



WARDS AFFECTED: ALL WARDS

1. PURPOSE OF REPORT

1.1 To approve the Capital Programme for the years 2014/2015 – 2017/2018.

2. RECOMMENDATION

2.1 That Council approve the Capital Programme for the years 2014/2015 – 2017/2018.

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 2014/2015 – 2017/2018 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 four priority capital projects namely:
- The Hinckley Bus Station Redevelopment - "The Crescent"
 - Build of the new Hinckley Leisure Centre and demolition of the current site
 - Capital works associated with the Regional Growth Fund
 - Build of the new Hinckley Squash and Rackets Club facility

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 in October 2015. The Council's £4,500,000 investment has therefore been included in the Programme in 2015/2016, to be funded by prudential borrowing.
- 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 January 2016). In order to minimise borrowing costs on the Leisure Centre, this receipt has been assumed in the Programme though it is acknowledged that the timing and amount cannot be guaranteed.

Hinckley Leisure Centre

- 3.10 The current Leisure Centre building on Coventry Road was opened in 1975 and reached the end of its design life in 2014. 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 (DC Leisure, now re-named Places For People Leisure Management Ltd) for the New Leisure Centre was approved by Council on 21st

January 2014 and the contract signed with Places For People Leisure Management Ltd on 24th September 2014.

3.12 The final agreed scheme has an estimated capital cost of £15.2million (including consultancy fees already incurred). This amount includes the cost of ground works required on the Leisure Centre site and also the cost of a moveable floor in the main pool which was approved by Council on 2nd September 2014. Based on the current development programme, completion of the Leisure Centre is expected in October 2015.

3.13 The capital cost of the final scheme will be expended and financed as follows:

	2014/2015	2015/2016	2016/2017	Total
	£	£	£	£
Expenditure	4,644,030	9,849,841	705,890	15,199,761
<i>Financed from:</i>				
Leisure Centre Reserve	4,066,545	0	0	4,066,545
Capital Receipts	577,485	1,722,522	0	2,300,000
Temporary Financing	0	3,235,814	0	3,235,814
Long Term Borrowing	0	4,891,505	705,890	5,597,395
Total financing	4,644,030	9,849,841	705,890	15,199,761

3.14 The capital receipts noted in the table above mainly relate to the proceeds from the sale of the current depot site on Middlefield Lane, assuming this land is not gifted to a Local Housing Company. The receipt for this site (forecast to be around £2million) is expected to be received before the end of 2014/2015. The balance relates to miscellaneous sales. Whilst the receipts from the sale of Block C of the Crescent (see section 3.10) and the current Leisure Centre site will not directly finance the cost of the new facility, they will be used to repay the temporary financing above. It is therefore important to ensure that both receipts are received by June 2016 to ensure that this financing does not extend to over 1 year and therefore attract Minimum Revenue Provision costs.

3.15 Any cost of financing the new facility will reduce the management fee payable by Places For People Leisure Management Ltd to the Council (£899,293 gross on average). Assuming that the financing profile above is achieved, it is forecast that an average net management fee of £465,064 will be achieved. Any delay in capital receipts or increases in interest rates will reduce this income for the General Fund.

3.16 The Programme also includes the capital cost of demolishing the current Leisure Centre building, details of which are provided in 3.22.

Regional Growth Funding

3.17 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. This funding has subsequently been reduced to £17,671,000 as the difference (£1,803,000) has now been transferred to be spent directly by the Highways Agency as "Pinchpoint" funding.

3.18 Both streams of 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.

- 3.19 The capital works associated with this project are due to conclude in 2014/2015. The £179,230 included in the Programme relates to retention works that will be paid to the main contractor during 2015/2016.

Hinckley Squash and Rackets Club

- 3.20 Following Council approval on 1st July 2014, Hinckley and Bosworth Borough Council will fund the land acquisition and construction costs of a new squash facility for Hinckley Squash and Rackets Club (HSRC). The cost of this scheme will be financed by the Compulsory Purchase Order (CPO) payments due to HSRC for moving from their current site as well as £110,000 of HSRC's own cash. In both cases, the funds have been passed to Hinckley and Bosworth Borough Council to expend and therefore the scheme is included as fully funded in the Programme.
- 3.21 The contracts for the transaction were signed by all parties on 14th November 2014. The scheme has a 40 week build programme and is expected to be completed by summer 2015. On completion the Council will grant a 125 year peppercorn lease to the HSRC, after which the land and building will be transferred to HSRC for a nominal sum.

New Schemes

- 3.22 Following review of submitted proposals, the following new schemes from 2015/2016 onwards have been included in the Programme for approval:

	2014-2015	2015-2016	2016-2017	2017-2018	Total
	£	£	£	£	£
Leisure Centre Demolition- Costs associated with the demolishing the current Leisure Centre ahead of disposal. This includes the cost of carrying out in depth ground conditions and archeological surveys to ensure that the site is appropriate for sale.					
Total Annual Expenditure (ALL HBBC)	10,000	100,000	370,000	0	480,000
Additional Bins - Additional bins required because of increased numbers of properties in the Borough. This budget has been included within the "Waste Management Receptacle" budget scheme in section 1 of the Appendix.					
Total Annual Expenditure (ALL HBBC)	0	24,590	39,870	46,690	111,150
Block C Fit Out - The capital cost of fitting out the 9 retail and leisure units in Block C of The Crescent development in order to attract tenants. The cost of this work will be funded from the Masterplan Reserve.					
Total Annual Expenditure (ALL HBBC)	0	99,770	0	0	99,770
Channel Shift- Costs associated with rolling out the Council's Channel Shift Strategy. This initiative aims to create effective and efficient channels that are most appropriate for customers and organisations. The Council has secured Government funding to finance this scheme of £694,000, elements of which will be passported to other Councils in the ICT Partnership to facilitate their strategy.					
Total Annual Expenditure (Grant Funded)	20,000	694,000	0	0	714,000

E Budget Module - Cost of implementing a budget monitoring module within the current financial ledger. This will allow for more effective and efficient budget monitoring.					
Total Annual Expenditure (ALL HBBC)	0	22,000	0	0	22,000
Software Windows Upgrade -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)	0	60,000	20,000	60,000	140,000
CCTV –Cost of upgrading current CCTV equipment in the town centre. The Council will seek contributions from partners for elements of this cost.					
Total Annual Expenditure	0	72,000	0	0	72,000
Less Partner Contribution	0	(18,000)	0	0	(18,000)

Potential Schemes

3.23 In order to promote growth and investment in the local economy, the Council is continuing to look for further opportunities for capital investment. The following two projects are currently being investigated for inclusion in the Programme going forward:

- Capital investment into creative industries projects within the town centre. It is envisaged that Heritage Lottery will be contacted to establish the availability of funding to support such projects
- The set up of a Local Housing Company owned solely by the Council to deliver new housing in the Borough. This Company will be financed from the General Fund on commercial terms and will provide an interest return as well as contributing towards running cost incurred by the Council. In the longer term, assets built by the Company will either be retained to be rented on a commercial/affordable basis or sold on the open market to generate receipts for reinvestment in new stock. If this Company is set up, the Council may opt to gift the former depot and current Leisure Centre site to the Company and borrow in lieu of these receipts.

3.24 Updates on all projects, along with the budget impact will be brought to members in due course

Existing schemes

3.25 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 General Renewals budget has been reduced by £18,000 in 2015/2016 to reflect the reduction in demand for works given the age of the Council's new office buildings.
- Parish and Community Initiative Grants have been retained at £100,000 following approval by Council in September 2014 not to increase these contributions.
- 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

3.26 The proposed Capital Programme for the Housing Revenue Account (the HRA Programme) is included in Section 5 of the Appendix. The HRA Programme reflects the main investment priorities included in the Housing Revenue Account Investment Plan which was approved by Council in July 2013. These were:

- Ongoing investment to existing stock
- Service improvements
- Affordable Housing

Stock Enhancement/Investment

3.27 £15,334,850 of investment has been proposed over the life of the HRA Programme into existing stock. The sequence of these works is based on the outputs of the most recent stock condition survey.

3.28 Included in this budget is £620,000 of kitchen and bathroom “enhancement” works which will fund additional kitchen and bathroom refurbishments and give tenants additional bathroom location and equipment options.

3.29 The Programme also includes £350,000 for sheltered scheme enhancements. In 2014/2015 this budget related to internal decorations but going forward will also fund alterations to a number of the Council’s the old warden houses to increase capacity.

Affordable Housing

3.30 The original proposed HRA Investment Plan included £10,000,000 over the next four years for investment in New Affordable housing. This is a key priority for this Council in the medium to long term to improve housing supply in the Borough.

3.31 At the date of drafting this report, there are two schemes have been confirmed within the Affordable Housing arm of the Programme. These are:

- Dragons Lane, Newbold Verdon - The purchase of four units of two bedroom affordable housing to be owned and managed by the Council. The properties are part of a section 106 obligation on behalf of Bloor Homes.
- Southfield Road Hinckley - A development in partnership with Westleigh Homes and Nottingham Community Housing Association for the development of 68 units of affordable housing. The Council will own and manage 30 of these units, comprising of 12 one bed flats, 8 two bed houses, 5 three bed houses and 5 two bed bungalows, all for affordable rent.

Financing

3.32 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 the sale of HRA properties

Funding Implications

3.33 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

3.34 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 therefore the timings of these receipts are crucial to achieve prudent capital investment:

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Opening Balance	1,384,000	1,305,611	1,968,595	1,292,476
In Year Receipts	1,485,000	2,600,000	2,600,000	400,000
Repayment of Debt Leisure Centre	0	0	(3,235,814)	
In Year Application (Non Leisure Centre)	(985,904)	(214,494)	(40,305)	(431,305)
In Year Application Leisure Centre	(577,485)	(1,722,522)	0	0
Closing Balance	1,305,611	1,968,595	1,292,476	1,261,171

3.35 Receipts assumptions are based on the following:

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Right to Buys	450,000	300,000	300,000	300,000
Depot Site	0	2,200,000	0	0
Stoke Rd	1,035,000	0	0	0
Misc. Sales	0	100,000	100,000	100,000
Bus Station	0	0	0	0
Leisure Centre	0	0	2,200,000*	0
Total Receipts	1,485,000	2,600,000	2,600,000	400,000

*This gross receipt is offset by the cost of demolishing the old Leisure Centre as outlined in 3.22 and therefore the “net” receipt payable to the Council is estimated to be £1.7million - £1.8million

Borrowing

3.36 As outlined in section 3.2, the Council is permitted to borrow within approved limits to finance capital expenditure. This “authorised limit” is recommended as part of the Treasury Management Policy and Prudential Indicators each year and is based on the level of borrowing that is recommended by the s151 officer as being sustainable, affordable and prudent.

3.37 The total borrowing for the General Fund Programme is detailed below. In addition, the Council has loans of £67,652,000 within the Housing Revenue Account relating to the self financing settlement. These will start being repaid in 2019/2020.

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£

General Borrowing	257,881	624,025	963,855	233,855
Leisure Centre Borrowing	0	4,891,505	705,890	0
Leisure Centre Temporary Financing	0	3,235,814	0	0
Crescent Borrowing	0	4,500,000	0	0
Total General Fund Borrowing	257,881	13,251,344	1,669,745	233,855

- 3.38 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:

	2014/15	2015/16	2016/17	2017/18
	£	£	£	£
Borrowing	9,026	191,110	215,818	33,313
MRP	(44)	(9,538)	137,678	46,307
Total	8,982	181,572	353,496	79,620

- 3.39 Further details of the Council's borrowing limits and indicators will be outlined in the 2015/2016 Treasury Management Policy.

Use of Reserves

- 3.40 The following reserves (excluding special expenses) have been used to finance specific capital schemes outlined in the Programme:

	Use of Reserves	Forecast balance	Use of Reserves	Use of Reserves	Use of Reserves
	2014/2015	31 st March 2015	2015/2016	2016/2017	2017/2018
	£	£	£	£	£
General Fund					
Waste Management Reserve	(96,555)	(632,810)	(131,590)	(71,870)	(78,690)
ICT Reserve	(57,000)	(155,500)	(117,000)	(60,000)	(60,000)
Transformation Reserve	(20,000)	(259,120)	(22,000)	0	0
Masterplan Reserve	0	(203,000)	(99,770)	0	0
Leisure Centre Reserve	(4,066,545)	0	0	0	0
Total General Fund	(4,240,100)	-	(370,360)	(131,870)	(138,690)
Housing Revenue Account					
Regeneration Reserve	(1,986,949)	(7,940,035)	(4,034,346)	(4,336,693)	(4,247,230)

- 3.41 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 [EH]

- 5.1 The Council is legally required to set a balanced 3 year capital program.

- 5.2 Whilst there are no implications arising directly from the recommendation of this report there are some legal considerations which should be noted:
- 5.3 In relation to the property transactions identified within the report, relevant officers will need to ensure that authority is obtained from Council for any acquisition or disposal of land. This applies in relation to the Affordable Housing purchases detailed within the body of the report.
- 5.4 Any contracts will need to be dealt with in accordance with the constitution and all relevant authorities for spending secured as necessary.

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

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
S.11 - Failure to successfully deliver the Medium Term Financial Strategy	The financial position of the Council becomes more challenging. Members made the decision at full Council on 2nd September 2014 to add to the specification of the swimming pool in the new Leisure Centre. This will add a further £500K to £705K to the cost of the Leisure centre (this is in addition to the £1m cost of the ground remediation work that was previously reported). This now takes the total cost of construction to just over £15m. The cost of the ground works and the moveable floor has resulted in a shortfall in capital funding which has been met through utilisation of the Hub rental reserve (£1m) and by borrowing. The total impact on the Revenue funding is a further strain of just over £130K for 2015/16. This together with the known circa	Sanjiv Kohli

	<p>16.8% reduction in RSG and reductions in budgets by the County Council having a direct impact on this Council's budgets means that the shortfall in funding for 2015/16 exceeds £500,000 and for 2016/17 could increase to £1.2m with further removal of dry recycling credits by LCC. Meetings have taken place with the ruling (Lib Dem) group and Middle Managers to identify areas for savings and additional revenue generation. A key decision has been made by Council to withdraw the 25% of NHB support given to Parish Councils from 2015/16 but to carry on with the LCTS support to Parishes. This decision means that the Borough Council's budgets will be better off by over £350K. Further support has been demonstrated by the ruling group over introducing new charges e.g charge for pre-application planning advice for domestic planning applications and a charge for replacement bins that have been damaged by residents. Also considering introducing a charge for green waste recycling</p>	
<p>S.37 - Non delivery of capital projects which are interdependent</p>	<p>Members made the decision at full Council on 2nd September 2014 to add to the specification of the swimming pool in the new Leisure Centre. This will add a further £500K to £705K to the cost of the Leisure centre (this is in addition to the £1m cost of the ground remediation work that was previously reported). This now takes the total cost of construction to just over £15m. The cost of the ground works and the moveable floor has resulted in a shortfall in capital funding which has been met through utilisation of the Hub rental reserve (£1m) and by borrowing. This has meant that the Council can no longer consider the following capital schemes that were being considered:</p> <ul style="list-style-type: none"> • Purchase/development of staff car park (est £900K) • Purchase of HUFC • Purchase/rescue of Springfield Park (not quantified) • Resolution of Klondyke <p>Meetings have taken place with the ruling (Lib Dem) group and Middle Managers to identify areas for savings and additional revenue generation. A key decision has been made by Council to withdraw the 25% of NHB support given to Parish Councils from 2015/16 but to carry on with the LCTS support to Parishes. This decision means that the Borough Council's budgets will be better off by over £350K. Further support has been demonstrated by the ruling group over introducing new charges e.g charge for pre-application planning advice for domestic planning applications and a charge for replacement bins that have been damaged by</p>	<p>Sanjiv Kohli</p>

	residents. Also considering introducing a charge for green waste recycling.	
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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
Contact Officer:	Katherine Plummer, Chief Officer (Finance, Customer Services and Compliance) (ext 5609)
Lead Member:	Cllr KWP Lynch