

Capital Programme 2018/19

Report of the:	Director of Finance and Resources
Contact:	Sue Emmons
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	Annexe 1: Recommended Capital Programme Annexe 2: Two year Capital Reserves Forecast
Other available papers (not attached):	Capital bids Notes of Capital Member Group

Report Summary

This report summarises the proposed 2018/19 capital programme and seeks the Panel's approval for it to be submitted to Council in February 2018.

Recommendation (s)

That the Panel agrees with the advice of the Capital Member Group to submit the following 2018/19 capital programme to Council for approval in February, subject to the relevant policy committees first approving project appraisals:-

- (1) Prioritised schemes totalling £1,225,000, funded from capital receipts of £1,225,000, less any S106, CIL or revenue reserves subsequently identified; with a further commitment of £250,000 for 2019/20;
- (2) An additional scheme totalling £588,000, subject to external funding sources

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 The Council's Medium Term Financial Strategy includes the following in regards to investment in services:-

Financial Policy Panel

5 December 2017

- 1.1.1 Prioritise capital investment to ensure retained property is fit for purpose.
- 1.1.2 Maximise the use of external funding opportunities to deliver improvements to the community infrastructure, including affordable housing.
- 1.1.3 Maintain a minimum uncommitted level of capital reserves of £1 million at 31 March 2018.

2 Background

- 2.1 At its meeting on 27 June 2017, the Strategy and Resources Committee considered appointments to a Capital Member Group (CMG) to assist in the formulation of the new capital programme. Accordingly, the Committee appointed Councillors John Beckett, Eber Kington, Omer Kokou-Tchri, Barry Nash and Clive Smitheram.
- 2.2 The Capital Member Group met in September and agreed the arrangements for the capital programme review and received a list of potential projects. The Group agreed the criteria for progressing bids and excluded outline projects that would not qualify under the approved capital strategy.
- 2.3 Project appraisals were updated by budget managers and full bids considered by the Leadership Team in October. The officer group suggested amendments to the bids and also advised on a prioritisation of the proposals.
- 2.4 In November the Capital Member Group met to validate the bids and to recommend the schemes that should be progressed through the policy committees in January.
- 2.5 In reviewing the capital programme they focused on prioritised items for 2018/19 covering the following schemes:-
 - 2.5.1 Investment required to meet statutory obligations;
 - 2.5.2 Investment essential for service delivery;
 - 2.5.3 Investment that can be funded from external funds and is classed as a high priority (section 106 agreements or grants);
 - 2.5.4 Investment that will provide net revenue savings (spend to save).
- 2.6 The Medium Term Financial Strategy also requires that the Council retains a minimum level of capital reserves of £1 million.

Financial Policy Panel

5 December 2017

3 Draft Programme

3.1 The Capital Member Group received bids for 2018/19 of £1.813 million, £1m less than proposals suggested for 2017/18. One of the bids includes a further sum of £250k for 2019/20. After review and challenge of the bids taken forward, all 16 bids were supported by the Group. Appendix 1 comprises a summary of the capital programme recommended by the Capital Member Group.

3.2 The proposed programme for 2018/19 comprises:-

	£000s
Core Programme of Priority Works (funded by reserves or grant)	1,225
Schemes to be progressed subject to external funding being achieved	588
Total	1,813

3.3 The funding recommended comprises:-

	£000s
Use of Capital Receipts for Core Programme	Maximum of 1,225
Use of Revenue Reserves for Core Programme	TBC
Use of S106 developer contributions	TBC
Use of Community Infrastructure Levy contributions	TBC
Use of grants for externally funded schemes	588
Total	1,813

3.4 Sections 5 and 8 detail proposals to fund elements of the 2018/19 capital programme from revenue, CIL and S106 in place of the capital receipts currently earmarked for those schemes. This would result in the call on capital receipts being reduced for 2018/19 by the sum agreed. This will not increase the 2018/19 programme beyond the £1.813m for which agreement is being sought.

4 Capital Reserves

4.1 The forecast of capital reserves shows that the balance as at 31 March 2018 would be £3.1 million.

4.2 The capital reserves forecast at Annexe 2 has been updated for the next two years using the following assumptions:-

Financial Policy Panel

5 December 2017

- 4.2.1 The current approved capital programme is delivered this year;
- 4.2.2 No new capital receipts are received, nor does it take into account the potential for replacing use of capital receipts with revenue, CIL or S106 funds, as detailed in sections 5 and 8.
- 4.2.3 The proposed three year capital programme (2018-2021) proceeds, as per Appendix 1. Currently there is no call on capital reserves for the third year.
- 4.2.4 External funding for Disabled Facility Grant is assumed at £588,000 per annum.

5 Community Infrastructure Levy (CIL) and S106

- 5.1 The Council has been administering CIL since July 2014. £476,009 of the current receipts have been earmarked for financing Plan E - Phase 1 and it is proposed that further receipts be used for subsequent phases, and the potential Kiln Lane Link Road.
- 5.2 Officers have sought external advice regarding the use of CIL funding for the cemetery expansion project agreed for the 2016-17 capital programme. Subject to the advice received, the intention is to replace the planned use of capital receipts to fund this scheme with CIL funding, enabling the earmarked capital receipts of £654k to be returned to the capital receipts reserve for future years. If we are able to proceed a proposal will go to the next Joint Infrastructure Group meeting.
- 5.3 Advice is also being sought as to the validity of using CIL contributions to fund a number of projects within the 2018-19 capital programme. Where a project is identified as being an appropriate scheme to be funded by CIL, the capital receipts earmarked for that scheme will be returned to the capital receipts reserve.
- 5.4 Officers are reviewing S106 agreements with uncommitted funds to ensure that use of S106 funding is prioritised for projects where appropriate, to preserve capital receipts. Where S106 funding is agreed, the capital receipts earmarked for that scheme will be returned to the capital receipts reserve.

6 Core Programme Funded from Capital Reserves

- 6.1 The Capital Member Group carefully considered the bids submitted and confirmed that only prioritised schemes should be considered for funding from capital reserves or schemes where investment would generate savings. This required a pay-back within 5 years (7 years for energy initiatives).
- 6.2 The proposed core programme proposed for 2018/19 requiring funding from capital reserves is as follows:-

Financial Policy Panel

5 December 2017

Scheme/Funding from Capital Reserves	2018/19	2019/20
	£'000s	£'000s
Installation of LED Lighting Various Sites	75	
Repair of St Marys Churchyard Flint Faced Wall	77	
ICT Programme of Work	60	
ICT – Document Management System replacement	50	
Replacement of Customer Relationship Management system and Data Warehouse	250	250
H&S Improvement Works Ashley Centre Car Park	165	
Ashley Centre Carpark levels 4 a & b waterproof coverings	227	
Playhouse replacement of stage floor and changing rooms refurb	66	
Poole Road Pavilion boiler, pump and plant replacement	50	
Bourne Hall replacement of old defective air conditioning unit	25	
Financial Management System Upgrade	65	
Renewal of Town Hall lift controls	80	
Upgrade of carpark credit card machines	35	
Total proposed capital programme funded from reserves	1,225	250

6.3 One project includes expenditure profiled for 2019/20, therefore progressing this project will commit funds for that year's capital programme.

6.4 The CMG noted that the schemes would be considered by the policy committees in January as part of the capital programme review.

7 External Funding

7.1 The Council receives a fixed government grant allocation for disabled facility grants (DFG) via the Better Care Fund. The following table shows capital schemes where external funding has been identified to enable schemes to proceed in 2018/19:-

Financial Policy Panel

5 December 2017

Scheme	Estimate (£000)	Funding
Mandatory Disabled Facility Grants	588	Better Care Fund DFG
Total externally funded schemes	588	

- 7.2 It is proposed that this scheme be added to the capital programme, subject to support by the relevant policy committee, receipt of external funds and the identification of funding for any revenue implications within approved budgets.

8 Schemes Funded from Revenue

- 8.1 Should any surplus revenue funds arise following the Council's recent purchases of investment property, consideration could be given to applying such funds to supplement the capital programme. This approach would enable earmarked capital receipts to be returned to the capital reserve, thereby mitigating the risk of capital reserves falling below the £1m minimum threshold in future years.

9 Proposals

- 9.1 The Panel is asked to confirm the recommendations of the Capital Member Group:-
- 9.1.1 Schemes, identified in section 6, totalling £1,225,000 in 2018/19 and £250,000 in 2019/20 and funded from capital reserves should be included in the capital programme, subject to the relevant policy committees receiving and approving project appraisals;
- 9.1.2 Schemes identified in section 7 totalling £588,000 be included in the capital programme subject to support for the project appraisals by the relevant policy committees and subject to external funding being received before expenditure is committed.

10 Financial and Manpower Implications

- 10.1 The policy committees will receive appraisals for 2018/19 projects in late January and early February, including revenue cost implications.
- 10.2 The 2018/19 programme includes £250k funding for a new CRM and Data Warehouse system. Although £250k for this project is included in the 2018/19, it assumes a further £250k of expenditure in 2019/20.

Financial Policy Panel

5 December 2017

10.3 If all schemes are progressed between 2018 and 2020 the estimated level of reserves will fall from £3.1 million at 1 April 2018 to £1.6 million at 31 March 2020, before any use of CIL, S106 or revenue funding is taken into account. This is a sufficient level of contingency, however members should note the following risks;

10.3.1 Should additional unavoidable projects arise during the period, schemes may either need to be shelved, assets disposed of to generate additional receipts or a borrowing strategy considered.

10.3.2 Interest earned on cash balances and available to help fund services has already reduced due to low interest rates, but will fall further as capital reserves are depleted. The projected use of reserves over the period is £1.475 million, with an average medium term rate of 1% over this period it will reduce revenue funding by £14,750 per annum.

10.4 **Chief Finance Officer's comments:** *All financial implications have been included within the body of this report.*

11 Legal Implications (including implications for matters relating to equality)

11.1 Investment is needed in Council buildings and other assets to ensure that working environments are suitable and that health and safety standards are maintained towards users of the service.

11.2 **Monitoring Officer's comments:** *There are generally no legal implications arising from this report. Where works are proposed on grounds of health & safety, it is important to have proper regard to our statutory obligations before making a decision.*

12 Risk Assessment

12.1 The main risks are that (a) the additional investment from capital reserves will provide reduced funding support for service delivery in future years, or (b) support from government grants will reduce, affecting the ability to continue to invest in statutory services and that investment is not sufficient to meet statutory obligations or meet the highest resident priorities.

12.2 With limited capital receipts available to fund investment, the CMGs proposals try to balance the risk by measuring essential investment needs against resource limitations. Business case investment has been prioritised where it demonstrates a payback within 5 years or 7 years for renewable energy projects.

12.3 In the long term the Council will need to consider alternative funding sources to finance capital investment or the further sale of Council assets.

Financial Policy Panel

5 December 2017

13 Conclusion and Recommendations

- 13.1 Capital Member Group recommends that the capital programme outlined in this report for 2018/19 be considered by Council in February.
- 13.2 That prioritised schemes totalling £1,225,000 for 2018/19 and £250k for 2019/20 are added to the capital programme, funded from capital reserves, S106, CIL or revenue contributions to capital, subject to the relevant policy committees receiving and approving project appraisals.
- 13.3 That schemes totalling £588,000 for 2018/19 are included in the capital programme, subject to external funding sources and subject to support for scheme appraisals by the relevant policy committees.

Ward(s) Affected: (All Wards);