

**Capital Programme****Introduction**

1. This Appendix considers the Medium Term Financial Plan as it relates to the Council's capital programme.
2. The provisional capital budgets for both 2016/17 (Revised Programme) and 2017/8 (Original Programme) are shown in Table 1 to this Appendix. The table also details the forecast investment planned for the period 2018/19 to 2020/21.
3. It should be noted that there will be a separate report to Council concerning the Council's Treasury Management Strategy. That report includes consideration of issues concerning borrowing and leasing which provide the capital financing to enable the proposed capital budgets outlined within this report to proceed. Given its links with the budget process the Treasury Management Strategy will be considered by the budget setting Council on 20th February 2017. With regard to both the HRA and the General Fund elements of the Capital Programme asset surveys have been completed which are informing future investment priorities. In the case of the HRA the Capital Programme is effectively fully funded by HRA resources and needs to ensure that assets are replaced at the point in time when they are at the end of their useful operational life. This process is informed by the stock condition survey. A particular issue for the HRA is that its capital investment strategy will need to be shaped by the requirement to undertake replacement of items such as bathrooms and kitchens as they are due for replacement at the end of their effective life. This results in investment needs being concentrated into certain periods rather than being spread evenly over the 30 year life of the Business Plan. Accordingly at certain points in time the HRA needs to generate financial balances to fund the level of investment required in future financial years. A clear consequence of poor financial planning will be deterioration in the quality of the homes currently enjoyed by our tenants.
4. The Council will continue with its policy of using prudential borrowing rather than operating leases in areas such as vehicles and leisure equipment. Officers are of the view that flexibility over length of ownership, access to better interest rates and the financial savings which arise from being owner of the property secure longer term financial savings, which outweigh any benefits that leasing may provide.
5. An overview of the scale of the current approved and proposed capital programme is provided in the table below:

	<b>2016/17 Current £,000</b>	<b>2016/17 Revised £,000</b>	<b>2017/18 Original £,000</b>	<b>2018/19 Original £,000</b>	<b>2019/20 Original £,000</b>	<b>2020/21 Original £'000</b>
<b>General Fund Schemes</b>	9,175	8,198	2,661	1,184	827	1,149
<b>HRA Schemes</b>	12,671	9,290	16,546	13,922	4,273	5,110
<b>Total</b>	<b>21,846</b>	<b>17,488</b>	<b>19,207</b>	<b>15,107</b>	<b>5,100</b>	<b>6,259</b>

### **Capital Programme – Estimated Outturn 2015/16**

6. The Revised Programme in respect of the current financial year, which is detailed in Appendix 3 Table 1, shows a net decrease of £4.358m (£21.846m to £17.488m) from the Current Programme. The majority of this decrease in expenditure (£2.229m) relates to the later than anticipated commencement on site of the major renovation programme in respect of New Bolsover, a £0.955m reduction on the new build HRA properties, together with £1.1m in respect of the additional units at the Tangent Business Centre. It is intended that all of this work will be undertaken during the 2017/18 financial year accordingly both the expenditure and the resources within the Approved Programme will be adjusted to reflect progress on site.

### **General Fund Programme 2016/17 to 2020/21**

7. Within the General Fund table are the capital expenditure plans for 2016/17 and future years. The following sections summarise the current position and outlines the key schemes.
8. With regard to the General Fund the Stock Condition survey outlined the longer term refurbishment requirement of the Council's assets. In order to recognise the requirement to undertake necessary refurbishment work the Programme has a recommended provision of £260k for each of the years 2017/18 to 2020/21 in order to fund work in line with the Asset Management Plan. In order to ensure that the work proceeds in a responsive and timely fashion it is recommended that the Assistant Director (Property and Estates) be granted delegated powers in consultation with the Portfolio Member and the Asset Management group to approve the utilisation of the £260,000 of AMP Refurbishment allocation, which such approvals to be reported back to Executive through the Quarterly Budget Monitoring Report. In particular this facility is helpful when it is necessary to undertake work to premises in order to secure a long term tenancy, or to authorise urgent renovation work. Given the absence of other resources this work will need to be funded from capital receipts brought forward, or from capital receipts generated in the year.
9. As a background to the Asset Management Plan and the Capital Programme it is helpful to have an awareness of the key buildings which are currently operated by the Council are as follows:
- Project Horizon Office / Admin Buildings. The main administration buildings at Clowne and at the Riverside Depot are both modern buildings and are anticipated to require minimal maintenance over the next 10 years. During 2016/17 the Council refurbished a former bank on Cotton Street to

accommodate the contact centre (co located with Job Centre Plus). With respect to the 2017/18 Approved Programme there is an amount in excess of £100,000 to provide a replacement contact centre at Shirebrook in a joint scheme with the Town Council. The upgrading of facilities at Shirebrook will mean that all four contact centre (Bolsover, Clowne, Shirebrook and South Normanton) are now modern fit for purpose facilities.

- The Tangent Business Hub at Shirebrook is again a modern building with little maintenance requirement anticipated over the next 10 years. The Approved Programme includes a scheme for providing an extension to the existing facility – which will provide roller shutter units – at a cost of £1.397m spread over the current and next financial year. The extension is anticipated to generate further income to assist in the medium term financial sustainability of the Council.
- Pleasley Vale Mills: The Council submitted a Heritage Lottery Bid for the Asset in the spring of 2014 which was unsuccessful. Whilst the building is likely to have a limited capital requirement for the next five years or so the reality is that a major refurbishment is likely to be necessary within a 10 year period. Although the cost cannot be forecast with certainty until a more detailed scheme is developed officers would anticipate that it would amount to at least £5m which is unlikely to be affordable from within the Council's anticipated capital resources. Officers are therefore continuing to explore options in respect of the site, including those of a partnership with the private sector.
- The enhanced Leisure facilities at Clowne will be completed during the 2016/17 financial year. On completion it is anticipated that the enhanced facility will require minimal maintenance, whilst providing a modern platform from, which deliver Leisure Services at a much reduced cost.
- ICT infrastructure – The overall cost of this work over the period of the current MTFP (April 2017 onwards) is one of £0.259m which will be funded from a combination of revenue contribution and capital receipts.
- Disabled Facilities Grants – £1.6m over the period of the current MTFP. This expenditure is fully funded by anticipated grant of £1.6m, however, Council should, however, note that the DFG budget is a demand led one and that the Council has an obligation to meet the identified needs of local residents. The DFG expenditure and associated grant funding arrangements will be monitored carefully with any changes from the approved programme being reported back to Members.
- The vehicle replacement programme (£1.196m) is an ongoing programme to replace operational vehicles as they reach the end of their economic life. The financing is planned to be via prudential borrowing over the life of the assets replaced.
- The Leisure services fitness equipment replacement is an ongoing programme funded by Prudential Borrowing to provide and replace fitness equipment on the basis that these costs will be covered by the revenue income that they generate.

10. The sections above have outlined the main elements of the Programme and how they will be financed. For those scheme where no specific funding has been identified the work will need to be funded by Capital Receipts, or prudential borrowing. One potential source of funding for the General Sector capital programme will need to be the land sale values and any surplus generated from these developments. In order to ensure the continued funding of the capital programme it is recommended that the Asset Management Group be requested to continue work developing options in terms of asset sales with which to fund the capital programme in respect of future years. It should be noted that asset sales of unutilised or underutilised assets generally also secure both revenue savings for the Council whilst encouraging investment from the purchaser of the asset concerned. This makes an important contribution to securing the ongoing regeneration of the District and to delivering the Council's growth agenda.

### **HRA Capital Expenditure 2016/17 to 2020/21**

11. The major part of the Council's Capital Programme relates to work on council dwellings. Under the new HRA self financing arrangements local authorities are required to fund the capital necessary to maintain their houses in line with the decent homes standard either from the revenue generated by the HRA, or by borrowing up to the level of the housing debt cap which has been set by the Government (£112.350m in the case of BDC). A key objective of developing a 30 year Business Plan is to ensure that the Council is in a position to maintain tenants homes, and that the necessary level of capital expenditure on the properties can be afforded. The following sections summarise the current position and outlines the key schemes.
12. The Council's capital programme for 2016/17 in respect of its Housing Assets amounts to £9.290m. The main elements of work relate to work on improving the quality of our existing properties at a cost of £5.4m, work on the B@Home Programme of new Council house building at a cost of £1.6m and the start on site of the New Bolsover project at a cost of £1.2m. These elements of the Programme continue into future years with approximately £5m a year being allocated to improvement work on existing stock.
13. Within the current year's programme an amount of £1.6m relates to the first phase of the B@home programme, with the homes at Creswell and Blackwell anticipated to be completed by the end of the financial year. Work is planned to commence on the sites at Fir Close, Derwent Avenue and Hilltop by the start of next financial year. This work will be funded from prudential borrowing, with the evaluation of the scheme concluding that the rental stream from these new properties will cover costs including debt repayment.
14. In addition to the above elements of the scheme which have already been approved for inclusion within the Council's Capital Programme, Executive at its meeting of 30<sup>th</sup> January 2017 approved in principle a further phase of the B@Home scheme comprising of 22 new homes in Pinxton and South Normanton at a total cost of £3.363m. While further feasibility work is required before it will be agreed for the scheme to proceed to contractual commitment, the scheme is now sufficiently advanced for it to be included within both the Approved Capital Programme and the Treasury Management Strategy. It

should be noted that the recommendation approved by Council omitted an amount of £0.130m from the overall cost of the scheme. Having reviewed the position, Officers are of the view that this amount can be accommodated within the agreed level of contingency and that the scheme can be delivered within the currently approved budget of £3.363m. The scheme will not proceed unless the further feasibility work to be undertaken confirms the views of officers that the scheme is viable and sustainable for the Housing Revenue Account. On the basis that this phase of the scheme proceeds then the Council will have commitments in place to secure 94 of the 100 new Council Houses that is a key corporate target.

15. Work has also commenced on the initial stages of the New Bolsover project which will renovate 194 heritage properties where a start on site has been made in the autumn of 2016 with anticipated expenditure of £1.193m in the current financial year, followed by expenditure of £4.4m in 2017/18 and £5.1m in 2018/19. Of total scheme costs of £10.3m the Heritage Lottery Fund will fund £2m, with the balance being met from HRA revenue resources and prudential borrowing.

16. HRA Vehicle Replacement £1.099m

The majority of this expenditure is due to take place in the current financial year with a planned expenditure of £0.6m. While this is a significant expenditure it is necessary if the Council is to operate a cost effective repairs and maintenance service responsive to the requirements of our tenants. These vehicles which were previously funded via leasing arrangements will now be funded from the Vehicle Reserve set up within the HRA accounts which provides a more cost effective financing option.

### **Capital Programme Risk Assessment – 2017/18**

17. A full Risk Assessment is set out in **Table 2**, which outlines the risks, the mitigation which is in place, the potential impact and the probability in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is facing with regard to the proposed 2017/18 capital programme. This indicates that the identified risks which the Council is facing in respect of its Capital Programme amount to £1.250m. Should any of these risks arise then all possible financing options will be explored, however, if all these risks materialise then it may be necessary ultimately to charge these costs against General Fund or HRA balances.

18. As is the case in respect of both the General Fund and the HRA the assessment concerning the level of risk is essentially used for two purposes. In the first place an understanding of the risks which the Council faces is crucial in agreeing an appropriate level of financial reserves which are required. Secondly, the identification of the risks is the first stage in the process of more effectively managing, or of mitigating those risks. By identifying the risks it is possible to avoid them, to insure against them, to transfer the risk, or most likely actions can be taken to reduce or to mitigate the risk. The Council has in place a comprehensive approach to Risk Management which is reported on a quarterly basis to Cabinet, and this process will be utilised in order to manage the key financial risks.

**Recommendations:**

19. The recommendations arising from this Appendix are set out in section 6 of the covering report.