

CAPITAL PROGRAMME 2017/18

<u>Report of the:</u>	Director of Finance and Resources
<u>Contact:</u>	Lee Duffy or Lesley Shields
<u>Annexes/Appendices</u> (attached):	Annexe 1: Recommended Capital Programme Annexe 2: Four year Capital Reserves Forecast Annexe 3: Summary of bids considered by the Capital Member Group
<u>Other available papers</u> (not attached):	Capital bids Notes of Capital Member Group

REPORT SUMMARY

This report seeks guidance from the Panel on the preparation of the draft capital programme for 2017/18 and on funding to be released for capital investment.

RECOMMENDATION (S)

That, based on the advice of the Capital Member Group, the following capital programme for 2017/18 to be considered by Council in February:-

- (1) Prioritised schemes totalling £714,000 are added to the capital programme and funded from capital reserves £643,000, S106 developer contributions £46,000 and revenue reserves £25,000, subject to the relevant policy committees receiving and approving project appraisals;**
- (2) Schemes totalling £535,000 are included in the capital programme, subject to external funding sources and subject to support for scheme appraisals by the relevant policy committees;**

Notes

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:-

- Prioritise capital investment to ensure retained property is fit for purpose.

- Maximise the use of external funding opportunities to deliver improvements to the community infrastructure, including affordable housing.
- Maintain a minimum uncommitted level of capital reserves of £1 million at 31 March 2018.

2 Background

- 2.1 The Financial Policy Panel agreed that a Capital Member Group (CMG) should meet to review the capital programme. The Panel agreed that the CMG would comprise Councillors Neil Dallen, Eber Kington, Omer Kokou-Tchri, John Beckett and Barry Nash.
- 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 prioritisation re-assessed by the officer Capital Management Group. The officer group also advised on proposals which should not be progressed, for example where proposals did not qualify as capital expenditure.
- 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 the CMG assessed all capital appraisals but focused on prioritised items for 2017/18 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.

3 Draft Programme

- 3.1 The Capital Member Group received bids for 2017/18 of £2.859 million and after review reduced the recommended bids to £1.249 million. **Annexe 1** comprises a summary of the capital programme recommended by the Capital Member Group.

3.2 The proposed programme for 2017/18 comprises:-

	£000s
Core Programme of Priority Works (funded by reserves or grant)	714
Schemes to be progressed subject to external funding being achieved	535
Total	1,249

3.3 The funding recommended comprises:-

	£000s
Use of Capital Reserves for Core Programme	643
Use of Revenue Reserves for Core Programme	25
Use of S106 developer contributions	46
Use of grants for externally funded schemes	535
Total	1,249

4 Capital Reserves

4.1 The forecast of capital reserves shows that the balance as at 31 March 2017 would be £2.6 million.

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

4.2.1 The current approved capital programme is delivered this year;

4.2.2 No new capital receipts included within forecast balance of capital reserves.

4.2.3 The proposed three year capital programme (2017-2020) proceeds, as per **Annexe 1**.

4.2.4 External funding for Disabled Facility Grant is assumed at £535,000 per annum.

4.2.5 Expenditure on e-government and other information technology is kept within budget and individual schemes are monitored within this sum.

5 New Homes Bonus and Community Infrastructure Levy (CIL)

5.1 The New Homes Bonus Strategy agreed last year allowed for £500,000 to be used annually to finance capital projects. Due to uncertainties surrounding this area of funding for 2017/18 none of the capital programme for 2017/18 onwards is being financed by New Homes Bonus.

- 5.2 The Council has been administering CIL since July 2015 and it is proposed that current receipts will be earmarked for financing Plan E - Phase 1 (£476,009) and subsequent phases, and the potential Kiln Lane Link Road.

6 Government Grants

- 6.1 For the purpose of the capital programme it is assumed that the Better Care funding for the disabled facility grant programme will be £535,000 for 2017/18.

7 Core Programme Funded from Capital Reserves

- 7.1 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).
- 7.2 The proposed core programme proposed for 2017/18 requiring funding from capital reserves is as follows:-

Scheme/Funding from Capital Reserves	£'000s
Installation of LED Lighting Various Sites	21
ICT Programme of Work	250
ICT - Legal Case Management System	20
Container Replacement Programme	68
Improvement Works (Depot Rd) & Pay Machines (Depot Rd & Upper High St) Car Parks	174
Rosebery Park Pond Refurbishment	110
Total proposed capital programme 2017/18 funded from reserves	643

- 7.3 The CMG noted that the schemes would be considered by the policy committees in January as part of the capital programme review.
- 7.4 The CMG agreed that the replacement of Wyse boxes (£70,000) submitted as part of the £250,000 ICT Programme of work should be subject to an option appraisal by the Leadership Team. The outcome of that review will be reported back to CMG in time for the Council meeting in February 2017.

8 External Funding

- 8.1 S106 money is a useful source of funding for smaller schemes and for affordable housing. One S106 funded scheme is proposed as part of this programme. In addition the Council receives a fixed government grant allocation for disabled facility grants via the Better Care Fund. The following table shows capital schemes where external funding has been identified to enable schemes to proceed in 2017/18:-

Scheme	Estimate (£000)	Funding
Alexander Recreation Ground - Tennis & Basketball Court Refurbishment	46	Outdoor sports facility S106 funding from various developer contributions.
Mandatory Disabled Facility Grants	535	See section 6 of this report.
Total externally funded schemes	581	

8.2 It is proposed that these schemes 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.

9 Schemes Funded from Revenue Reserves

9.1 In ensuring that capital reserves do not fall below £1 million it was recommended that one scheme be funded from the Council's Repairs & Renewals fund, this is;

9.2 The waste strategy containers project for £50,000 over two years is fully funded from operational services R&R fund for 2016/17 (£25,000) and 2017/18 (£25,000).

10 Proposals

10.1 The Panel is asked to confirm the recommendations of the Capital Member Group for consideration by the policy committees in January 2017 and ultimately approval by Council in February 2017:-

10.2 Schemes, identified in section 7, totalling £643,000 and funded from capital reserves should be included in the capital programme, subject to the relevant policy committees receiving and approving project appraisals;

10.3 Schemes identified in section 8 totalling £581,000 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.

10.4 Schemes listed in section 9 totalling £25,000 and funded from capital reserves should be included in the capital programme, subject to the relevant policy committees receiving and approving project appraisals.

11 Financial and Manpower Implications

11.1 As highlighted in this report, any scheme not attracting full external funding will have a revenue budget impact.

- 11.2 The policy committees will receive appraisals for 2017/18 projects in January, including revenue cost implications.
- 11.3 If all schemes are progressed between 2017 and 2020 the estimated level of reserves will fall from £4.4 million (1 April 2016) to £1.6 million (31 March 2020). This is a sufficient level of contingency, however members should note the following risks:
- 11.3.1 Should additional unavoidable projects arise during the period, schemes would either need to be shelved, assets disposed of to generate additional receipts or a borrowing strategy considered.
- 11.3.2 Interest earned on 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 three year period is £1.084 million, with an average medium term rate of say 3% over this period it will reduce revenue funding by £32,520 per annum.
- 11.3.3 The proposed programme for 2017/18 will require £643,000 for the core capital programme which comprises mandatory and other prioritised expenditure. In the long term this will give an annual cost of £19,290 in lost interest (3% used for long term rate).
- 11.4 Capital reserves will reduce next year as a result of capital funding for new schemes by £643,000. The estimated level of capital reserves is £2.6 million at 31 March 2017 and £2 million at 31 March 2018.
- 11.5 **Chief Finance Officer's comments:** *All financial implications have been included within the body of this report.*

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

- 12.1 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.
- 12.2 **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.*

13 Risk Assessment

- 13.1 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.

- 13.2 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.
- 13.3 In the long term the Council will need to consider alternative funding sources to finance capital investment or the further sale of Council assets.

14 Conclusion and Recommendations

- 14.1 Capital Member Group recommends that the capital programme outlined in this report for 2017/18 be considered by Council in February as follows:
- 14.1.1 That prioritised schemes totalling £714,000 are added to the capital programme and funded from capital reserves £643,000, £46,000 S106 developer contributions and revenue reserves £25,000, subject to the relevant policy committees receiving and approving project appraisals;
- 14.1.2 That schemes totalling £535,000 are included in the capital programme, subject to external funding sources and subject to support for scheme appraisals by the relevant policy committees.
- 14.2 The replacement of Wyse boxes (£70,000) submitted as part of the £250,000 ICT Programme of work will be subject to an option appraisal by the Leadership Team. The outcome of that review will be reported back to CMG in time for the Council meeting in February 2017.

WARD(S) AFFECTED: All