COUNCIL - 20TH FEBRUARY 2014

RE: CAPITAL PROGRAMME 2013/2014 TO 2016/2017
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

Hinckley & Bosworth Borough Council
A Borough to be proud of

WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

To seek approval of the Capital Programme for the years 2013/2014 – 2016/2017

2. RECOMMENDATION

That the following be approved:

- The General Fund Capital Programme for 2013/2014 – 2016/2017
- The Housing Revenue Account Capital Programme for 2013/2014 – 2016/2017
- The proposed virements in 2013/2014 on the Housing Revenue Account Capital Programme detailed in sections 3.18 – 3.22

3. BACKGROUND TO THE REPORT

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 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 priority capital 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 £4,500,000 investment has therefore been included in the 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 The preferred bidder for the New Leisure Centre was approved by Council on 21st January 2014. The approved bid was is a high specification centre which includes:

- 25 metre, 8 lane swimming pool and learner pool
- 8 court sports hall
- Family Climbing Wall
- Larger Learner Pool with moveable floor
- Separate splash/water familiarisation and fun zone in pool hall
- Glazed Group Cycling studio
- Health Suite (Sauna and steam rooms)

3.12 The approved scheme has an estimated capital cost of £13.55million which will be expended and financed as follows:

	TOTAL COST	ESTIMATE 2013-2014	ESTIMATE 2014-2015	ESTIMATE 2015-2016
	£	£	£	£
Expenditure	**13,550,000**	**50,000**	**6,750,000**	**6,750,000**
Financed by				
Leisure Centre Reserve	2,660,000	50,000	2,610,000	0
Capital Receipts (depot site)	2,000,000	0	2,000,000	0
Leisure Centre Temporary Financing	3,400,000	0	0	3,400,000
Leisure Centre Borrowing	5,490,000	0	2,140,000	3,350,000
Total financing	**13,550,000**	**50,000**	**6,750,000**	**6,750,000**

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 In order to finance the scheme, the Council is required to borrow to fund both the capital outlay and also to cover any short term cash flow requirements. In order to allow for this investment the "Authorised Limit" was extended by Council in January 2014. Further detail of these limits is provided in the Prudential Indicator report contained on this agenda. The cost of servicing this debt will be met by the gross management fee provided by appointed bidder. In addition a "profit share" element will be provided to the Council, details of which are provided in the General Fund budget.

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
	£	£	£	£
Waste Management Receptacles -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				
Total Annual Expenditure	**114,565**	25,520	48,225	40,820
Less: Income generation	**(114,565)**	-25,520	-48,225	-40,820
HBBC ELEMENT	**0**	**0**	**0**	**0**
MS Software - 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.				
Total Annual Expenditure (ALL HBBC)	**114,000**	**0**	**57,000**	**57,000**
Green Spaces/Parks works - 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. The Council is currently producing a Green Spaces Delivery Plan, the results of which will be factored into the Programme following consultation and approval processes.				
Total Cost	**420,851**	147,742	176,559	96,550
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**	**0**
Hinckley Squash Club – Capital grant awarded to the Club to fund the new facilities. This was approved by Executive in 2013/2014 but is not required until the forthcoming year.				
Total Annual Expenditure (ALL HBBC)	**49,000**	**49,000**	**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.

<u>Revised Capital Programme 2013/2014 – Housing Revenue Account</u>

3.18 The contractor arm of the in-house housing repairs service operates using a trading account within the General Fund. All expenditure incurred for in house operations is posted to this code. Income is posted to the account following interfaces from Orchard which are calculated on the basis of schedule of rates held. At the year end, any surplus or deficit held on the trading account is removed and transferred to the housing repairs accounts. The balance is proportioned between capital and revenue based on the value of jobs completed to date.

3.19 The trading account budget has been set for 2013/2014, as in previous years to achieve a “break even” position and therefore no surplus or deficit was budgeted to be posted to either the Housing Repairs account or the HRA Capital budgets.

3.20 A break even position was not achieved in 2012/2013 and a deficit of £230,000 was charged to the housing repairs accounts. As a December 2013 it is forecast that the deficit for 2013/2014 will be £387,472, of which £232,959 (36%) is attributable to the HRA capital budgets based on the profile of work completed.

3.21 In order to ensure nil impact on Housing Repairs budgets, it is recommended that Council approves a virement of £232,959 to increase the budget on capital schemes impacted by the deficit. This will be financed by the HRA contingencies fund and also from reductions in the budgets for glazing, re-roofing, doors and boilers as follows:

	2013/14 LATEST ESTIMATE £	**2013/14 REQUESTED ESTIMATE £**	**2013/14 REQUIRED VIREMENT £**
Adaptation Of Dwellings	288,000	288,320	320
Major Void Enhancements	780,000	915,636	135,636
Programmed Enhancements	320,000	345,248	25,248
Windows : Single to Double Glazing	20,000	10,000	(10,000)
Re-Roofing	63,000	43,000	(20,000)
Kitchen Upgrades	560,890	632,645	71,755
Low maintenance doors	32,000	27,000	(5,000)
Boiler Replacement	350,160	280,184	(69,976)
HRA Contingency	252,970	124,988	(127,982)

3.22 Members should note that these reductions are possible due to re-profiling of works. There will be no overall reduction in the repairs service as a consequence of these changes and therefore no customer impact.

Proposed Capital Programme – Housing Revenue Account

3.23 Following the approval of the Housing Revenue Account Investment Plan by Council in July 2013, the HRA Capital Programme reflects 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**

3.24 The following proposed schemes link to the achievement of these investment objectives:

- £7,500,000 over the next three years for new Affordable Housing. This scheme will prioritise the buy back of ex-Council properties and development of housing on Council owned sites in 2014/2015. In the following two years the emphasis will move to targeting new land for acquisition and potential new build in conjunction with a development partner.
- £620,000 of kitchen and bathroom "enhancement" works - additional kitchen and bathroom refurbishment projects to an upgraded standard and works to give tenants additional bathroom location and equipment options

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

3.26 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
- Use of Right to Buy Receipts obtained from Council properties

Funding Implications

3.27 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

3.28 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**

Borrowing

3.29 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 will be proposed at £97.4million for 2014/2015. This is split between the HRA and General Fund as follows:

	£million
HRA (Debt Cap)	72.0
General Fund	16.6
Additional Leisure Centre	1.35
Bus Station Loan	7.0
Other long term liabilities	0.4
Total Proposed Limit	97.4

3.30 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	271,715
Additional Interest cost	42,715	239,752	240,701

3.31 Further details of the Council's borrowing limits and indicators will be outlined in the 2014/2015 Treasury Management Policy which is included elsewhere on the agenda.

Use of Reserves

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

	Use of Reserves 2013-14 £	Forecast balance 31st March 2014 £	Use of Reserves 2014-15 £	Use of Reserves 2015-16 £	Use of Reserves 2016-17 £
Waste Management Reserve	-138,500	178,265	-26,000	-32,000	-32,000
ICT Reserve	-1,650	210,850	-57,000	-57,000	0
Transformation	-23,600	26,400	0	0	0
Relocation Reserve	-394,768	102,781	0	0	0
Sub total	**-558,518**		**-83,000**	**-89,000**	**-32,000**
Leisure Centre	50,000	2,610,216	-2,610,000	0	0

3.33 All transfers to/from reserves (ie including revenue expenditure and transfers from balances) are detailed in the General Fund budget report contained on this agenda.

4. FINANCIAL IMPLICATIONS [KP]

Contained within the body of the report.

5. LEGAL IMPLICATIONS [AB]

None arising directly from the report.

6. CORPORATE PLAN IMPLICATIONS

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. CONSULTATION

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.

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

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 IMPLICATIONS

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.

The following significant risks associated with this report / decisions were identified from this assessment:

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. 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. Risk of Capital Receipts not being realised.	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. Six monthly review of capital programme would mean that it is easier to switch resources. The Executive approve the disposal of surplus assets as recommended by the Deputy Chief Executive (Corporate Direction)	Individual Project Officers/ Capital Forum Project Officer / Accountancy section Estates and Asset Manager/Deputy Chief Executive (Corporate Direction)

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

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

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