

Council
31 January 2018

CAPITAL PROGRAMME UPDATE 2018/19 TO 2021/22
Councillor Mordue
Cabinet Member for Resources, Governance and Compliance

1. Purpose

- 1.1 To give Council an update on the Capital Programme for the current year and on the position going forward to 2021/22.

2. Recommendations

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| 2.1 That the updated Capital Programme for 2018/19 onwards be approved. |
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3. Supporting Information

- 3.1 The attached report was considered by the Finance and Services Scrutiny Committee on 8 January 2017 and by Cabinet on 9 January 2018. The report covers the position in relation to capital resources from 2018/19 to 2021/22.
- 3.2 The report explains the situation in connection with the three main elements that make up the Capital Programme, namely, major projects, housing schemes and other projects, within the context of both the national and local economic climate.
- 3.2 The Capital Programme is recommended for approval By Council.

4. Reasons for Recommendation

- 4.1 These are detailed in the attached report.

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Background Documents: None

REPORT TO FINANCE AND SERVICES SCRUTINY COMMITTEE – 8/1/2018

CAPITAL PROGRAMME UPDATE 2018/19-21/22

Councillor Mordue

Cabinet Member for Resources, Governance and Compliance

1 Purpose

- 1.1 This report gives an update on the capital programme for the current year and sets out a revised programme for 2018/19 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 31 January 2018

2 Recommendations/for decision

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| 2.1 | Consider the updated Capital Programme for 2018/19 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. |

3 Executive summary (if longer than 2 pages)

- 3.1 This report sets out the Capital Programme for 2018/19 onwards. It has been updated by changes 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.

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 2017. 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 This report also provides an updated position with respect to forecast receipts and the position with regards to current and future major investment projects.

Capital Resources Update

- 4.4 The UK economy is still reacting after the decision to leave the European Union and will continue to do so. Whilst, the pound fell during the summer period, it has started to slowly rise towards the end of the year (albeit from a low level). Exports have continued to rise, but as yet it is not clear the effect

that the recent rise of 0.25% on interest rates will have on the housing market and therefore the demand for land and its value overall.

- 4.5 The annual rate of house price growth picked up slightly in October to 2.5%, from a revised 2.3% in September. Nevertheless, annual house price growth remains within the 2 - 4% range that has prevailed since March. This slowdown has had an effect on the anticipated income from Right to Buy sales, which is one of the Council's residual major sources of capital income.
- 4.6 The number of house sale completions over the last couple of years has consistently fallen. Based on the year to date position, VAHT are forecasting 26 sales, equivalent to £2.5 million.
- 4.7 The 10 year VAT shelter put in place following the stock transfer has now ended. This proved valuable in funding housing investment and community projects (known as 'Community Chest') but will now no longer appear in the programme going forward.
- 4.8 These factors do have a bearing on the available resources for the capital programme. Any decrease in anticipated resources effectively reduces the level of resources available to fund new schemes and so increases the necessity of more borrowing as last resort financing.
- 4.9 The changes in anticipated resources which need to be factored into the programme are as follows:
- a) 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 26 for 2017/18, with the same number being forecast for 2018/19.
 - b) Asset Sales - these are sums released from disposal of Council-owned assets mainly land or property.
 - c) Lottery, Grants & Section 106 – This relates to external resources not related to asset sales.
 - d) Revenue Contribution – Currently there are not expected to be any contributions from revenue to supplement existing capital resources other than planned contributions from the New Homes Bonus pot.
- 4.10 The table below sets out the available resources at the beginning of 2017/18 and projected resources during 2017/18 and 2018/19, before any expenditure has been taken into account.

	Current Resources April 2017 £'000s	Resources Projection March 2018 £'000s
Balance of Capital Resources	9,752	9,374
Share of Right to Buy Receipts	2,500	2,500
Asset Sales	910	410
Lottery, Grants and Section 106	0	3,300

Revenue Contributions (NHB)	5,466	327
Total End of Year	18,628	15,911

- 4.11 We have been in the position for some time where the generation of sizeable capital receipts is no longer likely to be possible as our asset base has been reduced to small land holdings and our operational buildings i.e. offices, leisure facilities, public conveniences etc. However, the Council does still accrue some small receipts from parcels of land and capital repayments from some loans.
- 4.12 These small receipts are not sufficient to fund significant works and so this means that future commitment to projects can only be given on the understanding that the funding will have to be met from external sources. In this instance, external resources mean either borrowing or third party contributions. This significantly reduces our ability to deliver capital schemes which do not in themselves produce a positive business case.
- 4.13 An ongoing programme of review of our capital assets is continuing. This will examine our current assets against future demands and needs, and may produce some future capital receipts, however at this stage it is too early to make any forecasts. Even if this is the case, it will simply reduce the level of borrowing that will be required for the programme overall.

Capital Expenditure

- 4.14 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.

Major Projects

- 4.15 The following are listed under the Major Projects section – The Exchange Development, Pembroke Road depot, Silverstone Racing Circuit and the provision of a loan facility for a commercial investment strategy. The capital programme includes the latest forecast costs for the individual schemes and reflects the current position.

The Exchange

- 4.16 The Exchange scheme commenced in January 2017 and consists of four restaurants, with 47 one and two bedroom apartments above and a new public square should be completed by autumn 2018. The scheme will also provide some commercial space facing Long Lion which could be used in a variety of ways including retail, more food and beverage or offices.
- 4.17 The expenditure and funding for these schemes is built in to the Capital Programme as planned.

Depot - Pembroke Road

- 4.18 At its meeting on the 26th October 2016 Council agreed to a scheme to develop the existing waste and recycling depot site at Pembroke Road. Refuse vehicles that serve the District are also being renewed and are addressed under the 'Other Projects' category below.

- 4.19 The total scheme cost is £9.2 million, of which £1.9 million would only be required if there was sufficient evidence of the demand and take up for the expanded vehicle testing facilities.
- 4.20 The report and business case was predicated on the cost of scheme being met from borrowing, whilst recognising that the amount might be reduced if there are additional capital resources received during the year.
- 4.21 This year's review has identified that the Council is carrying some additional resources accumulated from small sales and capital loan repayments. This means that the Council is holding a balance of unallocated resources which it could apply in lieu of borrowing in 2018/19. The Programme presented in the Appendix still includes the same assumed borrowing included last year that was associated with this scheme. However, if no new need presents itself then it is recommended that next year's review includes the application of balances in lieu of borrowing as a mechanism to reduce borrowing costs.
- 4.22 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 Racing Circuit

- 4.23 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.
- 4.24 This is levered by 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.

Silverstone Enterprise Zone

- 4.25 In Autumn 2017 Council agreed to provide Capital funding for enabling works for the Silverstone Enterprise Zone in the form of a of £4.9m loan to be repaid from the additional Business Rates generated on site.
- 4.26 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.
- 4.27 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.

Commercial Property Investment Strategy

- 4.28 Council met on 13th September 2017 to consider the adoption of an investment strategy to generate new streams of income to help offset the significant cuts in Government funding and to ensure sufficient finance is available to support the continued delivery of and investment in services to the local community.
- 4.29 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 £100k from the New Homes Bonus (NHB) Fund, both to be reimbursed in line with the approach set out in that report. Work is on going 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 unlikely until 2018/19.

- 4.30 The Government is currently consulting on changes to council borrowing powers which may restrict the ability to deliver acquisitions against this scheme. The development of these Government proposals are being watched closely and an update will be provided when clarity exists.

Housing Schemes

- 4.31 The main element of funding within this category relates to the Council's housing enabling function.
- 4.32 The Council has been successful in its delivery of affordable housing projects over the past few years, partly as a factor of the high levels of growth in this area.
- 4.33 The Council's capital commitment to affordable provision was tied in to the VAHT stock transfer agreement. This created a commitment on the Council to allocate a minimum budgetary provision for investment in affordable housing in each of the 10 years following stock transfer. Through a combination of preserved Right To Buy and a VAT shelter, this agreement also provided the resources to enable the Council to deliver against this.
- 4.34 The ending of the VAT shelter after 10 years means the Council's resources from stock transfer diminish and therefore its ability to continue to invest in new affordable provision. Beyond residual Right To Buy capital receipts and the nominal sums from New Homes Bonus for affordable housing, the Council has no means to fund new schemes other than through borrowing.
- 4.35 As borrowing for this purpose provides no return by which to cover the borrowing costs, funding an affordable borrowing programme through this mechanism is not sustainable.
- 4.36 Currently housing associations have had to review their business plans in light of a change in the level of rents that they can charge, so demand for potential new schemes have been delayed for now. However, with the Government's renewed focus on affordable housing this position is unlikely to remain for much longer.
- 4.37 The Government has made it clear that house building and the provision of new affordable housing are priorities for it. The November 2017 budget made a number of commitments to provide funding, but the details surrounding how this will be applied are unavailable at the time of writing this report.
- 4.38 Housing will continue to work with the housing associations to deliver as many houses as possible within their resources but a more fundamental review of the funding for affordable housing is now looking necessary.
- 4.39 Whilst this review is undertaken, 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.

4.40 Other Projects

- 4.41 With one exception, provision for these schemes remains unchanged, other than carrying forward unspent sums on schemes, which have been delayed for reasons outside of the Council's control.

- 4.42 The exception is a provision 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 provided by the developer for the maintenance obligations as part of the original land transaction.
- 4.43 Transfer of this sum to the Parish Council has been previously agreed, but long delayed whilst the legal ownership is resolved. A sum has therefore been included in the Capital Programme to represent a transfer of capital resources.
- 4.44 Notable other projects in this section of the Capital Programme includes the £3.6m purchase of a new Refuse and Recycling fleet all of which will be in place before the new financial year. These are all the latest and most efficient vehicles and enable us to address the effects of increasing demands from growth in the district for at least the next 3 years.
- 4.45 Some much less significant sums are likely to be spent 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.

5 Options considered

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

6 Reasons for Recommendation

- 6.1 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.

7 Resource implications

- 7.1 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.
- 7.2 The revenue costs are incorporated into the initial Budget Planning report included elsewhere on this agenda.

Capital Programme				2017/2018	2018/2019	2019/2020	2020/2021	2021/2022
				£'000s	£'000s	£'000s	£'000s	£'000s
				Planned	Planned	Planned	Planned	Planned
Capital Resources								
Base Available Resources		9,752		9,752				
Add Contributions from New Homes Bonus		5,000		5,000				
Add Contributions from NHB Affordable Housing		793		466	327	0	0	0
Add New Receipts and Contributions (Estimated)		18,350		3,410	6,210	2,910	2,910	2,910
FORECAST RESOURCE AVAILABILITY		33,895		18,628	6,537	2,910	2,910	2,910
Add Prudential Borrowing		14,398		10,885	3,513			
TOTAL FORECAST RESOURCE AVAILABILITY		48,293		29,513	10,050	2,910	2,910	2,910
Capital Spend								
		SCHEME TOTAL		SCHEME COSTS TO DATE				
Major Projects		£'000s		£'000s				
Waterside North (Exchange St) (via part NHB)		4,100		777	3,323			
Public Realm Waterside North (Exchange St)		3,300		0		3,300		
Pembroke Road Depot Upgrade (via Borrowing)		11,305		5,792	2,000	3,513		
Silverstone Heritage Centre (via NHB)		2,000			2,000	0		
Prov Loan Facility - Silverstone Enterprise Zone (via Borrowing)		5,000			5,000			
Major Project Expenditure Total		25,705		6,569	12,323	6,813	0	0
Housing								
Disabled Facility Grants		1,939		1,454	100	100	100	85
Enabling schemes		39,020		25,727	2,966	2,827	2,500	2,500
Housing Expenditure Total		40,959		27,181	3,066	2,927	2,600	2,585
Other projects in current programme								
Car Park Improvements		800				600	200	
Refuse Vehicle Replacements		4,100		215	3,885			
Community Centre Improvements		400		15	15	370		
Play Area Replacement Programme		420				140	140	
Fairford Leys Riverine Corridor		850			850			
Other Projects Total		6,570		230	4,750	1,110	340	140
WHOLE PROGRAMME TOTAL SPEND		73,234		33,980	20,139	10,850	2,940	2,740
Cumulative Balance Remaining			(- = overdrawn)		9,752	9,374	8,574	8,544
Net Spend (-) / Income For the Year.					-378	-800	-30	170
Uncommitted Balance as at 31 March			(- = overdrawn)		9,374	8,574	8,544	8,714