Strategy & Resources Committee
1 February 2018

# Capital Programme 2018/19

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| **Report of the:** | Chief Finance Officer |
| **Contact:** | Lee Duffy, Sue Emmons |
| **Urgent Decision?(yes/no)** | No |
| **If yes, reason urgent decision required:** | N/A |
| **Annexes/Appendices (attached):** | **Annexe 1** - Proposed Capital Programme |
| **Other available papers (not attached):** | Financial Policy Panel papers 5 December 2017<br>Capital Strategy<br>Individual capital appraisal bid forms |


## Report Summary

**This report summarises the proposed 2018/19 capital programme and the provisional programme for 2019-21. Committee approval is sought for the programme to be submitted to Council in February 2018.**


## Recommendation (s)

**That the Committee:**

**(1) Submits the Capital Programme for 2018/19 as identified in section 4 of this report to the Council for approval on 20 February 2018;**

**(2) Confirms that it supports all of the schemes included in the provisional programme for 2019-21 as identified in section 5 of this report;**

**(3) Agrees that £540k revenue funds, as set-out in paragraphs 2.4 to 2.5, be used to fund the 2018/19 capital programme, subject to:**

**a) Approval of the 2018/19 revenue budget estimates by this same Committee**

**b) Should DCLG implement Minimum Revenue Provision changes that reduce the level of revenue funds available to support the capital programme, any affected schemes should proceed but revert to funding from capital receipts, as set out in section 10 of this report.**

**(4) Notes that:-**

**a) schemes subject to external funding from Disabled Facilities Grant only proceed when funding has been received;**

**b) schemes for 2019-21 are provisional pending an annual review of funds available for capital investment.**

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

1.1 The Council's Medium Term Financial Strategy (MTFS) includes the following guidelines relevant to investment in services:-

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.

## 2 Background

2.1 The Capital Strategy was last agreed by Council on 14 February 2017, at which time the capital programme was approved for 2017/18. Schemes for 2018-2020 were provisional pending the annual budget review and an annual assessment of funds for capital investment.

2.2 The Financial Policy Panel ('the Panel') provided the Capital Member Group (CMG) with a remit for the preparation of a capital programme for 2018/19. Under this remit, CMG assessed all capital bids and recommended a programme, which the Panel approved on 5 December 2017.

2.3 The programme presented to the Panel assumed funding from capital receipts and government grants. The Panel were advised that the proposed level of investment of £3.2 million over three years 2018/19 to 2020/21, of which £1.475 million was to be funded from capital receipts, would reduce the available capital receipts balance to £1.6 million at the end of this period. The agreed minimum threshold of capital receipts is £1 million. In order to slow the depletion of capital reserves, FPP supported a proposal that any surplus revenue funds, arising principally from dividend income received from Epsom & Ewell Property Investment Company (EEPIC), should be allocated to fund the capital programme in 2018/19.

2.4 In total, MTFS projections show that £540k revenue funds are available to fund the capital programme in 2018/19, subject to the risk identified in paragraphs 10.4 and 10.5 of this report. It is recommended that the entirety of the Strategy & Resources capital programme be funded from these funds and also £35k for Environment Bid 5, which is the upgrade of the car park card payment machines, altogether totalling £540k.

2.5 The use of £540k of revenue funds for these schemes would ease the use of capital receipts and maintain the reserves at £2.16 million at the end of this period.

2.6 The Panel's guidance relevant to this policy committee was as follows:-

2.6.1 Priority schemes identified by the Capital Member Group should be presented with project appraisals to the policy committees in January to establish support for the individual projects, with any projects not supported being removed from the draft programme.

2.6.2 Schemes identified in section 4 of this report, requiring £505k of funds, should be included in the capital programme, subject to support for the project appraisal by this Committee.

## 3 Proposals

3.1 The Committee is asked:-

3.1.1 To approve the proposed capital programme for 2018/19;

3.1.2 To agree the provisional programme for 2019/20;

3.1.3 To agree that £540k revenue funds, as set-out in paragraphs 2.4 to 2.5, be used to fund the 2018/19 capital programme, subject to:.

a) Approval of the 2018/19 revenue budget estimates by this same Committee

b) Should DCLG implement Minimum Revenue Provision changes that reduce the level of revenue funds available to support the capital programme, any affected schemes should proceed but revert to funding from capital receipts, as set out in section 10 of this report.

3.2 The timing of the programme should be based on the ability to deliver with a realistic number of projects in any one year.

3.3 If all schemes in the proposed corporate capital programme for 2018/19 were to progress, and given the use of £540k of revenue funds to support the capital programme, this would reduce the capital reserves to £2.16 million at 31/03/2021. The MTFS requires the Council to maintain a minimum uncommitted level of capital reserves of £1 million. Where

possible the Council will prioritise the use of other funding sources such as revenue, external grants, S106 and Community Infrastructure Levy to preserve the level of capital receipts. A report will be submitted to the Joint Infrastructure Group (JIG) to propose the use of £771k CIL monies to fund two existing capital schemes; the Cemetery extension and works to the weir at Lower Mill Pond. Should the use of CIL be approved by JIG and subsequently by S&R Committee, the forecast balance of capital receipts reserves would increase to £2.93 million at 31/03/2021.

## 4 Core Programme 2018/19 Funded from Revenue Funds

4.1 The Financial Policy Panel recommended that the following schemes should be considered by this Committee for inclusion in the capital programme in 2018/19, subject to the Committee approving the projects. If S&R Members have any comments or queries about specific schemes, please can these be raised with officers prior to the meeting.

4.2 The proposed core programme for 2018/19 can be fully funded from revenue funds, subject to the risk identified in paragraphs 10.4 and 10.5:-

| **Capital Appraisal form reference (in prioritised order)** | **Scheme** | **2018/19 *£000s*** |
|---|---|---|
| Strategy & Resources Bid 2 | Replacement of CRM and Data Warehouse | 250 |
| Strategy & Resources Bid 5 | ICT programme of work | 60 |
| Strategy & Resources Bid 3 | Document Management System replacement | 50 |
| Strategy & Resources Bid 1 | Financial Management System Upgrade | 65 |
| Strategy & Resources Bid 4 | Renewal of Town Hall lift controls | 80 |
| **Total** | | **505** |

## 5 Provisional Capital Programme 2019/20 to 2020/21

5.1 The provisional programme proposed for 2019-21 is:-

| **Capital Appraisal form reference** | **Scheme** | **2019/20 (£'000)** | **2020/21 (£'000)** | **Funding** |
|---|---|---|---|---|
| Strategy & Resources Bid 2 | Replacement of CRM and Data Warehouse | 250 | 0 | 250 |
| | **Total proposed capital programme 2019/20 to 2020/21** | **250** | **0** | **250** |

5.2 This scheme will be included within the capital programme for 2019/20 subject to future Capital Member Group meetings reaffirming their support.

## 6 Financial and Manpower Implications

6.1 The Committee will wish to ensure that the Council has the capacity to deliver the recommended schemes.

*6.2* ***Chief Finance Officer's comments:*** *All financial implications are included in the body of the report.*

## 7 Legal Implications (including implications for matters relating to equality)

7.1 A baseline criteria for schemes is 'Investment required to meet Health and Safety or other new legislative requirements' as identified in the project appraisals.

*7.2* ***Monitoring Officer's comments:*** *There are no significant legal implications arising from this report. It is important when considering whether to approve capital schemes that the Council's legal obligations are considered. This appears to have been done in the preparation of the Capital Programme.*

## 8 Sustainability Policy and Community Safety Implications

8.1 None for the purpose of this report.

## 9 Partnerships

9.1 There are no schemes dependent upon partnership agreement or funding. Schemes may, subject to evaluation, involve partnership for procurement or service delivery.

## 10 Risk Assessment

10.1 The CMG have used the Capital Strategy to balance the need for prioritised investment against a reducing level of capital reserves.

10.2 To help manage risks to the General Fund revenue account business case investment has been prioritised where it demonstrates a payback within 5 years or 7 years for renewable energy projects.

10.3 Funding has been identified to enable the delivery of the capital programme for 2018/19 and officers believe that there should be sufficient capacity to deliver these projects.

10.4 There is a risk associated with the £540k revenue funding, following a recent DCLG consultation regarding proposed changes to Minimum Revenue Provision (MRP) guidelines. MRP is an annual charge against the general fund, to ensure resources are set-aside to repay any borrowing incurred for capital purposes. The consultation ended on 22 December

2017 and the outcome is not yet published. DCLG proposed in the consultation that, for directly owned assets, Local Authorities should spread MRP charges over a maximum of 40 years for buildings and 50 years for land from 2018/19.

10.5 Existing guidelines do not mandate a maximum term and EEBC currently spreads its MRP charges over 50 years. If implemented in its current form, the proposed change could increase the annual MRP charge at EEBC, and indeed at many other Local Authorities. This could impact the revenue funds available to support the capital programme.

10.6 In this scenario, it is proposed that any affected capital schemes, earmarked above to be funded from revenue, would still proceed but revert to funding from capital receipts.

10.7 Officers will continue to monitor the DCLG's proposals and, once formalised, any changes will be incorporated into the Treasury Management Strategy presented to S&R Committee in April.

## 11 Conclusion and Recommendations

11.1 A programme of £505k, excluding any carry forward provisions from 2017/18, is recommended for this committee in 2018/19.

11.2 To agree the provisional programme for 2019 - 2021.

11.3 To agree that £540k revenue funds be used to fund the 2018/19 capital programme, subject to:

a) Approval of the 2018/19 revenue budget estimates by this same Committee

b) Should DCLG implement Minimum Revenue Provision changes that reduce the level of revenue funds available to support the capital programme, any affected schemes should proceed but revert to funding from capital receipts, as set out in section 10 of this report.

**Ward(s) Affected: (All Wards);**