REPORT NO

EXECUTIVE– 20TH NOVEMBER 2013

REPORT OF THE DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

RE: CAPITAL PROGRAMME 2013/2014 TO 2016-2017

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1. PURPOSE OF REPORT

1.1 To consider the draft Capital Programme for the years 2013/2014 - 2016-2017

2. RECOMMENDATIONS

2.1 That Executive endorse the proposed Capital Programme for the years 2013/2014 - 2016-2017 ahead of submission to Council for approval.

3. BACKGROUND

Background

3.1 Capital expenditure is essentially expenditure that results in the creation of an asset that has a life expectancy of more than one year and where use of the asset will result in benefits in future years. Capital expenditure may be used to generate assets for the Council's own use or to provide support for third party capital enhancements.

3.2 Any plans for capital expenditure must be financed through an approved method of funding. The main streams of such financing are:

- Supported borrowing - where the costs of the borrowing are part recognised in the formula grant settlement and are therefore 'supported'
- Unsupported borrowing – the Council is permitted to set within its "Prudential Indicators" a level of borrowing that can be obtained to fund capital expenditure. The Council must be satisfied that this borrowing is used to fund projects that are prudent, sustainable and affordable
- Government Grants – where specific monies have been awarded by Government to fund a particular project. In these cases the monies are often time limited and ring fenced for specific purposes. One of the largest government grants awarded to this Council is Regional Growth Funding for the works on the A5 and MIRA Enterprise Zone
- Third Party Contributions – these include contributions made from bodies such as the National Lottery, as well as planning obligations funded from section 106 agreements received from developers. As with Government Grants, these contributions tend to contain conditions on how they can be spent
- Capital receipts – these are derived from asset sales and can only be used to fund future capital expenditure.
- Revenue contributions – the Council is permitted to contribute revenue balances to capital, however this should be a minimal amount and only used to fund minor shortfalls in funding
- Earmarked reserves – funds that have been put aside from previous under spends for specific capital schemes that will occur in the future. For this Council, the Leisure Centre reserve is an example of where funds have been put aside to finance a specific capital priority in the future

3.3 The Capital Programme (the Programme) is produced on an annual basis to cover the current year and forecasts for the next three financial years. The Programme supports the Council's Corporate Plan and Medium Term Financial Strategy and ensures that resources are allocated and are used effectively to achieve corporate targets. At the same time, the Programme is an integral element of the financial planning procedures of the Council and forecasts how the Council will deliver key projects affordably and within relevant Prudential Limits. The Programme should therefore be read in conjunction with these documents, alongside the Council's Corporate Asset Management Strategy and Housing Revenue Account Investment Plan.

3.4 The Capital Programme is prepared in conjunction with budget holders and Chief Officers. Project officers are invited as part of the budget setting process to submit requests for capital growths which are considered by Chief Officers and the Strategic Leadership Board. Growths are assessed in terms of their contribution to corporate objectives and funding availability.

3.5 The draft overall capital programme for 2013/2014 – 2016/2017 is contained within Appendix 1 along with supporting schedules showing spend by scheme.

Proposed Capital Programme – General Fund

3.6 As outlined in the Medium Term Financial Strategy, the General Fund Capital Programme is concentrated around achievement of three capital priority projects namely:

- The Hinckley Bus Station Redevelopment - "The Crescent"
- Build of the new Hinckley Leisure Centre
- Capital works associated with the Regional Growth Fund

The Crescent

3.7 This scheme involves redevelopment of the town centre bus station site, including a new supermarket, bus station, 560 space car park, new shops, family restaurants and cinema. Following renegotiation of the Development Agreement with the schemes developer, The Tin Hat Partnership, Council approved on 16th July 2013 capital investment of £4,500,000 to purchase the freehold of the Leisure "Block C" upon completion.

3.8 Based on the current development programme, completion of Block C will occur on 5th June 2015. The Council's £4,500,00 investment has therefore been included in the draft Programme in 2015/2016, to be funded by borrowing approved by Council in July.

3.9 On completion of the development, blocks A, B and D will be sold by Tin Hat Partnership on the open market. Tin Hat Partnership will have priority over the first £5,000,000 of development profit with the balance split 80:20 (THP:HBBC). This receipt (currently estimated at £1,200,000) will be used by the Council to partly fund the Leisure Centre project. The development agreement contains a "long stop" date for this sale of five years following completion (currently programmed for 27th July 2015). On the basis that the precise timescale is unknown, the Programme has prudently not included this financing until further clarity on timescales is known.

Hinckley Leisure Centre

3.10 The current Leisure Centre building on Coventry Road was opened in 1975 and will be at the end of its design life by the end of 2014/15. Council approved the decision in November 2012 to proceed with the procurement of a Partner (or Partners) to develop a new Leisure Centre and deliver the ongoing management of the Centre.

Having considered all of the alternatives, Council agreed to relocate the Leisure Centre to the former Council Offices location on Argents Mead.

3.11 At the time of producing this report, the procurement process for the Centre was in the process of finalisation ahead of approval by Council in January 2014. In order to ensure that financing is available for the scheme, the Capital Programme includes expenditure of up to £12,200,000 to fund a high specification centre which includes:

- 25 metre, 8 lane swimming pool and learner pool
- 8 court sports hall
- Health and fitness facilities, including studios
- Ancillary supporting facilities

It is expected that the approved scheme will also provide revenue streams to the Council which can be used to fund service provision and capital financing costs.

3.12 Based on the current cost, the Programme outlines the following financing for the centre:

	TOTAL COST £	**ESTIMATE 2013-2014 £**	**ESTIMATE 2014-2015 £**	**ESTIMATE 2015-2016 £**	**ESTIMATE 2016-2017 £**
Expenditure	**12,200,000**	**50,000**	**6,075,000**	**6,075,000**	**0**
Financed by					
Leisure Centre Reserve	2,710,000	50,000	2,660,000	0	0
Capital Receipts (depot site)	2,000,000	0	2,000,000	0	0
Leisure Centre Temporary Financing	3,400,000	0	0	3,400,000	0
Leisure Centre Borrowing	4,090,000	0	1,415,000	2,675,000	0
Total financing	**12,200,000**	**50,000**	**6,075,000**	**6,075,000**	**0**

As outlined in 3.9, any capital receipt received from the sale of the Bus Station site will be utilised for this scheme. However because of uncertainty around the timing of this funds flow, it has been assumed that borrowing will be used to fund any shortfall. It should also be noted that the available balance of the Leisure Centre reserve may increase should savings be realised in the 2013/2014 revenue budget.

3.13 The exact mix of facilities and any associated revenue stream from the centre will be clarified upon completion of the procurement process and will be reflected in further iterations of this Programme.

Regional Growth Funding

3.14 During 2012/2013, the Secretary for State for Business Innovation and Skills (BIS) confirmed that Hinckley and Bosworth Borough Council would receive £19,474,000 in Regional Growth Funding (RGF) to support the development of the MIRA Enterprise Zone and wider economy. The funding will be spent in conjunction with MIRA, the Highways Agency and Highways Authorities to provide enhanced highway capacity on the A5 around the zone and other sustainable transport initiatives. In addition, elements of the funding have been provided to fund the relocation of a substation on the current site and also to support sustainable transport links for the zone.

3.15 The capital works associated with this project are due to commence in 2014/2015. Expenditure will be incurred in the main by the Council with some elements being passported to MIRA and Highways Agency to fund the works. In all cases the expenditure is funded by the RGF monies and therefore the scheme has not net impact on the capital financing requirement of the Council. Details of the profile of the works are included in Section 3 of the appendix to this report.

New Schemes

3.16 Following review of submitted proposals, the following new schemes from 2014/2015 onwards have been included in the Programme for approval:

	TOTAL COST	ESTIMATE 2014-2015	ESTIMATE 2015-2016	ESTIMATE 2016-2017	Details
	£	£	£	£	
Waste Management Receptacles					
Total Annual Expenditure	**114,565**	25,520	48,225	40,820	This scheme relates to the cost of bins for new residential properties in the Borough. Options for recouping this capital outlay are currently being investigated and therefore a net budget has been assumed.
Less: Income generation	**(114,565)**	-25,520	-48,225	-40,820	
HBBC ELEMENT	**0**	**0**	**0**	**0**	
MS Software					
Total Annual Expenditure (ALL HBBC)	**114,000**		**57,000**	**57,000**	Cost associated with upgrading the Council's Microsoft software. This work is essential in order to ensure the Council's software is supported and is up-to-date.
Green Spaces/Parks works					
Total Cost	**420,851**	147,742	176,559	96,550	Ongoing works required on green spaces and parks. Following a review of available 106 and other private contributions, a significant element of these works is financed by these sources. It is proposed that for those schemes in Hinckley, a contribution of £50,000 per annum is made from the Special Expenses Area reserves. This is subject to approval by the Committee.
Less Section 106 contributions	**(170,449)**	(69,147)	(95,752)	(5,550)	
Less other private contributions	**(100,402)**	(28,595)	(30,807)	(41,000)	
Less Special Expenses Area reserves	**(150,000)**	(50,000)	(50,000)	(50,000)	
HBBC ELEMENT		**(0)**	**0**	**0**	

Existing schemes

3.17 With the exception of these material schemes, the remainder of the Programme contains ongoing schemes which have been in place for a number of financial years. The following points should be noted when reviewing these schemes:

- The Major and Minor works budgets have been reduced by £40,000 and £20,000 respectively from the proposals in 2014/2015 onwards. This is to reflect the under-spends in these areas in previous years. A review of the allocations process for these funds is currently being undertaken to understand this under-spend. Any revision to the policy will be considered for financial impact upon approval.

- Changes in the allocation method for Disabled Facilities Grant are being proposed by Central Government from 2016/2017 onwards. The impact of these changes on the Programme will be considered upon publication from Government.

Proposed Capital Programme – Housing Revenue Account

3.18 Following the approval of the Housing Revenue Account Investment Plan by Council in July 2013, the HRA Capital Programme will look to reflect the main investment priorities outlined in this plan as follows:

	ESTIMATE 2014-15 £	**ESTIMATE 2015-16 £**	**ESTIMATE 2016-17 £**
Service Investment	100,000	100,000	100,000
Stock Enhancements	596,000	146,000	806,000
New Build/Acquisition	2,500,000	2,500,000	2,500,000
Total Investment	**3,196,000**	**2,746,000**	**3,406,000**

3.19 In addition to this, the HRA Capital Programme will include expenditure towards the rolling works on housing properties confirmed by the outcomes of the stock condition exercise carried out in 2012/2013.

3.20 Expenditure in the Capital Programme will be funded by the following key streams:

- Contributions from the Major Repairs Reserve for the cyclical stock programmes
- Use of the HRA “Regeneration Reserve” which has been set up following the introduction of self financing
- Borrowing within the HRA “headroom” where required to ensure all objectives will be met
- Use of Right to Buy Receipts obtained from Council properties

3.21 Further work is currently being performed to clarify individual schemes within the broad headings of the Investment Plan and a full programme will be brought to Executive in January 2014 upon completion of this exercise.

Funding Implications

3.21 The main methods of financing the Capital Programme are detailed in section 3.2 of this report. The availability of financing options are becoming restricted over the medium term as asset sales become less frequent and the availability of funding from central government becomes restricted.

Capital Receipts Reserve

3.22 The estimated impact of the proposed programme on the Capital Receipts reserve is summarised below. Based on current expenditure proposals, all receipts will be quickly used for financing expenditure and the reserve will be effectively drawn down over the period of this Programme. Receipts assumptions are based on the following:

- Right to buy sales of £350,000 per annum;
- Disposal of the current depot site in March 2014 for £2,000,000. This receipt must be used for future regeneration projects and therefore will be applied in full to the Leisure Centre scheme
- A receipt of £2,200,000 for the current leisure centre site in 2015/16 which will be used in part to repay any short term financing required for the Leisure Centre pending receipt of the Bus Station receipt

- The receipt from the Tin Hat Partnership upon the sale of Block C has not been factored into this Programme

	2013-14 £	2014-15 £	2015-16 £	2016-17 £
Opening Balance	1,603,000	267,602	562,202	912,202
In Year Receipts	646,400	2,794,600	350,000	2,550,000
Repayment of Debt - Leisure Centre	0	0	0	(3,400,000)
In Year Application (Non Leisure Centre)	1,981,798	500,000	0	0
In Year Application - Leisure Centre	0	2,000,000	0	0
Closing Balance	**267,602**	**562,202**	**912,202**	**62,202**

<u>Borrowing</u>

3.23 As outlined in section 3.2, the Council is permitted to borrow within approved limits to finance capital expenditure. Following agreement of the revised development agreement with developers of the Bus Station site and the required investment in the Leisure Centre, the "Authorised Limit" for this Council has been approved at £117,507,000 for 2014/2015 . This is split between the HRA and General Fund as follows:

	£
General Fund	47,310,000
Housing Revenue Account	70,197,000
Total Authorised Limit	117,507,000

3.24 In line with relevant accounting standards, the Council is required to budget for the cost of borrowing, to include any interest payable and also a provision for the repayment of debt (the Minimum Revenue Position). Based on the current borrowing need detailed in the Programme, the additional cost of borrowing has been calculated as follows:

	ESTIMATE 2014-15 £	ESTIMATE 2015-16 £	ESTIMATE 2016-17 £
Additional MRP cost	14,550	58,410	226,715
Additional Interest cost	41,196	235,196	179,951

3.25 Further details of the Council's borrowing limits and indicators will be outlined in the 2014/2015 Treasury Management Policy which will accompany the Capital Programme for Council approval in February 2014.

<u>Use of Reserves</u>

3.26 The following reserves have been used to finance specific capital schemes outlined in the Programme:

Use of Reserves 2013-2014 £	Forecast balance 31/03/13 £	Use of Reserves 2014-2015 £	Use of Reserves 2015-2016 £	Use of Reserves 2016-2017 £	Forecast balance 31/03/17 £

Waste Management Reserve	-138,500	178,265	-26,000	-32,000	-32,000	88,265
ICT Reserve	-1,650	210,850	-57,000	-57,000	0	96,850
Transformation	-23,600	26,400	0	0	0	26,400
Relocation Reserve	-201,978	295,571	0	0	0	295,571
Sub total	*-365,728*		*-83,000*	*-89,000*	*-32,000*	
Leisure Centre	0	2,660,216	-2,660,000	0	0	216

4. FINANCIAL IMPLICATIONS (KP)

4.1 Contained within the body of the report.

5. LEGAL IMPLICATIONS (AB)

5.1 None arising directly from the report.

6. CORPORATE PLAN IMPLICATIONS

6.1 The report provides a refresh of the Council's rolling Capital Programme. Any item included in the programme has been evaluated to ensure it contributes towards achievement of a Corporate Plan objective.

7. CONSULATION

7.1 Members of the public were consulted on priorities for budget setting as part of the annual Priority Setting exercise, the results of which will be reported to Executive in November 2013.

7.2 Expenditure proposals contained within this report have been submitted after officer consultation, including the COB and SLB.

7.3 Material schemes (e.g. the Leisure Centre and Bus Station Redevelopment) have been subject to individual consultations as part of the viability and design process.

8. RISK MANAGEMENT

8.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

Management of Significant (Net Red) Risks		
Risk Description	**Mitigating actions**	**Owner**
If the schemes were not implemented this would impact on Service Delivery. It would also mean an inability to meet corporate plan objectives and have an impact on the reputation of the Council.	Projects are to be managed through an officer capital forum group and reported to SLB on a quarterly basis. Monthly financial monitoring statements are provided to project officers and the programme will now be reviewed twice a year.	Individual Project Officers/ Capital Forum

The risk of external funding not being granted. This would result in additional borrowing costs in the short term if funding is delayed or long term if funding is withdrawn.	Six monthly review of capital programme would mean that it is easier to switch resources.	Project Officer / Accountancy section
Risk of Capital Receipts not being realised.	The Executive approve the disposal of surplus assets as recommended by the Deputy Chief Executive (Corporate Direction)	Estates and Asset Manager/Deputy Chief Executive (Corporate Direction)

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

9. The programme contains schemes which will assist in equality and rural development. Equality and rural issues are considered separately for each project.

10. CORPORATE IMPLICATIONS

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

Background Papers: Capital Estimates submissions

Contact Officer: Katherine Plummer, Head of Finance (ext 5609)

Lead Member: Cllr KWP Lynch