

MEETING:	General overview and scrutiny committee
MEETING DATE:	17 November 2015
TITLE OF REPORT:	Proposed capital programme 2016/17
REPORT BY:	Director of resources

Classification

Open

Key Decision

This is a not an executive decision.

Wards Affected

Countywide

Purpose

To provide Cabinet with comments on the proposed capital programme for 2016/17 onwards for recommendation to Council on 18 December 2015.

Recommendation(s)

THAT:

- (a) **General overview and scrutiny committee provide comments on the capital programme outlined in this report, for consideration by Cabinet.**

Alternative Options

1. The capital schemes detailed below will either enable the delivery of savings targeted in the medium term financial strategy, are self-funded, grant funded or address critical service needs. There are no alternative options that would not radically effect the provision of services.
2. Alternatively additional capital spend could be approved. Additional requests have been received by the capital strategy group but have not been recommended for approval due to affordability, uncertainties, lack of clarity on need and the opportunity

for alternative solutions.

Reasons for Recommendations

3. The council's budget and policy framework rules require that cabinet have regard to the views of overview and scrutiny in developing their recommendations to Council on budget and policy framework items.

Key Considerations

4. The capital programme plays a key role in delivering the councils broader ambitions to drive economic growth in the County and the delivery of more jobs and homes. It builds on the foundations provided by the recently adopted core strategy and is aligned with both the Marches strategic economic plan and the Councils corporate plan.
5. Capital proposals are invited and ranked by the capital strategy group. Expressions of interest were submitted in August and if the request aligned with corporate priorities business cases were completed and reviewed in October.
6. The current capital programme approved by Council in December 2014 with updated spend profiles is provided in appendix 1.
7. The capital programme was updated in the year to include the Marches and Worcestershire redundant building grant programme of £1.5m. Herefordshire is the accountable body of this LEP grant funded fund providing capital grant support of between £3k and £50k to small job-creating businesses to refurbish underused and redundant buildings, bringing them back into commercial use.
8. Since the last update the Leominster junior and infant school amalgamation completed on time and within budget.
9. As shown in appendix 1, if the proposals in this report are approved the capital programme will total £174m in future years. This will be funded by grants, capital receipts, borrowing and revenue savings.

Proposed additions to the capital programme

10. The proposed programme focuses capital spend on key infrastructure issues such as broadband, roads and schools all of which will deliver the conditions required to enable the provision of new housing and for businesses to thrive in the County, to help them create new and better paid jobs for the County's residents
11. Proposed additions to the capital programme to be spent 2016/17 – 2019/20 are summarised below and detailed in appendix 2. This follows the review of submissions by the capital strategy group. Rejected submissions were received for additional investment in the property estate, flood remedial works and fleet renewals. These were rejected due to affordability, uncertainties, lack of clarity on need and the opportunity for alternative solutions.
12. The bulk of the proposed £37.6m programme is funded by capital grants, service charges, capital receipts or revenue savings. This leaves a balance of £13.4m to be financed by corporate prudential borrowing. The revenue implications are detailed in the financial implications section of this report and will be reflected as pressures in future years' budget proposals. Spending will support the corporate plan priorities by

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improving infrastructure, support the local economy, housing development and the creation of job opportunities.

Scheme	Total Cost £000	Total Funding £000	Net Cost £000
Infrastructure			
Hereford city centre transport package	13,600	(13,600)	-
Fastershire broadband	8,000	(7,000)	1,000
Schools			
Brookfield school improvements	1,370	-	1,370
Westfield school improvements	710	(500)	210
Peterchurch primary school improvements	4,500	(1,000)	3,500
Service delivery improvements			
Purchase of green waste bins to meet recycling targets	150	(150)	-
Property estate			
Emergency property estate enhancement works	2,000	-	2,000
Corporate accommodation	1,700	(300)	1,400
1A St Owen street, adjacent to Shire Hall	70	-	70
Edgar street works	100	-	100
Smallholding health and safety improvements	100	-	100
Hereford library accommodation works	1,000	-	1,000
Highway depot improvements	800	(800)	-
Office and car park lighting replacement	300	(300)	-
ICT			
Data centre consolidation	1,170	-	1,170
IT network upgrade	500	-	500
PC replacement	740	-	740
Software to enable remote access to desktops and automate upgrades	500	(500)	-
1% contingency	290	-	290
Total	37,600	(24,150)	13,450
Estimated annual revenue borrowing cost upon completion			807

13. Of the £13.4m corporate funding needed, £5m relates to the schools capital investment strategy. This is currently in development and the proposals are within the overall strategic approach. It is anticipated that a significant number of schemes will come forward over the next five years to deliver sustainable, high quality education facilities in Herefordshire. Funding for such schemes will be explored with partners such as the education funding agency, schools, the diocese of Hereford, archdiocese of Cardiff, local communities as well as opportunities for releasing sites and reinvesting in education.
14. A further investment of £8m is recommended to expand the Fastershire broadband coverage throughout the County as outlined in the Fastershire broadband strategy

2014-2018. The Council is committed to reach rural premises in the county with 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. Of the £8m total cost external funding of £7m has been secured with the balance of £1m proposed to be funded by council resources. In addition the council has secured additional grant funding of £2m from broadband UK, a government agency which would enable the programme to continue beyond 2018/19. However this funding will require match funding. Prudential borrowing of £2m would cost approximately £120k pa over 25 years to repay. The council is seeking additional external funding as an alternative, minimising any contribution from its own resources.

Overall borrowing implications

15. The additional borrowing requirement of £13.4m will be included in the treasury management strategy to February Council which will be updated following approval of this report. Actual borrowing will be secured as cash funding is required at the optimal interest rate available at that time.
16. Total gross outstanding debt was £165m as at 31 March 2015. This is being repaid at approximately £10m per annum.
17. Assuming the proposals are approved and including the capital programme approved to date, there would be a net increase in the debt requirement from £165m as at 31 March 2015 to approximately £195m as at 31 March 2020. This additional borrowing includes spend on the waste plant and Halo leisure centres the cost of which will be financed from payments received.
18. Herefordshire has a long term debt to asset ratio of approximately 25% which means a quarter of Herefordshire's assets are financed by long term debt, which is in line with the average position when compared to all unitary authorities. Herefordshire is in the lower (better) half of the comparative authority debt positions when comparing the cost of borrowing to net revenue budget.

Community Impact

19. The capital programme proposed 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

20. A full community impact assessment will be carried out prior to any scheme commencing.

Financial Implications

21. The majority of proposals are funded as detailed in appendix 2. A separate Cabinet report on the business case for new individual projects will be approved before spend begins.
22. It is estimated that the phasing and cost of the £13.4m new prudential borrowing requirement will be as follows:

	Capital cost £m	Cost of borrowing per annum £m
2016/17	5.6	0.3
2017/18	6.3	0.4
2018/19	1.0	0.1
2019/20	0.5	0.0
	<u>13.4</u>	<u>0.8</u>

23. The additional borrowing costs will continue for approximately 25 future years and comprise both interest and debt repayment. These will be included in the revenue budget proposals for future years.

Legal Implications

24. 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.
25. 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.
26. 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

27. Monthly budget control meetings are chaired by the director of resources and 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

28. General overview and scrutiny committee is being asked its views before the proposals are presented to Cabinet and recommended for approval by Council in December.

Appendices

Appendix 1 – Total capital programme

Appendix 2 - Proposed schemes

Background Papers

None identified.

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

Total Capital Programme

Scheme	Spend in prior years £000	15/16 £000	16/17 £000	17/18 £000	Future years £000	Total £000
Existing Schemes						
Road infrastructure	14,613	5,387	-	-	-	20,000
Hereford city link road	10,658	9,513	3,324	3,505	-	27,000
Fastershire broadband	8,395	6,200	5,605	-	-	20,200
Energy from waste plant	6,009	16,000	17,991	-	-	40,000
Leisure centres	4,013	3,187	1,800	-	-	9,000
Electronic document and management system	400	400	-	-	-	800
Highways Maintenance	-	11,523	10,564	10,244	27,816	60,147
Hereford enterprise zone	-	2,500	7,100	6,400	-	16,000
South wye transport package	-	1,000	1,000	12,300	12,700	27,000
Integrated transport plan	-	1,069	1,069	1,069	3,207	6,414
LED street lighting	766	4,889	-	-	-	5,655
Three elms trading estate	-	2,100	400	350	-	2,850
Solar photovoltaic panels	35	1,599	500	-	-	2,134
Marches and Worcestershire redundant building grant	-	1,500	-	-	-	1,500
Better care fund	-	1,356	-	-	-	1,356
Schools capital maintenance grant	-	1,215	-	-	-	1,215
Relocation of Broadlands school	-	1,137	120	-	-	1,257
Schools basic need	-	634	666	-	-	1,300
Brookfield improvements	-	200	300	-	-	500
Colwall primary school	-	-	4,800	1,700	-	6,500
Peterchurch primary school	-	-	1,000	-	-	1,000
Purchase of gritters	-	-	375	125	-	500
Proposed Additions						
Hereford city centre transport package	-	-	6,800	3,300	3,500	13,600
Fastershire broadband	-	-	1,000	4,155	2,845	8,000
Brookfield school improvements	-	-	-	970	400	1,370
Westfield school improvements	-	-	-	710	-	710
Peterchurch primary school improvements	-	-	-	4,500	-	4,500
Purchase of green waste bins	-	-	150	-	-	150
Emergency property estate enhancement works	-	-	500	500	1,000	2,000

Scheme	Spend in prior years £000	15/16 £000	16/17 £000	17/18 £000	Future years £000	Total £000
Corporate accommodation	-	-	1,100	600	-	1,700
1A St Owen St adjacent to Shire Hall	-	-	70	-	-	70
Edgar Street works	-	-	100	-	-	100
Smallholding health and safety improvements	-	-	100	-	-	100
Hereford library accommodation works	-	-	1,000	-	-	1,000
Highway depot improvements	-	-	800	-	-	800
Office and car park lighting replacement	-	-	300	-	-	300
Data centre consolidation	-	-	1,170	-	-	1,170
IT network upgrade	-	-	500	-	-	500
PC replacement	-	-	380	230	130	740
Software to enable remote access to desktops and automate upgrades	-	-	500	-	-	500
1% contingency	-	-	140	100	50	290
TOTAL	44,889	71,409	71,224	50,758	51,648	289,928

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Proposed additions to the Capital Programme

Scheme Summary	16/17	17/18	18/19	19/20	Total Cost £000	Total Funding £000	Net Cost £000	Description
Create and maintain a successful economy through investment in infrastructure								
<i>Hereford city centre transport package</i> - investment in transport links and public realm regeneration of the city	6,800	3,300	3,500		13,600	(13,600)	-	LEP grant funded investment increasing the net social value of housing and external impact of housing development resulting in a net regeneration benefit of £82m
<i>Fastershire broadband</i> - to enable the continued delivery of high speed broadband into the most rural areas	1,000	4,155	2,845		8,000	(7,000)	1,000	Corporate funding is required to leverage grant funding towards the BDUK Superfast Extension Programme (SEP) for the continued delivery of high speed broadband to tackle what is termed 'the final 10%' in line with the Fastershire Broadband Strategy 2014-18
Improve outcomes for children and young people through investment in schools								
<i>Brookfield school improvements</i> - replace temporary building		970	400		1,370	-	1,370	Business case under review in tandem with the schools capital investment strategy
<i>Westfield school improvements</i> - build specialist provision		710			710	(500)	210	Business case under review in tandem with the schools capital investment strategy
<i>Peterchurch primary school improvements</i> - refurbishment scheme		4,500			4,500	(1,000)	3,500	Business case under review in tandem with the schools capital investment strategy
Delivering excellence and value to our communities through service delivery improvements								
<i>Purchase of brown waste bins</i> to collect green waste and meet recycling targets	150				150	(150)	-	To introduce a new chargeable garden waste collection service to increase the recycling rate, reduce waste going to landfill and reduce disposal costs

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Proposed additions to the Capital Programme

Scheme Summary	16/17	17/18	18/19	19/20	Total Cost	Total Funding	Net Cost	Description
	£000	£000	£000	£000	£000	£000	£000	
Making the best use of the resources available by investing in the property estate								
Emergency property estate enhancement works as required following approval from the Capital Strategy Group	500	500	500	500	2,000	-	2,000	To enable prompt response to high value reactive property improvement works required to reduce costs, avoid extended disruption and maintain Council services
Corporate accommodation to purchase, adapt and refurbish new premises and enable the sale of existing premises	1,100	600			1,700	(300)	1,400	To continue the corporate accommodation investment programme maximising the use of resources, enhancing better ways of working and providing suitable accommodation whilst reducing the overall accommodation estate
1A St Owen St adjacent to Shire Hall emergency works to scaffold, rebuild the chimney and re-roof the building	70				70	-	70	To mitigate risk of collapse
Edgar Street works demolish vacant structure	100				100	-	100	To remedy health and safety issues with the vacant structure
Smallholding health and safety improvements	100				100	-	100	To alleviate damp and mould issues supporting the maximisation of capital receipt values
Hereford library accommodation works	1,000				1,000	-	1,000	To provide funding for the accommodation of a Hereford library and museum subject to separate business case
Highway depots	800				800	(800)	-	Improvements to enable improved working practices and the generation of savings
Office and car park lighting replacement	300				300	(300)	-	Salix interest free loan funded energy efficiency schemes

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Proposed additions to the Capital Programme

Scheme Summary	16/17	17/18	18/19	19/20	Total Cost	Total Funding	Net Cost	Description
	£000	£000	£000	£000	£000	£000	£000	
Creating an agile, responsive and flexible workforce through investment in ICT								
<i>Data centre consolidation</i>	1,170				1,170	-	1,170	Replace existing dual data centre strategy with a single data centre at Plough Lane and a disaster recovery capability at the HARC building
<i>IT network upgrade</i>	500				500	-	500	Replace ICT hardware obsolete switches
<i>PC replacement</i>	380	230	130		740	-	740	Replace obsolete ICT devices over 3 years
<i>Software to enable remote access to desktops and automate upgrades</i>	500				500	(500)	-	Investment to optimise device and processes reducing operational costs
<i>1% contingency</i>	140	100	50		290	-	290	1% for unforeseens, as per capital strategy
TOTAL SPEND	14,610	15,065	7,425	500	37,600	(24,150)	13,450	
TOTAL CORPORATE FUNDING	5,560	6,310	1,080	500			13,450	
Indicative borrowing revenue cost per annum	334	379	65	30			807	

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