**POLICY AND RESOURCES COMMITTEE – 29 JANUARY 2018**

**PART I - NOT DELEGATED**

**10. FINANCIAL PLANNING – CAPITAL STRATEGY AND INVESTMENT PROGRAMME**

(DoF)

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| 1. | **Summary** |
| 1.1 | The purpose of this report is to enable the Policy and Resources Committee to recommend to the Council its capital strategy and investment programme over the medium term (2017-21). This report is the second of three that is covered under the recommendations report at Item 11 on this agenda. |
| 2. | **Details** |
|  | ***Capital Investment Programme - Expenditure*** |
| 2.1 | **Appendix 1** shows the 2017/18 revised budget and draft budgets for the period 2018/19 to 2020/21. The appendix contains the title, description and officers comments relating to the progress of the 2017/18 schemes.  |
| 2.2 | The 2017/18 programme has decreased from the latest approved budget by £933,040 of which £17,250 is an underspend primarily relating to Listed Building grants (£9,500) and Renovation grants (£7,000), and £950,290 is due to the re-phasing of schemes to 2018/19. Some of the larger schemes that contribute to this consist of the following:* Replacement of Grounds Maintenance vehicles - £200,000
* Scotsbridge Multisport Pitch - £50,000
* Cycle schemes – £50,000
* Parking Bays - £112,000
* ICT Licence Costs - £200,000
* ICT Business Application Upgrade - £110,000

Further schemes and full details are shown at **Appendix 1** |
| 2.3 | Variances to the medium term capital programme which have been identified up to the end of November and are shown in detail at **Appendix 2.**  |
| 2.4 | Following the re-phasing, the capital programme for 2017/18 now totals £7.308 million. The services capital programme included in MTFP shows schemes totalling £8.868 million in 2018/19; £2.956 million in 2019/20 and £2.506 million in 2020/21.  |
| 2.5 | The larger capital schemes over the next three financial years include:* Disabled Facility Grants (£1.500 million),
* Waste and Recycling Vehicles (£1.285 million),
* Improving Play Areas (£0.515 million),
* Provision of Temporary Accommodation (£2.160 million),
* Bury Lake Young Mariners (£1.0 million), and
* Grounds Maintenance Truck & Vehicle Replacements (£0.639 million).
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| 2.6 | The Committee should note that for 2018/19 there are proposals for five new schemes. Project Initiation Documents (PIDs) have been prepared and presented to the relevant service Committee at the November/December meetings. **Appendix 3** shows the score for each bid using the scoring matrix shown in agenda item 8, ‘Financial Planning – Revenue Services’ report (Appendix 4). These bids total £1,095,100 in 2018/19 and £400,000 in future years. Four of the bids have revenue implications.  |
| 2.7 | The proposed new schemes are;* Byelaw signage for parks & open spaces - £9,000
* ‘Carbon-neutral’ Council - £2,000
* Watersmeet refurbishment of upper foyer toilets - £24,100
* Parking services - £660,000
* Refurbishment of garage stock - £400,000 (18/19) and £400,000 (19/20)
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|  | *South Oxhey Initiative* |
| 2.8 | The development costs and the funding for this project are shown separately at Appendix 4. The progress of the scheme was previously monitored by the South Oxhey Project Board consisting of Council Officers; this is now combined with the Property Investment Board (PIB). This is reported to Members at Policy and Resources Committee or the South Oxhey Scrutiny Panel if Policy and Resources Committee is not available. |
|  | *Temporary accommodation – modular builds* |
| 2.9 | Last year a revenue budget pressure was funded and the Council committed to construct its own modular units within the district. The capital outlay to achieve revenue income returns and reduction in revenue costs was also agreed.These are subject to planning permission being granted.Planning approval for the construction of seventeen 2-bedroom units at the WRVS site at the Bury was granted in 2017/18. Further sites in the district have been identified and are currently subject to planning permission. The capital costs and revenue savings have already been included in the base budgets.  |
|  | *South Oxhey Leisure Facility* |
| 2.10 | As part of re-procuring the Leisure Facility Management Contract (LFMC), the Council has agreed to replace the existing leisure facility at South Oxhey (known as ‘The Centre’) with a new building that new includes a swimming pool. The new building will be constructed by the leisure contractor under a Design, Build, Operate and Maintain (DBOM) contract; however the Council has agreed to finance the build costs. These costs are contractually capped at £8.6 million with any project overspend to be met by the leisure contractor. The Council will probably need to borrow to fund this new capital investment however the financial analysis of the contractor’s bid shows that in addition to the annual management fee (revenue) received there is a further element to cover the costs of the capital principal repayment and debt servicing over the life of the contract.  |
|  | *Property investment* |
| 2.11 | In 2017/18, the Council set up its Property Investment Board (PIB) consisting of Senior Officers. The purpose of PIB is to approve the investment in property based assets primarily as capital expenditure. The primary aim of PIB is to alleviate some of the financial pressure on the Council’s revenue account by acquiring or developing property assets that generate a significant revenue rental stream. The capital programme agreed by Council in February 2017 allowed the Council to invest up to £20 million into property based assets, with a targeted return on capital employed of 5%. The anticipated rental income had been factored into the 17/18 Medium Term Financial Plan. Each individual acquisition must be subject to its own business case and the financial viability must be agreed by PIB before any Council funds are committed for expenditure.  |
|  | ***Capital Investment Programme - Funding*** |
| 2.12 | The Capital Investment Programme can be funded from the following sources: |
| 2.13 | Government Grants & Other Contributions: These are grants for specific purposes which may be available from the Government, e.g. Disabled Facility Grants. The Council can also attract partnership funding from other local authorities and agencies e.g. Local Enterprise Partnership (LEP). The Council has also benefited in the past from other funding such as lottery grants.  |
| 2.14 | Section 106 Contributions: These are contributions from developers to the public services and amenities required for the development. These have been in part replaced by the Community Infrastructure Levy. Current Section 106 monies are guaranteed. Council has previously agreed to use £1.500 million of the affordable housing s.106 for the provision of additional affordable housing as part of the South Oxhey Initiative (SOI) project.  |
| 2.15 | Capital Receipts Reserve: Capital receipts are derived when selling assets such as land. The main receipt relates to the arrangements made when the Council sold its housing stock to Thrive Homes Ltd in 2008; the Transfer Agreement included a Right to Buy (RTB) Sharing Agreement whereby the Council is entitled to a share of the post-transfer receipts from RTB sales and a ‘VAT Shelter Agreement’ whereby the Council benefits from the recovery of VAT on continuing works carried out by Thrive.  |
| 2.16 | Revenue Contributions: Revenue balances from the General Fund may be used to support capital expenditure. |
| 2.17 | Future Capital Expenditure Reserve: The Council has a general reserve which it has put aside for future capital expenditure. It has the ability, should it wish, to re-designate this reserve for revenue use, however the current MTFP forecasts that this reserve will be fully utilised to support the capital programme. |
| 2.18 | New Homes Bonus Reserve: New Homes Bonus is a grant relating to the number of new homes delivered in a local authority area. There are no government restrictions on whether this is capital or revenue, nor is there any ringfence imposed. For 2018/19, based on the provisional settlement, the Council expects to receive £1.109 million, of which half will be apportioned to revenue**.** Estimates for future years are harder to predict due to factors such as uncertainty around timing of qualifying developments being completed and occupied, but realistic estimates are included in the medium term.  |
| 2.19 | Borrowing: The Council is allowed to borrow to support its capital expenditure as long as this is prudent, sustainable, and affordable. Presently, it is anticipated that the Council would borrow to support the new leisure centre provision in South Oxhey, and the costs of this are covered in the income received from the leisure contractor although there may be a potential timing difference. Other than this, it not proposed to borrow to fund ‘business as usual’ capital expenditure in the medium-term.  |
| 2.20 | The capital programme includes an assessment of likely available resources to finance capital expenditure and includes assumptions regarding capital receipts, which have been estimated at £1.100 million in 2018/19 and future years. In addition, the Council is forecasted to generate:* £0.750 million of Government Grants
* £0.033 million of s106 Contributions, and
* £0.984 million of New Homes Bonus allocated to capital over the medium term.
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| 2.21 | **Appendix 4** shows the sources of capital funding proposed over the period 2017-2021, including the funding generated in each year and balances carried forward at the end of each year.  |
| 2.21 | **Appendix 5** shows details of all Section 106 contributions currently received and available to use.   |
| 3. | **Options/Reasons for Recommendation** |
| 3.1 | The recommendations at agenda Item 11 enable the Committee to make recommendations to the Council on 20 February 2018 concerning the Council’s budget. |
| 4. | **Policy/Budget Reference and Implications** |
| 4.1 | The recommendations in this report contribute to the process whereby the Council will approve and adopt its strategic, service and financial plans under Article 4 of the Council’s Constitution. |
| 5. | **Legal, Environmental, Community Safety, Customer Services Centre and Communications & Website Implications** |
| 5.1 | None specific. |
| 6. | **Financial Implications** |
| 6.1 | As contained in the body of the report. |
| 7. | **Equal Opportunities Implications** |
| 7.1 | None specific. |
| 8. | **Staffing Implications** |
| 8.1 | The requirements for surveying expertise will be closely monitored to ensure that the capital investment programme can be delivered. Internal professional fees have been separately identified. |
| 9. | **Risk Management and Health & Safety Implications** |
| 9.1 | There are no risks to the Council in agreeing the recommendation below. |
| 10. | **Recommendation** |
| 10.1 | That the report is noted. |
|  | Report prepared by: Bob Watson Head of FinanceNigel Pollard Section Head – Accountancy |
|  | **Background Papers**Reports and Minutes of;* The Policy and Resources Committee

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|  | **Appendices** 1. Capital Investment Programme 2017-2021- Expenditure
2. Capital Investment Programme 2017-2021- Variances
3. Capital Investment Programme 2017-2021- Growth
4. Capital Investment Programme 2017-21- Funding
5. Section 106 Balances 2017/18

***The recommendations contained in this report DO NOT constitute a KEY DECISION but contribute to the process whereby the Council will approve and adopt its Strategic, Service and Financial Plans under Article 4 of the Council’s Constitution*** |

**APPENDIX 1**

**CAPITAL INVESTMENT PROGRAMME 2017 – 2021 - EXPENDITURE**











**APPENDIX 2**

**CAPITAL INVESTMENT PROGRAMME 2017 – 2021 – VARIANCES**







**APPENDIX 3**

**CAPITAL INVESTMENT PROGRAMME 2017 – 2021 – PROPOSED GROWTH**



**APPENDIX 4**

**CAPITAL INVESTMENT PROGRAMME 2017 – 2021 FUNDING**



**APPENDIX 5**

 **CAPITAL INVESTMENT PROGRAMME 2017 – 2021 - SECTION 106**