

**TO: THE EXECUTIVE
18 DECEMBER 2018**

**CAPITAL PROGRAMME 2019/2020 - 2021/2022
(Borough Treasurer/Chief Executive)**

1 PURPOSE OF DECISION

- 1.1 Under the Council's constitution, the Executive is required to consult on its detailed budget proposals with the Council's Overview & Scrutiny Commission and any other interested parties or individuals for a period of at least six weeks. This report summarises the current position on the Council's Capital Programme budget preparations for 2019/20.
- 1.2 This report draws together each department's proposals so that the Executive can agree a draft capital programme for 2019/20-2021/22 as the basis for consultation. In compiling the draft programme the main focus is inevitably on determining the requirements for 2019/20, although future year's schemes do also form an important part of the programme.
- 1.3 The financial implications of the recommendations in this report are reflected in the subsequent report on the Council's draft revenue budget. Any revisions to the proposals put forward by each service would also need to be reflected in that report which will also be published as the basis for consultation following the Executive's meeting.

2 RECOMMENDATIONS

That the Executive:

- 2.1 **Approves, for consultation, a Council funded capital programme of £13.751m for 2019/20 as set out in paragraph 5.17 and summarised in Annex A, including the new schemes listed in Annexes B – E.**
- 2.2 **Approves, for consultation, the inclusion of £11.436m of expenditure to be externally funded as outlined in paragraph 5.17.**
- 2.3 **Approves, for consultation, the inclusion of £1.025m of expenditure to be funded from S106 as outlined in paragraph 5.18.**
- 2.4 **Approves, for consultation, the inclusion of an additional budget of £1m for Invest-to-Save schemes.**
- 2.5 **Approves a supplementary capital approval in 2018/19 of £0.25m for the relocation of the Education Centre to the Open Learning Centre as set out in para 5.20, funded from the capital receipt generated from the disposal of Easthampstead Park Conference Centre.**
- 2.6 **Approves the granting of a loan of £68,000 to the South Hill Park Trust on the terms set on in paragraph 5.21 to help fund improvement works that will enable further income generating activities and help the Trust secure its medium-term financial position.**

- 2.7 **Approve the virements set out in Annex F to reflect the changed needs and priorities within the Schools Capital Programme.**
- 2.8 **Approves the Capital Strategy as outlined in para 5.22 and attached in Annex G**

3 REASONS FOR RECOMMENDATIONS

- 3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The alternative options are considered in the report.

5 SUPPORTING INFORMATION

Capital Resources

- 5.1 Each year the Council agrees a programme of capital schemes. In the past these schemes have been funded from these main sources:
- the Council's capital receipts
 - Government Grants
 - other external contributions
 - internal and external borrowing
- 5.2 The Council's total usable capital receipts at 31st March 2018 are zero as all receipts have been applied to fund prior capital investment – all receipts during 2018/19 will be used to finance the 2018/19 Capital Programme. The Council is partly reliant on capital receipts and other contributions to fund its capital programme, although interest generated from capital receipts can also help support the revenue budget in the short term – however with investment rates at historic lows it makes more economic sense to offset borrowing.
- 5.3 The proposed capital programme for 2019/20 has been developed, therefore, on the assumption that it will be funded by a combination of Government grants, other external contributions and borrowing in addition to capital receipts. Community Infrastructure Levy (CIL) contributions and some small miscellaneous property sales should enable £5m of the capital programme to be funded from receipts. Internal resources will be used in the first instance and borrowing from external sources (e.g. the PWLB) will be used only when necessary. The financing costs associated with the General Fund Capital Programme have been provided for in the Council's revenue budget plans which also appear on tonight's agenda.
- #### **New Schemes**
- 5.4 Within the general financial framework outlined above, Service Departments have considered new schemes for inclusion within the Council's Capital Programme for 2019/20 – 2021/22. Given that both capital and revenue resources are under pressure, each Department has evaluated and prioritised proposed schemes into broad categories in line with the Council's agreed Asset Management Plan approach. Having done this, only the very highest priority schemes and programmes are being recommended for inclusion in the Capital Programme.

Other Unavoidable & Committed schemes

- 5.5 This category covers schemes which must proceed to ensure that the Council is not left open to legal sanction and includes items relating to health and safety issues, new legislation etc. Committed schemes also include those that have been started as part of the 2018/19 Capital Programme. Also included within this category are those schemes that were previously funded from the General Fund Revenue Account, but which by their nature could be legitimately capitalised, thereby reducing pressure on the revenue budget. Schemes in this category form the first call on the available capital resources.

Maintenance (Improvements and capitalised repairs)

- 5.6 A review has been made of the condition of the Council's property assets to arrive at an estimate of the outstanding maintenance works required. An assessment is made of the state of each building element and its repair priority with a condition rating and repair urgency as follows.

Definition of Condition Categories:	
A:	Good – Performing as intended and operating efficiently.
B:	Satisfactory – Performing as intended but showing minor deterioration.
C:	Poor – Showing major defects and/or not operating as intended.
D:	Bad – Life expired and/or serious risk of imminent failure.
Priority:	
1	Urgent works that will prevent immediate closure of premises and/or address an immediate high risk to the health and safety of the occupants and/or remedy a serious breach of legislation.
2	Essential work required within two years that will prevent serious deterioration of the fabric or services and/or address a medium risk to the health & safety of the occupants and/or a minor breach of the legislation.
3	Desirable work required within 3 to 5 years that will prevent deterioration of the fabric or services and/or address a low risk to the health & safety of the occupants and/or a minor breach of the legislation.
4	Long-term work required beyond a period of 5 years that will prevent deterioration of the fabric or services.

- 5.7 The figures below are based on the information held in the council's property management system. They have been adjusted to exclude those works that are already budgeted for within existing 2018/19 schools and corporate planned maintenance programmes.

The priorities can be broken down as follows:

Maintenance Backlog 2019/20			
		£	£
		(000)	(000)
Schools	Priority 1C & 1D	3,105	
	Priority 2C & 2D	16,042	
	Lower Priorities	30,530	49,677
Corporate Properties	Priority 1C & 1D	1,856	

	Priority 2C & 2D	3,964	
	Lower Priorities	6,131	11,951
Total			<u>61,628</u>

5.8 The overall maintenance liability has increased from £50.4m in 2018/19 to £61.6m. However, the increase is seen in the Schools portfolio and these figures are currently being reviewed and further testing carried out. There have been notable inflationary increases in the construction industry over the last few years. As the Council is now running a five year programme of condition surveys, some of the older data was quickly becoming out-of-date and, as a consequence, adjustments have been applied to that data to bring it up to date. Secondly, the nature of the condition surveys has evolved such that more emphasis is now given to predicting the need for works further in advance than was previously the case. This is partly because of the five year programme approach mentioned above and partly because the asset management package that is now used to manage this data lends itself to better recording. What this means is that much of the value attributed to lower priority works is for things that are likely to be required over the next several years. The exact time span varies from one item to the next. Because of the five year survey cycle, it has taken a while for the impact of these changes to manifest themselves. Finally, some buildings are deteriorating faster than they can be fixed with the funds that are typically available. In some cases, this means that the work required becomes more expensive the longer it is left unattended. In determining the amount of funding to be made available for maintenance, a balance needs to be struck between short-term affordability and longer-term costs that will arise if assets are allowed to deteriorate significantly.

Schools

5.9 The Schools Maintenance Programme is funded from the Capital Maintenance grant allocation from the Department for Education (DfE). Identified planned maintenance for 2019/20 will be drawn from building condition surveys carried out by the Council's Managing Partner Atkins Ltd and there is approximately £3.105m of Priority 1 (Urgent) planned maintenance works in schools on the current building condition surveys.

5.10 A Schools Planned Works Programme of £1.499m is being put forward based on the level of grant expected to be received from DfE. This includes Planned Maintenance, Fire Safety, Asbestos and Legionella works which is normally funded from DfE Schools Capital Maintenance Grant. The programme of works will be matched to the available budget.

Non-schools

5.11 In line with the policy adopted last year the Asset Management Group has considered only those works that fall within categories 1C and 1D. Given the financial constraints on both the revenue and capital budgets an allocation of £1.050m is recommended to address the most pressing 1C & 1D priorities. From an initial analysis of the work required it is clear that some works, whilst urgent, cannot be legitimately capitalised and must be met from a revenue budget. An allowance of £200,000 is available in the 2019/20 Revenue Budget proposals to meet these liabilities.

5.12 The implications of failing to maintain Council buildings and to address the backlog will be a significant issue for the Council over the coming years and efforts will be focussed on ensuring that the highest priority items are tackled first, that efficiencies are maximised in the procurement of works and that maintenance which will result in energy efficiencies are undertaken through the invest-to-save programme.

Rolling programmes

- 5.13 These programmes cover more than one year and give a degree of certainty for forward planning schemes to improve service delivery. They make an important contribution towards the Council's established Asset Management Plans.

Other Desirable Schemes

- 5.14 In addition to the schemes identified in the above categories, each service has requested funding for other high priority schemes that meet the needs and objectives of their service. The net cost of schemes which attract partial external funding are included in the schemes put forward.

Invest-To-Save Schemes

- 5.15 These are schemes where the additional revenue income or savings arising from their implementation exceeds the Council's borrowing costs. In the past the Council has allocated £1m per annum to fund potential Invest-to-Save (ITS) schemes that may present themselves during the year. Any unspent budget is not carried forward and as such a request is made each year to enable new schemes (below £0.4m) to be brought forward and approved by Corporate Management Team. There have been no schemes approved to date however a number of schemes are being reviewed and may come forward in the current financial year.

Capital Programme 2019/20 – 2021/22

- 5.16 A summary of the cost of new schemes proposed by Departments is set out in the table below and in Annex A. A detailed list of suggested schemes within the draft capital programme, together with a brief description of each project, for each service is included in Annexes B – E.
- 5.17 Total Council funding for schemes amounts to £13.751m. Of this total, schemes amounting to £7.7m have been committed in previous years and funding allowed for – the largest of these being the Heathlands project. As such new expenditure that will need to be met from the council's available funding sources amounts to £6.051m in 2019/20.

Capital Programme 2019/20-2021/22				
Annex	Service Area	2019/20 £000	2020/21 £000	2021/22 £000
B	Delivery	6,224	3,360	3,360
C	People	14,523	0	0
D	Central Directorates	4,140	1,120	920
E	Non Departmental	300	300	300
	Total Capital Programme	25,187	4,780	4,580
	less Externally Funded schemes	11,436	2,445	2,445
	Council Funded Programme	13,751	2,335	2,135
	Less Previously Committed schemes	7,700	0	0
	Total request for Council funding	6,051	2,335	2,135

Externally Funded Schemes

- 5.18 A number of external funding sources are also available to fund schemes within the capital programme. External support has been identified from two main sources:

Government Grants

A number of capital schemes attract specific grants. It is proposed that all such schemes should be included in the capital programme at the level of external funding that is available.

A significant element of the grant-funded capital programme relates to the planned investment in Schools. The schools investment programme included in this report reflects the highest priority schemes identified by the Department and the Education Capital Programme Board. However as a result in a change to the capital funding formula and the perceived relative need for school places in Bracknell compared to other areas of the country, the Council has received no Basic Needs Grant (BNG) in 2018/19 and is expecting a relatively small allocation in 2019/20 of £0.735m.

However the Council has clear need for investment in school places in the Borough and has identified a number of schemes that require funding in the coming years and are set out in Annex B. The available BNG will be applied to fund these schemes and the shortfall will be met from Council funding.

A second key constituent of capital grant funding relates to the Highway Maintenance and the Integrated Transport Block totalling £1.92m for 2019/20. A matched funding bid has also been accepted for the work on Downshire Way – this will attract grant of £2.29m to be matched with £0.2m of Council funding and developer contributions.

Section 106 (£1.025m)

Each year the Council enters into a number of agreements under Section 106 of the Town & Country Planning Act 1990 by which developers make a contribution towards the cost of providing facilities and infrastructure that may be required as a result of their development. Usually the monies are given for work in a particular area and/or for specific projects

Officers have identified a number of schemes that could be funded from Section 106 funds in 2019/20, where funding becomes available. These are summarised below

Department	Schemes	Budget
		<i>£000</i>
Central Directorates	Local Transport Plan	500
Delivery	Potential Leisure & Culture	125
Central Directorates	SANGS	150
People	Various School Schemes	250
	Total	1,025

On-going Revenue Costs

- 5.19 Schemes may have associated on-going revenue costs and tend to become payable in the year after implementation. As such will be included within the Council's Commitment Budget for 2019/20. These total £12,000 and relate to the licence and maintenance contracts associated with the new IT hardware investment.

Supplementary Capital Approval 2018/19 – Relocation of Education Centre

- 5.20 The Education Centre at Easthampstead Park Conference Centre provides a base for specialist advisors alongside a venue for meetings to both internal and external customers and a resource centre for schools offering books and learning resources. The lease disposal of the Conference Centre has necessitated the relocation of this service to the Open Learning Centre (OLC) by early April 2019. In order to facilitate this, it will be necessary to refurbish areas of the OLC and to invest in IT and furniture. Additional parking will also be needed to accommodate the increased levels of activity and meetings. The cost of these work will be £0.25m, which will be funded as a commitment against the capital receipt received from the sale of the Conference Centre. The Executive is asked to release this funding during the current year to enable the timetable to vacate the conference centre to be met. Alongside this work, an upgrade to the cafeteria and kitchens at the OLC is planned to create a learning kitchen to teach pupils with special needs life skills they need to be independent in adulthood and which can support them in employment. This work will be funded from the Special Provision Capital Fund grant..

Supplementary Capital Approval 2018/19 – Loan to South Hill Park Trust

- 5.21 The Council's Transformation review of the Arts resulted in the level of grant provided by the Council to SHP reducing gradually from 2017/18 to 2019/20. In order to assist the Trust in generating additional income from the facility, the Council approved in its 2017/18 capital programme funding for investment in the facility totalling £190,000. This would enable the final grant reduction of £75,000 in 2019/20 included in the Commitment Budget to be accommodated, recognising the potential to generate additional income. A further sum of £68,000 is now required for these improvement works, which the Trust has requested as a loan from the Council as soon as possible in order that the works can be completed. It is proposed that the Executive agrees to this, based on equal repayments at 6 monthly intervals over 20 years at nil interest rate. The Trust has also requested that the Council continues its historic practice of funding essential capital works required to the building for the time being, in order to enable it to build up sufficient reserves over the coming years to be able to afford them as they arise. No specific sum has been identified at this time for such works.

Capital Strategy

- 5.22 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:
- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

- 5.23 The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. This is attached in Annex G

Funding Options

- 5.24 The Council introduced CIL in April 2015. It is difficult to estimate the potential amount of CIL that will be generated as this will depend on the delivery of additional housing development in the Borough, which is to a large extent outside of the control of the authority. However based on the most recent housing trajectory estimates and knowledge of development schemes that will come forward in the next 18 months, it is estimated that £4m is an appropriate assumption for 2019/20.

- 5.25 The proposed capital programme for 2019/20 has been developed, therefore, on the assumption that it will be funded by a combination of approximately £5m of capital receipts (CIL and other miscellaneous property disposals), Government grants, other external contributions and borrowing. The financing costs associated with the Capital Programme have been provided for in the Council's revenue budget plans.
- 5.26 Any capital expenditure approved over and above capital receipts and external contributions will require the Council to borrow externally. The timing of this will depend on the level of surplus cash held by the Council which will be used in the first instance to fund the Capital Programme commitments. Any external borrowing will require a sum to be set aside Minimum Revenue Provision (MRP) in addition to an interest charge depending on the maturity of the loan.
- 5.27 Current long-term borrowing rates are approximately 2.75% and as such the programme as it stands will have a revenue impact of £0.014m in 2019/20 and a full –year ongoing impact of £0.029m in future years with regards to interest. The MRP charge reflects the life of individual assets that are being funded – the charge is not payable until the year after the assets come into being. The MRP charge in relation to the capital programme for 2019/20 is estimated to be £0.4m and will be charged in 2020/21.
- 5.28 Following the introduction of the Prudential Borrowing regime local authorities are able to determine the level of their own capital expenditure with regard only to affordability on the revenue account. In practice this represents the amount of borrowing they can afford to finance, and will necessitate taking a medium-term view of revenue income streams and capital investment needs.
- 5.29 To achieve its aim of ensuring that capital investment plans are affordable, prudent and sustainable, the Local Government Act requires all local authorities to set and keep under review a series of prudential indicators included in the CIPFA Prudential Code for Capital Finance in Local Authorities. The Capital Programme recommended in this report can be sustained and is within the prudential guidelines. Full Council will need to agree the prudential indicators for 2019/20 to 2021/22 in February 2019, alongside its consideration of the specific budget proposals for 2019/20 and the Council's medium-term financial prospects.
- 5.30 If any amendments are made to the capital programme, the revenue consequences will need to be adjusted accordingly. Executive Members will therefore need to consider the impact of the capital programme as part of the final revenue budget decisions. Members will need to carefully balance the level of the Capital Programme in future years against other revenue budget pressures and a thorough review, including the prioritisation of those schemes planned for 2020/21 onwards, will need to be undertaken during next summer.

6 ADVICE RECEIVED FROM STATUTORY AND OTHER OFFICERS

Borough Solicitor

- 6.1 The authorisation for incurring capital expenditure by local authorities is contained in the legislation covering the service areas. Controls on capital expenditure are contained in the Local Government Act 2003 and regulations made thereunder.

Borough Treasurer

- 6.2 The financial implications are contained within the report.

Equalities Impact Assessment

6.3 The Council's final budget proposals will potentially impact on all areas of the community. A detailed consultation process is planned in order to provide individuals and groups with the opportunity to comment on the draft proposals. This will ensure that in making final recommendations, the Executive can be made aware of the views of a broad section of residents and service users. Where necessary, impact assessments on specific schemes within the capital programme will be undertaken before work commences.

Strategic Risk Management Issues

6.4 The most significant risk facing the Council is the impact of the capital programme on the revenue budget. The scale of the Council's Capital Programme for 2019/20 will impact upon the revenue budget and will itself be subject to consultation over the coming weeks. All new spending on services will need to be funded from new capital receipts or borrowing. The generation of capital receipts in future years may mitigate the impact on the revenue budget, but as the timing and scale of these receipts is uncertain their impact is unlikely to be significant.

6.5 There are also a range of risks that are common to all capital projects which include:

- Tender prices exceeding the budget
- Planning issues and potential delays
- Uncertainty of external funding
- Building delays due to unavailability of materials or inclement weather
- Availability of staff with appropriate skills to implement schemes

6.6 These can be managed through the use of appropriate professional officers and following best practice in project management techniques. The report also identifies the risk associated with the shortfall in maintenance expenditure compared to that identified by the latest condition surveys. With only those highest priorities receiving funding in 2019/20, there will be a further build up in the maintenance backlog and a risk that the deterioration in Council assets will hamper the ability to deliver good services.

7 CONSULTATION

7.1 The Overview & Scrutiny Commission will be consulted on the budget proposals and may also choose to direct specific issues to individual overview and scrutiny panels. Targeted consultation exercises will be undertaken with business rate payers, the Schools Forum, town and parish councils and voluntary organisations. Comments and views will be sought on both the overall budget package and on the detailed budget proposals. In addition, this report and all the supporting information are publicly available to any individual or group who wish to comment on any proposal included within it. To facilitate this, the full budget package will be placed on the Council's web site at <http://consult.bracknell-forest.gov.uk/portal>. There will also be a dedicated mailbox to collect comments.

7.2 The timetable for the approval of the 2019/20 Budget is as follows.

Executive agree proposals as basis for consultation	18 December 2018
Consultation period	19 December 2018 - 30 January 2019
Executive considers representations made and recommends budget.	12 February 2019
Council considers Executive budget proposals	27 February 2019

Background Papers

None

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