

MEETING:	CABINET
MEETING DATE:	13 NOVEMBER 2014
TITLE OF REPORT:	PROPOSED CAPITAL PROGRAMME 2015/16 TO 2017/18
REPORT BY:	CHIEF FINANCIAL OFFICER

Classification

Open

Key Decision

This is a Key Decision because it is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the County.

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

County-wide

Purpose

To agree proposals for additions to the capital investment programme for 2015/16 to 2017/18 inclusive for recommendation to Council on 12 December 2014.

Recommendation(s)

THAT:

- (a) The additional capital schemes as detailed in appendix 1 of this report are recommended to Council for inclusion in the 2015/16 capital programme.**

Alternative Options

- 1 The capital schemes detailed below 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 3 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
Masters 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 Peter Robinson, Chief Financial Officer on Tel (01432) 383519

<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, supporting 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 & 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
Other Properties	910	-	910
Cemeteries	100	-	100

Financed by service areas:

Equipment	268	-	268
Total	8,908	(352)	8,556

Investment to Support Cost Savings

Financed centrally:

Schools	500	(160)	340
Other Properties	78	-	78

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 self-financing expenditure included above, additional expenditure of approximately £10m per annum will be funded under the Local Transport Plan that will be confirmed in December 2014.

6 Including the contingency reserve, 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 our borrowing levels within our Treasury Management Strategy. The revenue implications are detailed in the financial implications section and are indicated as pressures in our current future year's budget

7 Of the £10.9m additional corporate investment needed, £6.5m relates to Colwall School and covers the estimated cost of a new school should it not be possible to rectify the school's damp problems. Alternative grant funding has been sought and, if successful, will reduce this borrowing.

forecasting.

Overall borrowing implications

8 The inclusion of the additional borrowing requirement is in accordance with our current Treasury Management Strategy which will be updated following approval to include the additional schemes.

9 Total gross outstanding debt was £168m as at 31/03/14. This is being repaid at £10m per annum.

10 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.

11 Assuming the new investment need is approved and including all other capital investment approved to date would see an increase in our debt requirement from £168m as at 31/03/14 to £197m as at 31/03/18.

10 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 for all unitary authorities and when comparing long-term debt balance and cost to net revenue budget Hereford is in the lower (better) half of the comparative authority debt positions.

11 The councils Net Book Value (NBV) of fixed assets compared to the level of its net borrowing is estimated to be as follows.

	31.03.14	31.03.15	31.03.16	31.03.17	31.03.18
	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 carried at their depreciated historic cost which may not reflect current value. For example, in the case of community assets they often do not have a recorded historic cost and so are carried at minimal value in the council's Balance Sheet (total value £1.9m at 31.03.14). Similarly roads and infrastructure were carried at an historic cost value of £158.8m at 31.3.14 whereas their actual value based on a depreciated replacement cost basis is estimated to be in excess of £2,500m. This valuation method will be implemented in 2015/16 and is not reflected in the above figures but will reduce the debt to asset ratio in 2015/16 onwards.

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

Community Impact

- 11 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

- 12 A full community impact assessment will be carried out prior to any scheme commencing. Current budget proposals are undergoing an Equality Impact assessment; this work will be completed in November.

Financial Implications

- 13 Most investment will be made on a self financing basis as detailed on Appendix 1. A separate Cabinet on the business case for new individual projects will also be approved before investment begins.
- 14 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
Future Years	0.1	15.2
	<u>10.9</u>	<u>16.3</u>

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

- 15 No legal implications arise directly from this report. However, a number of the schemes in the programme will be undertaken, at least in part, to meet the council's legal obligations; for example, to keep its building in a safe state of repair. The individual schemes within the programme will all need to be procured lawfully and appropriate contract documentation executed to protect the council's interests.'

Risk Management

- 16 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

- 17 General Overview & Scrutiny Committee considered the proposals at their meeting on 4 November. Their comments will be published as a supplement to this agenda.

Appendices

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

Background Papers

None identified.