

MEETING:	Council
MEETING DATE:	12 December 2014
TITLE OF REPORT:	Proposed capital programme 2015/16 to 2017/18
REPORT BY:	Chief financial officer

Classification

Open

Key Decision

This is a not an executive decision.

Wards Affected

Countywide

Purpose

To recommend to Council for approval the additional capital investment programme for 2015/16 to 2017/18 inclusive, as proposed by Cabinet on 13 November 2014.

Recommendation(s)

THAT: Council approves the additional capital schemes as detailed in appendix 1 of this report for inclusion in the 2015/16 to 2017/18 capital programme.

Alternative Options

- 1 The capital schemes detailed below are either self-funded or address critical needs and there are no alternative options that do not radically effect the provision of services.

Reasons for Recommendations

- 2 The schemes summarised in this report, and detailed in appendix 1, are recommended for approval in order to support council priorities, the realisation of savings or the mitigation of corporate risk.

Key Considerations

- 3 The current capital programme approved by Council in February 2014 is as summarised below.

Total three year budget 2014/15 to 2016/17						
Scheme	Spend in prior years £'000	14/15 Budget £'000	15/16 Budget £'000	16/17 Budget £'000	Sub total £'000	Total budget £'000
Fastershire Broadband	4,000	7,600	6,200	2,400	16,200	20,200
Local Transport Plan	n/a	10,645	-	-	10,645	10,645
Corporate accommodation	9,673	6,211	976	-	7,187	16,860
Link Road	9,064	10,708	7,228	-	17,936	27,000
Leominster Primary School	4,451	5,729	437	-	6,166	10,617
LED street lighting	-	5,655	-	-	5,655	5,655
Hereford Enterprise Zone	n/a	1,967	1,467	-	3,434	3,434
Others	n/a	2,090	667	-	2,757	2,757
Schools Basic Need	n/a	1,008	634	666	2,308	2,308
Solar photovoltaic panels	293	1,841	-	-	1,841	2,134
Destination Hereford	2,207	1,054	-	-	1,054	3,261
Master's House, Ledbury	3,419	606	-	-	606	4,025
Hereford city surface car parking	434	566	-	-	566	1,000
Community Capacity Grant	n/a	483	-	-	483	483
Disabled Facilities Grant	n/a	462	-	-	462	462
Yazor Brook flood alleviation	4,426	450	-	-	450	4,876
Energy from waste plant	-	11,000	14,000	15,000	40,000	40,000
Road infrastructure	-	15,000	5,000	-	20,000	20,000
Leisure centres	330	2,000	3,300	3,370	8,670	9,000
Disabled Facilities Grant	-	200	-	-	200	200
Closed landfill sites	-	76	-	-	76	76
Total		85,351	39,909	21,436	146,696	

Further information on the subject of this report is available from
 Josie Rushgrove, head of technical finance on Tel (01432) 261867

<i>Financed by;-</i>						
<i>Prudential borrowing</i>		57,237	37,371	20,770	115,378	
<i>Local Transport Plan Grant</i>		10,645	-	-	10,645	
<i>Fastershire BDUK Grant</i>		6,100	-	-	6,100	
<i>Standards Fund Grant</i>		5,205	-	-	5,205	
<i>Destination Hereford Grant</i>		1,054	-	-	1,054	
<i>Schools Basic Need Grant</i>		1,008	634	666	2,308	
<i>Community Capacity Grant</i>		483	-	-	483	
<i>Other capital grants</i>		410	-	-	410	
<i>Capital Receipts Reserve</i>		3,209	1,904	-	5,113	
Total		85,351	39,909	21,436	146,696	

- 4 Proposed additions to this capital programme are summarised below and detailed in appendix 1. The bulk of schemes represent investment to improve infrastructure, support the local economy, housing development and the creation of job opportunities.

Cost £000	Funding £000	Net cost £000
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Self-financing schemes

(From grants, business rates and other external income)

Economic Investment:

- South Wye Transport Package	27,000	(27,000)	-
- Hereford Enterprise Zone	16,000	(16,000)	-
- Three Elms Trading Estate	2,600	(2,600)	-

Schools	1,280	(1,280)	-
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Total	46,880	(46,880)	-
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Essential works wholly or partly financed by the council

Financed centrally:

Schools	7,630	(352)	7,278
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Other properties	910	-	910
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Cemeteries	100	-	100
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Financed by service areas:

Equipment	268	-	268
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Total	8,908	(352)	8,556
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Investment to support cost savings

Financed centrally:

Schools	500	(160)	340
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Other properties	78	-	78
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Financed by service areas:

Gritters	500	-	500
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Total	1,078	(160)	918
Contingency (1% of programme)	1,467	-	1,467
Total additional expenditure	58,333	(47,392)	10,941

- 5 In addition to the proposed capital programme additional investment will be required to expand the Fastershire broadband coverage throughout the County in 2016/17 as outlined in the Fastershire Broadband Strategy 2014-2018. The Council is committed to reach rural premises in the county with Next Generation Access broadband of 30Mbps by 2016. Additional investment is required to provide further broadband coverage to properties predominately in the more rural areas which are more expensive to reach. BDUK has indicated a grant funding allocation of £5.5m to support this from 2016/17 – 2018/19. This grant funding allocation will require match funding. The council is therefore currently seeking additional external funding to achieve this, minimising any contribution required from its own resources. The outcome of securing this match funding is expected over the coming months, following this a report will be produced for Cabinet and council funding proposals included in the future years capital programme.
- 6 Additional capital expenditure of approximately £10m per annum on road infrastructure funded by the Local Transport Plan grant will be included in future years' capital programmes following confirmation of the grant funding allocation from Department for Transport, expected in December 2014.
- 7 Including the contingency, additions to the capital programme will total £58.3m of which £47.4m is funded by capital grants, business rates or revenue savings already identified. This leaves a balance of £10.9m to be financed by prudential borrowing. This will be added to borrowing levels within the Treasury Management Strategy. The revenue implications are detailed in the financial implications section of this report and are indicated as pressures in the current future years' budget proposals.
- 8 Of the £10.9m additional corporate investment needed, £6.5m relates to Colwall Primary School and covers the estimated cost of a new school should it not be possible to rectify the school's damp problems. Grant funding will be sought and, if successful, will reduce this borrowing.
- Overall borrowing implications*
- 9 The inclusion of the additional borrowing requirement is in accordance with the current Treasury Management Strategy which will be updated following approval of this report to include the additional schemes.
- 10 Total gross outstanding debt was £168m as at 31 March 2014. This is being repaid at approximately £10m per annum.
- 11 Additional investment has already been approved in respect of the energy from waste plant, leisure centre improvements, road investment and Hereford link road which are all self-financing schemes.

- 12 Assuming the new investment need is approved and including all other capital investment approved to date, this would see an increase in the debt requirement from £168m as at 31 March 2014 to £197m as at 31 March 2018.
- 13 Herefordshire has a long term debt to asset ratio of 26%. This means a quarter of Herefordshire's assets are financed by long term debt. This is the average position when compared to all unitary authorities. Herefordshire is in the lower (better) half of the comparative authority debt positions when comparing long term debt balance and the cost of borrowing compared to net revenue budget.
- 14 The council's Net Book Value (NBV) of fixed assets compared to the level of its net borrowing is estimated to be as follows:

	31 March 2014	31 March 2015	31 March 2016	31 March 2017	31 March 2018
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
NBV of fixed assets	465	534	577	600	601
Level of debt	147	203	229	232	197
Total net debt to asset percentage	31.6%	38.0%	39.7%	38.7%	32.8%

The Net Book Value of fixed assets (as shown in the council's balance sheet) has been calculated assuming approval of the capital programme and including expected capital receipts.

Operational property and investments are revalued but all other assets are valued at their depreciated historic cost which may not reflect current value. For example, community assets often do not have a recorded historic cost and are valued at a nominal value in the council's balance sheet (total value £1.9m at 31 March 2014). Roads and infrastructure were valued at an historic cost value of £158.8m at 31 March 2014. Whereas road and infrastructure value based on a depreciated replacement cost basis is estimated to be in excess of £2,500m. This road and infrastructure valuation method will be used from 2015/16 so will reduce the debt to asset ratio shown above from 2015/16.

The table shows the council's debt to asset ratio on the current valuation methods increasing over the next few years before reducing in 2017/18.

Community Impact

- 15 The capital investment need supports the overall corporate plan and service delivery strategies in place. The overall aim of capital expenditure is to benefit the community through improved facilities and by promoting economic growth.

Equality and Human Rights

- 16 A full community impact assessment will be carried out prior to any scheme commencing. Current budget proposals are undergoing an Equality Impact Assessment.

Financial Implications

- 17 Most investment will be made on a self financing basis as detailed on appendix 1. A separate Cabinet report on the business case for new individual projects will also be approved before investment begins.
- 18 It is estimated that the phasing and cost of the £10.9m of prudential borrowing requirement will be as follows:

	Capital cost £m	Cost of borrowing £m
2015/16	4.6	0.1
2016/17	5.7	0.4
2017/18	0.5	0.6
Total for future years	0.1	15.2
	<u>10.9</u>	<u>16.3</u>

- 19 The additional borrowing costs will continue for 25 future years. These figures comprise both interest and debt repayment and have been included in the revenue budget proposals for 2015/16 to 2017/18 as a new budget pressure.

Legal Implications

- 20 The council is under a legal duty to sensibly manage their own capital finance. The council is able to borrow subject to limits set by the council and any nationally imposed limits and it must do so in accordance with the Prudential code on borrowing.
- 21 The Local Government Act 2003 allows the council to borrow for any purpose relevant to its functions under any enactment and for the purposes of the prudent management of its financial affairs. Before approval of any individual scheme it will be necessary to ensure that the need for the scheme arises out of a legal obligation on the council for its provision.
- 22 Further any scheme will need to be procured in accordance with the Procurement Regulations and the council’s own contract procedure rules and appropriate contractual documentation put in place to protect the council’s interests.

Risk Management

- 23 Monthly budget control meetings are chaired by the chief financial officer to give assurance on the robustness of budget control and monitoring, to highlight key risks and to identify any mitigation to reduce the impact of pressures on the council's overall position.

Consultees

- 24 Cabinet considered the proposals on 13 November following a General Overview and Scrutiny Committee review on 4 November. General Overview & Scrutiny Committee made a number of suggestions regarding presentational elements of the information; these have been reflected in the report. No recommendations were made regarding the proposals themselves.

Appendices

Appendix 1 – Proposed additions to the capital programme 2015/16 to 2017/18.

Background Papers

None identified.