close Sports Ground £33k, Section 106 funding

5.3 Progress on Current Major Schemes

5.3.1 **Queens Park Sports Centre** – the project is currently ahead of schedule and on budget (Dec 2014). The College and Sport England Partners are fully engaged. The Planning conditions have been completed or are on schedule for completion. The Sport England conditions are on schedule including the adoption of new Playing Pitch Strategy and new Facilities Strategy in

January 2015. The payment schedule for the Sport England grant will be advised post April 2015. The lease agreement is signed off for the College and the Midwifery lease has been prepared for sign off with the NHS partners. The Squash England Grant payment agreed post March 2015. The Project Board has agreed to finance new photo voltaic panels (£70k) from the contingency fund (£350k) rather than transferring the panels from the current centre. The current panels generate £4k of electricity and £2k in renewable credits each year, a total of £6k. If they were to be relocated we would lose the renewable credit and would not qualify for the new feed in tariffs. Also, ony 70% of the panels are moveable and could be relocated, reducing the electricity saving to less than £3k per annum. The new panel are more efficient and with the feed in tariff have an estimated 10-year payback period. The Energy Saving Trust, who funded the original panels, has confirmed that there will be no grant claw back of the funding.

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. We are currently working with Bolsterstone to agree the bridge and canal adoption works with Derbyshire County Council in order that works can 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 Private Sector Housing Team continues to work closely with both the Occupation al Therapy and Architect Services at the County Council to identify where further improvements can be made.

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 allocate funds to each of the District Councils for DFG's. The anticipated allocation for 2015/16 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 planned level of expenditure at £650k per annum represents an increase on previous years. The average spend over the four complete financial years (2010/11 to 2013/14) was only £420k, with the highest amount in any one year at £453k.

A summary of the budget and commitments as at the 29th January 2015 is as follows;

DFG Applications (at 22/01/15)		
	No. Cases	£'000
Year to date spend	32	373
Commitments - approved but not yet paid	119	616
Provisional commitments – approval not yet issued	24	139
Waiting List – applications referred to OH	19	125
Current year spend & outstanding commitments	**194**	**1,253**

The budget allocation in 2014/15 and 2015/16 at £1.2m should be sufficient to cover the currently known and estimated demand. 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 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.

5.4.4 **Major Property Repairs** – the Capital Programmes previously included a contingency allocation of £200k per annum under this heading. Starts on individual projects, however, were contingent on the finance i.e. capital receipts being available to fund the projects. The introduction of other, higher priority schemes, into the Programme, meant that major repairs have relied on funding from other sources such as external grant funding or reserves. Earmarked funds for future major repairs will be considered along with other capital growth bids as financing becomes available.

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:

- <u>Prudential borrowing</u> – 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 £1.2m for the Council House offices and £6.0m 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.

- <u>Grants and contributions</u>:

  2014/15 - £3.4 m in total including £0.54m DFG grant, £0.46m Arts Council towards the Venues Refurbishment scheme and £0.76m Sport England grant towards the Queen's Park Sport Centre;

2015/16 - £4.8m in total including the £2.5m Chesterfield College's contribution and £1.24m of Sport England funding towards 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.

6.2 **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 continue to provide additional resources to help accelerate the sale of assets in return for a commission payment on the sales concluded.

The key points to note are:

2014-15 - The table below summarises the movement in the forecast of receipts since the start of the financial year:

2014/15 Capital Receipts Forecast	
	£'000
At the start of the year	4,109
Less: moved to future years	(3,145)
Add: new disposals	311
+/(-) : changes to valuations	93
Less – disposal costs/commissions	(44)
Revised Forecast	**1,324**
Received to date (end Dec 2014)	892
Anticipated by 31st March 2015	432
Total Receipts	**1,324**

2015/16 – the updated forecast is £5.6m, including the sale of land at Newbold School, Whitebank, Sheffield Road former Fire Station, Ashgate Roard and Winsick.

2016/17 – a total of £8.0m from the sale of some of the land at Linacre.

2017/18 – a total of £10m from the sale of land at Linacre.

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

	2014/15	**2015/16**	**20165/17**	**2017/18**
In year surplus	0	1,162	1,835	9,800

The forecasts are based on the latest profile of expenditure on currently approved schemes. The key points to note are:

- 2014/15 - a break-even position has been achieved. The reduced capital receipts (£2.8m) and reduced borrowing (£2.2m) were compensated for by reduced expenditure (£1.8m), increased grants (£1.1m), an increase in other financing (£0.9m) and the reduced surplus (£1.2m). If the £432k of capital receipts forecast between now and the 31st March do not materialise approval for short term prudential borrowing will be needed.
- 2015/16 – the estimated surplus of £1.1m will be dependent on securing a number of significant capital receipts (Newbold School, Whitebank, Fire Station, Ashgate and Winsick). The surplus is also before the capital growth requests have been considered.
- 2016/17 – an in year surplus of £1.8m is forecast after assuming that £8m will be received from the first phase of disposals of land at Linancre and after repaying the £6m of debt relating to the new Queen's Park Sports Centre.
- 2017/18 – an in year surplus of £9.8m is forecast after assuming a further £10m is received from the sale of the remaining General Fund land at Linacre.

8.0 FUTURE GROWTH REQUESTS

8.1 The current Capital Programme in **Appendix B** shows that all the available resources in 2014/15 are fully committed. Surplus resources of £1.1m could become available in 2015/16 if all of the planned capital receipts are secured. We know from past experience, however, that this is unlikely to happen. In order to be prudent and to avoid an unanticipated short term borrowing need in 2015/16 it is recommended that no new schemes are added to the Programme until the financing is secured and in place. In the later financial years of the Programme significant sums should become available as the capital receipts from selling land at Linacre are generated.

8.2 A number of capital growth requests have been identified through the annual bidding process but these and other demands which emerge as the Corporate Plan is developed will be considered at a later date when the capital receipts forecasts become firmer.

8.3 The only urgent request to approve at this stage is the £50k for works to bring the Erin Road Pumping Station up to an adoptable standard in order to transfer it to the Yorkshire Water Authority. The Financial Planning Group has considered this request and recommended that it be financed from the Budget Risk Reserve.

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	Medium (3)	Possible (3)

			Management Plan to generate capital receipts.		
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.	High (4)	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.	High (4)	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.	High (4)	Unlikely (2)

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 report presumes that previously approved schemes within the current Capital Programme remain priorities. The Cabinet could of course reconsider whether the previous approved schemes remain as priority schemes.

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 only the Erin Road Pumping station scheme (para. 7.3) be added to the Capital Programme at this stage with all other growth requests be considered later in the financial year as resources become available.

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 Ext 5451.

Officer recommendation supported.

Signed Executive Member
Date 9.02.2015

Consultee Executive Member/Support Member comments
(if applicable)/declaration of interests