

CAPITAL PROGRAMME UPDATE 2019/20-2022/23
Councillor Mordue
Cabinet Member for Finance and Resources

1 Purpose

- 1.1 This report gives an update on the capital programme for the current year and sets out a revised programme for 2019/20 onwards. The Cabinet's comments will be passed to the Finance and Services Scrutiny Committee for review as required under policy framework requirements. After consideration of the review by scrutiny, Cabinet will be required to make formal proposals to Council on 6th February 2019.

2 Recommendations/for decision

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| 2.1 | Consider the updated Capital Programme for 2019/20 onwards, as set out in Appendix A, and if in agreement; |
| 2.2 | Request the Finance and Service Scrutiny Committee to review and comment on the programme prior to Cabinet making its final recommendations to Council in the New Year. |
| 2.3 | Agree the principles for the emerging Capital Strategy for 2019/20 |

3 Executive summary

- 3.1 This report sets out the Capital Programme for 2019/20 onwards. It has been updated to include changes and new proposals agreed by Council and Cabinet during the last year, and sets out a high level update on the main themes in the Programme. The report's outcome, following any comment, will move forward into the main budget setting process.
- 3.2 The focus of the capital programme is on delivery of existing schemes which have already been approved by Council.
- 3.3 The plan reflects the Council strategy to ensure both the prudent use and the maximisation of available capital resources.

4 Background

- 4.1 The Council maintains an integrated strategic capital programme which is divided into three main sections.
- Major Projects – These being the largest and highest profile.
 - Housing Schemes – Being the housing enabling and housing grant based schemes.
 - Other Projects – Being all the other schemes included within the capital programme.
- 4.2 The programme is reviewed annually with the current programme being last approved and adopted at Council in February 2018. Since then, the programme has been altered and amended on several occasions in response to organisational pressures, and agreements with Cabinet and Council where necessary, this report reflects all those changes.

- 4.3 At the time of writing the report, the Secretary of State has confirmed his decision to create a single Unitary District Council for Buckinghamshire which will come into existence in May 2020.
- 4.4 This fundamental change will happen during the period of the proposed capital plan. This clearly removes the need for medium term planning for Aylesbury Vale as a single entity organisation, as the new organisation will want to determine its own priorities, but the Council remains obligated to handover its affairs to the new organisation in the best state it can.
- 4.5 At this early stage, the financial implications of the announcement are yet to be fully understood. As thinking and understanding are progressed, the significant financial impacts will be reported to Members.
- 4.6 Future investment and borrowing decisions may be influenced by the outcome of the unitary arrangements.
- 4.7 This report provides an updated position with respect to forecast receipts and the position with regards to current and future major investment projects.

5 Capital Resources

- 5.1 This report sets out the high level issues facing the Council in terms of developing its Capital plans.
- 5.2 In addition to the unitary decision, there remain a number of other key uncertainties, e.g. financial impact Brexit and changes to the economy. Economic and interest rate forecasting remain difficult with so many external influences weighing on the UK.
- 5.3 Investment returns are likely to remain low during 2019/20 but appear to be on a gently rising trend over the next few years.
- 5.4 Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served AVDC well over the last few years and the intention is to continue to do this where balances allow.
- 5.5 The focus of the capital plan will now be primarily on 2019/20, but consideration will still be given to 2020 and beyond because of the obligation to hand Aylesbury Vale's affairs to its successor in a fit state.
- 5.6 A number of external and internal factors do have a bearing on the available resources for the capital programme. Changes in anticipated resources effectively increase or reduce the level of resources available to fund new schemes and so impact directly on the Council decisions to invest or borrow resources.
- 5.7 The changes in anticipated resources which need to be factored into the programme are as follows:
- **Revenue Contribution** – Currently there is an proposed £400,000 contribution from revenue to supplement existing capital resources. In the Provisional Finance Settlement on 6 December 2018, the Government is anticipated to announce the removal of Negative Revenue Support Grant (RSG) and the indication is that the financial impact of the proposed change will benefit the Council by circa £0.7m. This will be a non-recurrent re-alignment of funding. Given the non-recurrent nature of the proposed additional funding, it has been recommended to Cabinet, (as part of the Revenue Budget), that the

funding will be ring fenced to support likely and known pressures during 2019-20, specifically £0.4m to meet the costs of the car park changes detailed in the Car Park Strategy.

- Reserve utilisation of £4.5m for the Town Centre Regeneration. This scheme has previously been agreed by Council.
- Borrowing will be required to support the capital programme. The plan includes £8m of borrowing to support spend on Silverstone Enterprise Zone and also Pembroke Road. The revenue costs of the borrowing are included in the agreed business plans. The level of borrowing will be managed in year and only actioned after cash balances have been utilised.
- Share of house sale receipts from VAHT - these flow from the stock transfer agreement and run for 25 years from the transfer date. The number of sales has been forecast to be 14 for 2018/19, with the same number being forecast for 2019/20 equating to sales of an estimated £1.5millions. The number of residual RTB house sales has consistently fallen over the last couple of years.
- Asset Sales - these are sums released from disposal of Council owned assets, mainly land or property. The generation of any significant receipts from the Council's current reduced asset base is no longer possible, but periodically some small receipts are received from parcels of land and capital repayments from some loans. No asset sales have been assumed for 2019/20, but does include £0.440m in 2019/20 for AVE loan repayments
- Lottery, Grants & Section 106 – This relates to external resources not related to asset sales.

5.8 The table below sets out the available resources at the beginning of 2018/19 and projected resources during 2018/19 and 2019/20, before any expenditure has been taken into account.

	Current Resources	Resources Projection
	Apr-18	Mar-19
	£'000s	£'000s
Balance of Capital Resources	8,311	6,131
Share of Right to Buy Receipts	1,500	1,500
Asset Sales		
Lottery, Grants and Section 106	2,080	4,940
Revenue Contributions (NHB)	327	
Revenue Contributions		400
Total End of Year	12,218	12,971

6 Capital Expenditure

- 6.1 The capital programme is attached as Appendix A. As it is split into three sections, Major Projects, Housing Schemes and Other Projects, these are covered separately.
- 6.2 Major Projects: The following are listed under the Major Projects section – Pembroke Road depot, Silverstone Heritage Centre, Silverstone Enterprise Zone and the Town Centre Regeneration. The capital programme includes the latest forecast costs for the individual schemes and reflects the current position.

Depot - Pembroke Road

- The scheme to develop existing waste and recycling depot site at Pembroke Road continues. The scheme was agreed by Council in October 2016.
- The total scheme cost is £9.2 million. The scheme includes £1.9 million for the provision of expanded vehicle testing facilities and the business decision to continue with this element of the scheme is still under review.
- The report and business case was predicated on the cost of the scheme being met from borrowing, whilst recognising that the amount might be reduced if there is additional capital resources received during the year. Expenditure incurred thus far for the scheme (mainly design and demolition) has been funded from the balances of unallocated capital resources. The Programme presented in the Appendix includes an assumption of borrowing for the scheme. However, it is proposed that all unallocated capital resources are allocated in the first instance in lieu of borrowing as a mechanism to reduce borrowing costs. The borrowing costs have been included in the business case for the development.
- The review of resources undertaken within this report continues to balance the Council's need to invest in schemes with the anticipated unallocated resources available to it. Borrowing is not usually earmarked for individual purposes but instead intended to cover any gap between spending and income.

Silverstone Heritage Centre

- At its meeting on the 14th September 2016 Council agreed to be part of a joint funding arrangement for a new Silverstone Heritage Centre by contributing £2 million by way of a loan facility.
- This is levered a £9.3m Heritage Lottery fund award and financial commitments provided by surrounding councils and the two LEPS. Together, this provides a maximum loan facility.
- The Silverstone management team presented to Finance and Services Scrutiny Committee in October 2018. Progress on the development is good and there is an anticipated opening dates of the facilities in spring of 2019.

Silverstone Enterprise Zone

- In Autumn 2017 Council agreed to provide Capital funding for enabling works for the Silverstone Enterprise Zone in the form of a of £5.00 loan to be repaid from the additional Business Rates generated on site.
- Aylesbury Vale is the accountable body for the 3 Enterprise Zones and so borrows the sums required for infrastructure development on behalf of the constituent bodies. It also collects the Business Rates payable and offsets its borrowing costs from these receipts.
- There is no net cost to the Council of this decision, but the borrowing decision needs to be reflected to the Council's approved programme.

Westcott Innovation Centre

- A Business case for the expansion of the Westcott Innovation Centre is currently being considered by the Aylesbury Vale Enterprise Zone Board. With a business funding model aligned to the Enterprise Zone, the Board are broadly supportive of the Scheme and so this will be seeking AVDC funding of circa £1.5million for the business case. This will be presented for further consideration at a future meeting, with the intention that this be included in the final Capital Programme proposals being recommended to Council on 6th February.

Town Centre Regeneration

- At a meeting of its full Council on Wednesday 19 September, AVDC agreed to invest in the rejuvenation of the Aylesbury Town centre public spaces. The planned investment into Kingsbury and Market Square will address the operational and aesthetic challenges, while making improvements to the safety, sustainability and accessibility of the areas. The improvements will also look to emphasise Kingsbury as the gateway to the old town, celebrating Aylesbury's rich heritage as a market town.
- The funding will be sourced from specifically earmarked funding and grants, including: existing Section 106 funding allocated to Aylesbury town centre, a Heritage Lottery Funding Townscape Grants bid and New Homes Bonus. This will enable AVDC to achieve its prospects without the need to borrow.
- Although Council required the scheme to be re-presented once further planning work has taken place, the full provision has been included in the Capital Programme in order to reserve the funding.

6.3 Housing Schemes

- The main element of funding within this category relates to the Council's housing enabling function.
- The programme presented here proposes that all receipts from RTB and the affordable housing element of New Homes Bonus are ring-fenced for the purpose of affordable housing investment.

6.4 Other Projects

A number of new projects are included as well as provision for schemes that have been delayed for reasons outside of the Council's control.

- Notable other projects in this section of the Capital Programme include £1.25m for the purchase of new vehicles to support bringing the provision of the Street Cleaning and Horticulture contract in-house. The vehicles are required in order to provide the statutory functions of the horticulture services and would be required whether the existing contract was extended or the service brought in-house.
- The programme allows for a rolling replacement for 5 food waste vehicles.

- The car parking strategy agreed by Cabinet in December 2018 outlined a need for capital funding to upgrade payment equipment in AVDC car parks in other towns across the Vale. Provision for this equipment has been included in the capital plan for 2019/20, together with a contribution from Revenue to fund the cost of these works.
- Finally, spend on Community Centre renewal, funded by the receipts from the sale of Elmhurst Community Centre some years ago, and also some play area renewal work. In these cases the prioritisation of Section 106 funds (of which £10m are held for open spaces and leisure purposes) will be made before any capital expenditure.

6.5 Members will note that the major development for the Exchange is due for completion in 2018/19 with no further expenditure planned. The Exchange scheme commenced in January 2017 and consists of restaurants, one and two bedroom apartments above and a new public square. The scheme also provides commercial space.

6.6 Council approved the proposed Commercial Property Strategy described in the report, including a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100,000 from the New Homes Bonus (NHB) Fund. Work is still on-going in order to timetable how these investments may be made and as such is summarised in the programme but is subject to change with market conditions and as opportunities arise. As yet no draw down has taken place, and is now unlikely given the unitary decision.

6.7 Although not a funding pressure the programme for 2019/20 includes provision for a payment to be made for the transfer of deferred developer sums to Coldharbour Farm Parish Council for the maintenance of the riverine corridor which runs through Fairford Leys. This sum was previously provided by the developer for the maintenance obligations as part of the original land transaction. Transfer of this sum to the Parish Council has been previously agreed, but long delayed whilst the legal ownership is resolved.

7 Capital Strategy

7.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy.

7.2 The purpose of the Capital Strategy is to drive the authority's capital investment ambition over a 20-30 year time frame, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long term delivery of services.

7.3 The capital programme for the council would normally be a long term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving council dwellings and operational buildings is very long term and as such should be considered accordingly in financial and asset management planning.

7.4 The development of the Capital Strategy for AVDC is disadvantaged by the uncertainty resulting from the unitary decision. However, to comply

with statutory requirements, an expanded, but still abridged strategy, (reflecting a single year planning period) will still be presented alongside the Treasury Management Strategy in January 2019. However, the key principles of the strategy are set out below for contextual consideration.

- 7.5 The Capital Strategy for AVDC for 2019-20 will focus on core principles that underpin the council's capital programme in the short term only and the issues and the risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Aylesbury Vale.
- 7.6 Within a shorter timeframe the focus of the capital strategy is towards the delivery and implementation of existing capital schemes.
- 7.7 Within the short term timeframe the capital programme may still be amended by the introduction of urgent, high priority capital schemes. The programme will need to be flexible to ensure that the capital programme can incorporate schemes to meet the requirements or opportunities that arise. As part of capital programme and resource management, schemes may be phased over multiple years due to factors such as complexity, resourcing, legal and planning requirements.
- 7.8 The development, management and monitoring of capital investments for 2019/20 will remain under the control of AVDC.
- 7.9 The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio now mainly consist of small land holdings and our operational buildings i.e. offices, leisure facilities, public conveniences etc.
- 7.10 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 7.11 The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 7.12 Risk is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the council's low risk appetite.
- 7.13 The Treasury Management Strategy for 2019-20, to be presented to Council for approval, will include detail on expenditure plans and the associated prudential indicators.
- 7.14 The development of capital investments beyond 2020 will ultimately be delivered by the new Authority.

8 Options considered

- 8.1 The proposed capital programme represents the allocation of anticipated resources in accordance with corporate priorities and agreed decisions since the last updated programme.

9 Reasons for Recommendation

- 9.1 The Council is required to set a capital budget for the coming financial year and proper financial management incorporates a longer term view of capital activity. Regular review and updating of resource availability and capital investment plans is essential, especially when a number of major schemes are running in parallel.
- 9.2 The CIPFA Prudential Code (December 2017) includes the requirement to produce a Capital Strategy.

10 Resource implications

- 10.1 Each of the additions of the Capital Programme made since the last formal reviews were accompanied by a detailed Business Case. These reviews included the detail revenue implications, both of the detailed proposal and any financing costs assumptions within it.
- 10.2 The revenue costs are incorporated into the initial Budget Planning report included elsewhere on this agenda.

Capital Programme				2018/2019	2019/2020	2020/2021	2021/2022	
				£'000s	£'000s	£'000s	£'000s	
				Planned	Planned	Planned	Planned	
Capital Resources								
Base Available Resources		8,311		8,311				
Add Contributions from Revenue - Parking Strategy		400			400			
Add Contributions from NHB Affordable Housing		327		327	0			
Add New Receipts and Contributions (Estimated)		13,930		3,580	6,440	1,950	1,960	
FORECAST RESOURCE AVAILABILITY		22,968		12,218	6,840	1,950	1,960	
Add Prudential Borrowing		8,250		250	8,000			
TOTAL FORECAST RESOURCE AVAILABILITY		31,218		12,468	14,840	1,950	1,960	
Capital Spend								
		SCHEME TOTAL	SCHEME COSTS TO DATE					
		£'000s	£'000s					
Major Projects								
Waterside North (Exchange St) (via part NHB)		4,100	4,100					
Public Realm Waterside North (Exchange St)		3,300	603	2,697				
Pembroke Road Depot Upgrade (via part Borrowing)		12,700	6,200	250	6,250			
Silverstone (via NHB)		2,000		1,500	500			
Prov Loan Facility - Silverstone Enterprise Zone (via Borrowing)		5,000			5,000			
Town Centre Regeneration (via NHB, s106)		4,500			4,500			
Major Project Expenditure Total				31,600	10,903	4,447	16,250	
						0	0	
Housing								
Disabled Facility Grants		1,939	1,454	100	100	100	185	
Enabling schemes		32,601	26,601	1,500	1,500	1,500	1,500	
Housing Expenditure Total				34,540	28,055	1,600	1,600	
						1,600	1,685	
Other projects in current programme								
Refuse Vehicle Replacements		4,550	4,300	250				
Street & Horticultural Vehicle Replacements		1,250			1,250			
Food Waste Vehicle Replacement		600			600			
Car Park Improvements		800			600	200		
Community Centre Improvements		400	19	40	341			
Play Area Replacement Programme		420			140	140	140	
Public Convenience		140			140			
Other Projects Total				8,160	4,319	290	3,071	
						340	140	
WHOLE PROGRAMME TOTAL SPEND				74,300	43,277	6,337	20,921	
						1,940	1,825	
Cumulative Balance Remaining				(- = overdrawn)	8,311	6,131	50	60
Net Spend (-) / Income For the Year.					-2,180	-6,081	10	135
Uncommitted Balance as at 31 March				(- = overdrawn)	6,131	50	60	195