

<b>Meeting:</b>	<b>Cabinet</b>
<b>Meeting date:</b>	<b>Thursday 28 June 2018</b>
<b>Title of report:</b>	<b>Capital Programme Update</b>
<b>Report by:</b>	<b>Cabinet member corporate strategy and budget</b>

## **Classification**

Open

## **Decision type**

Budget and policy framework

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function concerned. A threshold of £500,000 is regarded as significant.

This is a key decision because it is likely to be significant having regard to: the strategic nature of the decision; and / or whether the outcome will have an impact, for better or worse, on the amenity of the community or quality of service provided by the authority to a significant number of people living or working in the locality (two or more wards) affected.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

## **Wards affected**

(All Wards);

## **Purpose and summary**

To recommend to Council proposed in year adjustments to the capital programme including proposed investment additions for 2018/19, 2019/20 and 2020/21. These items are in addition to the £92.418m for 2018/19, £48.078m 2019/20 and £8,484 2020/21 capital funding approved by Council in January 2018

The report proposes some adjustments to reflect increased or unanticipated grant allocations and s106 funding secured and proposes some changes to reflect the way in which some individual projects are now anticipated to be funded. Additional provision is sought to enable development of the Shell Store; the additional provision arises as a result of construction costs inflation and an

error in the programme approved by Council. In addition, two new schemes are proposed to be added:

- the Cyber Security Centre to support the development of specialist facilities including business space for small and medium enterprises (SME's), research and product testing lab space, and educational and training space at Rotherwas; and
- the redevelopment of the Hillside Rehabilitation Centre to provide additional residential nursing care provision in the county.

If approved the proposals will have an increase in the capital programme of £3.5m and £1.5m respectively and funded by £1.5m use of capital receipts, £2m borrowing for Cyber Security Centre and £1.5m borrowing for Hillside.

A delegation is sought to enable the Chief Finance Officer (as s151 officer) to approve in year amendments to the capital budget where the amendment arises as a result of securing external funding.

## Recommendation(s)

**That the following be recommended to Council**

- (a) **the addition of £6.711m grant funding and s106 contributions to existing project budgets within the existing capital programme as detailed in the table below be approved**

<b>Scheme Name</b>	<b>2018/19 New Budget/ Grant</b>
<b>Economy, Communities and Corporate</b>	
Local Transport Plan (LTP)	3,198
Fastershire Broadband	1,674
ECC's S106	756
<b>Total ECC Capital Projects</b>	<b>5,629</b>
<b>Childrens wellbeing</b>	
Schools Capital Maintenance Grant	33
CYPD's S106	589
Special Provision Capital Fund	167
Healthy Pupils	99
Basic Needs Funding	48
<b>Total CWB Capital Projects</b>	<b>936</b>
<b>Adults and wellbeing</b>	
Disabled facilities grant	147
<b>Total AWB Capital Projects</b>	<b>147</b>
<b>Total</b>	<b>6,711</b>

- (b) **the special provision capital fund be increased by £167k in each of 2019/20 and 2020/21 capital budgets for the new grant allocation;**
- (c) **additional provision of £1.116m be made to support development of the Hereford Enterprise Zone Shell Store making the total provision for this project £7.316m;**

- (d) provision of £1.5m be made to support conversion of the Hillside Rehabilitation Centre to provide a nursing home facility;**
- (e) provision of £3.5m be made to support delivery of a Cyber Security Centre at Rotherwas;**
- (f) approve the changes set out at paragraphs 35 and 36 to funding streams for Ross Enterprise Park and Childrens Wellbeing projects and adjustments across directorate projects with an overall reduction of £476,000;**
- (g) the revised 2018/19 capital budget of £145.315m detailed in appendix 1 be adopted, which consists of £40.816m 2017/18 brought forward balances and previous approved budgets of £92.148m, along with the below items recommended for approval; and**
- (h) the chief finance officer be authorised, following consultation with the Cabinet Member Finance and Corporate Services to make in year amendments to the capital programme to reflect additional external funding secured in year.**

## **Alternative options**

1. Not to recommend the proposed amendments and additions. This is not recommended as this would lead to a loss of £6.711m additional income or the inability to deliver projects brought forward in order to further achievement of the corporate plan priorities and outcomes
2. Not to seek a delegation to make in year amendments to the capital budget to reflect external funding secured. This is not recommended as the addition of external funding to the budget does not adversely impact on the council's financial position and any drawing down of that funding would be subject to separate governance.

## **Key considerations**

3. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year.
4. The programme was approved by Council in January 2018 having followed budget and policy framework rules; this report now proposes in year changes to the approved programme.
5. The programme adjustments reflect a total carry forward from 2017/18 of £40.816m, as detailed in appendix 1 and reflects the budget balance remaining of previously approved capital project budgets which have either not yet started or have not spent to profile; the project leads have confirmed that the funding allocations remain necessary to deliver the projects.
6. Additional capital budgets of £12.827m (detailed in appendix 1) are now being proposed in 2018/19. Of this, £6.711m arises from increased or unanticipated grants or S106 receipts and need to be reflected to ensure the grants can be spent in line with any grant guidelines for the financial year. These additional grants include £931,455 government pothole funding which now provides a total allocation of £1.253m in 2018/19 within the Local Transport Plan budget.

7. The remaining £6.116m proposed capital investment is to support additional provision for the development of Hereford Enterprise Zone Shell Store and two new projects: the redevelopment of Hillside to provide additional residential nursing care capacity in the county, and the Cyber Security Centre. More detail about these three projects is provided below.

### **The Shell Store**

8. The Shell Store – Hereford’s Technology Incubation and Development Application Centre is a unique opportunity to create a business incubation centre for start-up and scale-up businesses that will be a catalyst to innovation and productivity driven growth in the county. Herefordshire is one of the only places in England without a dedicated incubation facility. The project will be a generator of jobs and support business growth with current projections for support to over 250 businesses, creating over 425 jobs by 2031
9. The technology and application aspect of the centre is now a vital component of the NMiTE University and it will provide space for students to interface with businesses and solve real world engineering challenges that businesses have.
10. The project will repurpose a gradually decaying building of significant heritage value. It is currently an eyesore and not conducive to the imminent high-tech business park development proposed on this high-value part of the Enterprise Zone marketed to international investors by HM Government.
11. An increase to the Hereford Enterprise Zone Shell Store budget is proposed of £1.116m funded from £822k borrowing and £294k external contributions. This is required to correct an error that occurred resulting in a difference between the existing capital programme entry and the amount requested in the cabinet member decision, and to reflect the construction inflation experienced whilst the full funding package was being assembled.
12. In 2016 the council commissioned a RIBA Stage 3 Cost Plan which costed the project at just under £6.5m. The council has secured a £2m grant contribution towards the project from the Marches European Structural and Investment Funds (ESIF) allocation. The council has also secured a zero interest loan from the Marches LEP “Marches Investment Fund” of £2.498m. The council are required to fund the remaining cost.
13. The process to complete the funding package has taken almost two years. A review of inflation based on the latest BCIS industry data indicates that the 2016 estimate should be uplifted by 14-17%. Following a process of value engineering and cost review the revised project estimate now stands at £7.316m, which includes an increase in the contingency budget. As a consequence there is a need to increase the council contribution by £822,000 to take the council contribution to a maximum of £2.822m.
14. It is proposed that this increase in the capital contribution would be funded via an increase in the prudential borrowing requirement, the repayment of this borrowing will be funded from within the project income.

### **Hillside Rehabilitation Centre**

15. The addition of £1.5m is proposed for the Hillside property redesign project as detailed in the feasibility business case included as a background paper to this report. The council owns the freehold building currently known as Hillside Rehabilitation Centre situated on Pentwyn Avenue, Hereford HR2 7LB, approximately one mile from the city centre between the Ross Road and Belmont Road. Until recently the centre has been operated by Wye Valley Trust as a community hospital and currently has 22 ensuite bedrooms with

three day rooms, courtyards and onsite parking, however WVT have issued the council with notice to cease delivering the service within Hillside.

16. The council is scoping a feasibility study to develop a nursing home provision at Hillside that meets the need of an ageing population particularly those with complex Elderly Mental Illness needs that delivers quality care and is financially sustainable. The feasibility work will include clarification of the risks associated with legal charges relating to investment made by NHS bodies in the property. The intention is to increase the capacity from the current 22 beds to 28 which will require internal refurbishment and alternations and to have a technically advanced service that supports independence, the expected refurbishment cost is £1.5m however a detailed feasibility study with comprehensive architectural designs will be commissioned to develop the specification of the building redesign. In the event that this demonstrates an increase in refurbishment costs, further provision will be sought by cabinet subject to the business case justification being maintained.
17. The demand for nursing beds to support complex needs in Herefordshire is high and the projected demand will increase by 90% by 2039. The council finds it increasingly difficult to source quality placements at the agreed usual rate in Herefordshire due to the limited capacity available. New providers are not entering the market and a recent Competition and Market Authority report suggested the market would not build purely for council funded clients therefore the council needs to consider innovative alternative options to provide the resilience and support quality improvements across the market.
18. A model whereby a provider leases an existing facility from the council would be attractive to the provider market as it obviates the costs of borrowing significant funds to build a new care home. The expectation is that the nursing home will deliver high quality care within a high specified service and is technologically advanced to increase individual's independence as much as possible. In Herefordshire 25% of the nursing homes are below the expected level of quality of care reported by the care quality commission. The proposed nursing home can support the improvement of the quality of care within the homes by offering mentorship, advice and guidance to other homes in Herefordshire and by delivering a centre of excellence.
19. The home will also be designed to provide a training facility for care, support and nursing staff. Herefordshire has the same workforce issues as the rest of the country with sourcing and retaining care, support and nursing staff. Therefore, the nursing home will be developed into a training facility to support the development and growth of the workforce in Herefordshire.
20. Hillside is situated within a developed community with sheltered accommodation next door and approximately 40% of the local community aged 65 or over. The redesigned home will be integrated into the community and with the intention to support the local residents with nursing or care needs to remain within their own home if needed, the home will also be accessible to the residents with community activities within the home

### **Cyber Security Centre**

21. The cyber security sector is an important and fast growing part of the UK economy. The UK is one of the world leaders in the sector. Herefordshire is home to a growing cluster of cyber security businesses. But currently lacks facilities and a focus for research, developing and testing new products and services and education and training. The costs of laboratories and associated facilities are inhibitory for Small and Medium Enterprises (SME) and smaller institutions.

22. The University of Wolverhampton has undertaken extensive market testing and discussions and are proposing the development of a centre which will provide a unique range of facilities including business space for SMEs research and product testing laboratory space and educational and training space.
23. The centre would act as a key asset to help catalyse the local cyber business community grow a wider cyber network of businesses and institutions and act as a draw for national and international business investment, in support of the council's Economic Vision for the county.
24. The University has strengthened its cyber research capabilities and developed a detailed design and cost plan for the centre and secured planning permission on the Rotherwas Enterprise Zone. It has also conducted business planning which shows the centre being viable as the services and facilities get fully utilised and Intellectual property gets properly exploited.
25. The University has secured Marches LEP and ESIF grant funding of £4.1m for the project which has a total cost of £9m, and is seeking £3.5m financial support from the council through a mixture of a short term loan of £2m and an investment of £1.5 m. The University is ready to go out to tender for a contractor which would see development of the centre start by January and opening by spring 2020.

#### **Other Changes**

26. It is proposed to reallocate some of the Children's Wellbeing capital project budgets as detailed in the table below to ensure budgets are utilised in the most beneficial way. This also has an overall effect of reducing the capital budget requirement by £476,000, once the movements between each of the projects has been made.

<b>Scheme Name</b>	<b>2018/19 Adjustments</b>
<b>Childrens wellbeing</b>	
Colwall Primary School	250
Schools Capital Maintenance Grant	45
Expansion for Marlbrook school	(670)
Brookfield School Improvements	(466)
Individual Pupil Needs	271
Hereford Academy	(62)
Blackmarston SEN	31
Basic Needs Funding	262
Lady Hawkins Sports Hall	(78)
Preliminary works to inform key investment need throughout the county	(59)
<b>Total CWB Capital Projects</b>	<b>(476)</b>

27. Previously some Adults and wellbeing capital budgets were incorrectly reported under the affordable housing grant, the adjustment column shows £205,000 being reallocated correctly against other projects.
28. Approval of provision in the capital programme is not an approval to proceed. Each project will be subject to its own governance and business case before any spend may be incurred.

## Community impact

29. The capital programme budget 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. A specific community impact assessment, including any health and safety implications or corporate parenting responsibilities, will be included in any decision report required prior to any new capital scheme commencing and incurring spend. Further details will be provided in the following decision reports ahead of incurring spend.
30. The new project proposed in relation to Hillside would support achievement of the council's corporate plan priorities to enable residents to live safe, healthy and independent lives and to secure better services, quality of life and value for money by enhancing the range and quality of provision locally.
31. The additional funding proposed for the Shell Store and for the Cyber centre support achievement of the council's corporate plan priority to support the growth of our economy by providing high quality facilities within which businesses may establish and grow, in accordance with the council's Economic Vision for the county.

## Equality duty

32. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
33. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. Our providers will be made aware of their contractual requirements in regards to equality legislation. An equalities impact assessment will be carried out prior to any new scheme commencing and will form part of the approval process required ahead of incurring capital spend.

## Resource implications

34. The proposed increased allocations of £12.827m are funded by £6.711m grants and S106 payments and therefore if these were not approved it would mean a loss of income to the Council. The balance is supported by borrowing.

35. A number of Children’s Wellbeing projects were initially approved to be funded by grant, this has not been possible and therefore these schemes will need to be funded from borrowing. The team proactively seek any funding possibilities and will continue to where possible in the future. The increase in borrowing of £4.705m detailed in the below table was previously mainly offset last year by the £3.190m grant that was received for Colwall, when the overall budget had been approved from borrowing. The additional £1.515m will be funded from borrowing which will be reflected in the next treasury management report.

<b>Scheme</b>	<b>Amendment to grant funding allocation £’000</b>
Preliminary Works	2,074
Peterchurch Primary School	988
SEN & DDA School Improvements	710
Marlbrook School	1,409
Overall reduction in budget	(476)
Total change in funding requirement	4,705

36. Ross Enterprise Business Park had been approved with a budget split equally between grant and borrowing. We now know that there will be no grant available to bid for to fund this project and therefore have amended this to be funded by capital receipts, with possible future receipts from the site likely to replenish the receipts used to fund the scheme.
37. Hereford Enterprise Zone Shell Store project is requesting an additional £1.116m which is to be funded from £822,000 borrowing and £294,000 contribution, future borrowing costs will be funded from within future project income.
38. Cyber Security Centre is requesting investment of £3.5m which will be funded from £1.5m capital receipts and £2m borrowing that will be repaid as a loan from the University and therefore any borrowing costs would be recovered.
39. An initial estimate puts the Hillside refurbishment costs at no more than £1.5m; this would be a capital investment. Funding is not currently identified in the Capital Plan.
40. The capital investment could be funded by prudential borrowing, the cost of borrowing £1.5m over 25 years useful economic life would be c£720k. Alternatively the capital cost could be funded from capital receipts incurring no cost of borrowing.

## **Legal implications**

41. In year changes to the capital programme must be approved by Council unless certain circumstances in the constitution apply, which do not apply in these cases.
42. A delegation to the s 151 officer from council when additional external funds are received is permissible.



43. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the council's budget if he or she has an outstanding council tax debt of over two months. If a councillor is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence,

## **Risk management**

44. For all capital projects monthly budget control meetings 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 for example through phasing of spend, identifying and securing scheme changes or alternative funding sources.
45. Capital projects inherently give rise to risks in their delivery, both in time and budget. Individual scheme reporting and associated project boards exist to mitigate these risks. A review of capital policies and processes is underway and will lead to cascading clarity on governance and mitigating scheme risks.
46. The individual scheme detail of the risks will be provided as individual schemes progress to approval to deliver.

## **Consultees**

47. Preliminary soft market testing has been undertaken with the care home market, providers have registered an interest in delivering the service and provided modelling information. The providers have visited the building and expressed a view that it lends itself to a nursing home and with the increase in bedded provision is a viable business.
48. Hillside is situated in the Redhill Ward with Councillor Rone as the elected ward member, Councillor Rone is supportive of the proposed redesign and future model.
49. All political groups have been consulted on the proposed changes there was no feedback on individual schemes within the paper.

## **Appendices**

Appendix 1 – Detailed capital project budgets 2018/19

## **Background papers**

Business cases