

**TO: THE EXECUTIVE
23 FEBRUARY 2016**

**CAPITAL PROGRAMME 2016/2017 - 2018/2019
Borough Treasurer/Chief Executive**

1 PURPOSE OF DECISION

- 1.1 As part of the Council's financial and policy planning process, the Executive issued draft Capital Programme proposals for 2016/17 - 2018/19 for consultation on 16 December 2015. The main focus was inevitably departmental spending needs for 2016/17, although future year's schemes do also form an important part of the programme. This report sets out the proposed capital programme, following the consultation exercise, for consideration by the Executive prior to submission to the Council on 24th February 2016.
- 1.2 The revenue implications of the recommendations in this report are reflected in the subsequent report on the Council's revenue budget proposals. Any revisions to the proposals put forward for each service would also need to be reflected in the revenue budget report.

2 RECOMMENDATIONS

That the Executive:

2.1 Recommends to the Council

- a) General Fund capital funding of £59.983m for 2016/17 in respect of those schemes listed in Annexes A – E.**
- b) The inclusion of an additional budget of £1m for Invest to Save schemes.**
- c) The inclusion of £2.440m of expenditure to be funded from S106 as outlined in paragraph 5.33.**
- d) That those schemes that attract external grant funding are included within the Capital Programme at the level of funding received.**

2.2 Agrees that capital schemes that require external funding can only proceed once the Council is certain of receiving the grant.

2.3 Reviews the indicative programme for 2017/18 and 2018/19 in the light of resources available and spending priorities in December 2016.

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 three main sources:
- the Council's accumulated capital receipts
 - Government Grants
 - other external contributions
- 5.2 The Local Government Act 2003 brought in radical changes to the financing of capital expenditure and from that date, the Government no longer issued borrowing approvals. Instead, under a new "prudential framework", Councils can set their own borrowing limits based on the affordability of the debt.
- 5.3 As the Council's accumulated capital receipts have been fully utilised, the Council returned to a position of internal borrowing in 2010 and as such a revenue contribution is required each year to repay this internal borrowing. Once the Council's current level of investments is exhausted the Council will need to borrow externally.
- 5.4 The Council's estimated total usable capital receipts at 31st March 2016 are zero. As a debt free authority the Council is partly reliant on capital receipts to fund its capital programme, although interest generated from capital receipts can also help support the revenue budget in the short term. The Council still receives a share of any Right-To-Buy proceeds from Bracknell Forest Homes in addition to a share of capital receipts from the VAT Shelter scheme.
- 5.5 The proposed capital programme for 2016/17 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 £5m of capital receipts. With such a large programme there is a likelihood that the Council may need to borrow externally however this will depend largely on the progress made at Binfield Learning Village, Coral Reef and the availability of cash balances held throughout the year. Internal resources will be used in the first instance and borrowing from external sources (eg the PWLB or the Green Investment Bank) will be used 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

- 5.6 Within the general financial framework outlined above, Service Departments have considered new schemes for inclusion within the Council's Capital Programme for 2016/17 – 2018/19. 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 Asset Management Plan. Having done this, only the very highest priority schemes and programmes are being recommended for inclusion in the Capital Programme.

Town Centre

- 5.7 Following the conclusion of the Development Agreement with Bracknell Regeneration Partnership (BRP) in January 2015 the Council set out its own planned investment on wider Town Centre infrastructure as part of the 2015/16 Capital Programme. These investment plans follow through into 2016/17 and

beyond and are an essential investment in the future development and economic prosperity of the Borough.

- 5.8 Similarly in order to facilitate transport movements around the Borough, including the planned Town Centre redevelopment, it is necessary to continue to fund a number of town centre highway works and infrastructure schemes. As such a funding need of £2.0m has been identified in the 2016/17 proposals with further commitments required in future years to ensure that the regenerated town centre functions as a “whole centre” and not just as an isolated shopping outlet. As such spending levels of around £2m per annum are likely to be required until the new Northern Retail Quarter area is open and, importantly, established for trading. This additional expenditure is aimed at maximising the positive experience of visiting the regenerated town centre and of promoting further investment in the Borough.
- 5.9 All of these items have a much wider impact than the new development itself and will benefit the whole Borough. However the expenditure needs to be co-ordinated with the specific work that BRP are planning to carry out.

Binfield Learning Village

- 5.10 The Binfield Learning Village is a priority for the Council, as without it there will not be enough school places for young people who live in the Borough. The programme will deliver statutory places required in the Borough alongside meeting the need for new housing and the associated community facilities. The plans for the development continue to be progressed and the main construction works will shortly be tendered in the market and an update will be provided once these have been evaluated. The figures included in the Capital Programme are based on the initial estimates and are prior to the addition of inflation which it was always recognised would be calculated from the time of the original estimates to the date of the contract award. With the heightened level of demand for construction in the South East of England over the last 24 months this could add up to 15% to the final cost, which was recognised when Members agreed to proceed with the scheme.

Coral Reef Transformation

- 5.11 The main roof structures at Coral Reef are complex and have required extensive monitoring and maintenance for the latter part of its life. The contracts for the main works to replace the roof are currently out to tender and the evaluation will be reviewed by Executive later in 2016. The figures included in the Capital Programme, based on initial estimates, are prior to the addition of inflation which it was always recognised would be calculated from the time of the original estimates in Quarter 1 2014 up to the date of the contract award. As noted above this could add up to 15% to the final budgeted cost which was recognised when Members agreed to proceed with the scheme and will be agreed once the tendered bids have been evaluated.

Old Magistrates' Court Property

- 5.12 Funding is requested to acquire the former magistrates' court at £650,000 for the freehold premises. The Council is seeking to acquire this site to join with its own holdings for a significant and comprehensive future phase to support the development and vitality of the new town centre. There will be limited provision for some claw-back if sold/developed within 3 years, but this is unlikely to happen. Funding for this request also includes legal costs (£15,000), stamp-duty (£35,000) and refurbishment costs (£75,000) needed if the property is to be used pending any future redevelopment.

Other Unavoidable & Committed schemes

- 5.13 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 2015/16 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.
- 5.14 Within these categories, provision has been made to address the rolling programme of disabled access requirements to Council buildings (£0.035m). The works have been identified through independent access audits and have been prioritised to meet the needs of users of these buildings. Significant progress has been made in past years and a programme of works has been planned across a range of service areas.

Maintenance (Improvements and capitalised repairs)

- 5.15 An assessment 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. Works categorised as 1C and 1D include those that are deemed to be in a poor or bad condition and where there is a need to undertake urgent maintenance.
- 5.16 The figures below are based on the information held in the Construction and Maintenance Groups' property management system. They have been adjusted to exclude those works that are already budgeted for within existing 2015/16 schools and corporate planned maintenance programmes.

The priorities can be broken down as follows:

Maintenance Backlog

		£ (000)	£ (000)
Schools	Priority 1C & 1D	4,799	
	Priority 2C & 2D	8,919	
	Lower Priorities	22,600	36,318
Corporate Properties	Priority 1C & 1D	1,677	
	Priority 2C & 2D	4,187	
	Lower Priorities	10,300	16,164
Total		<u>10,300</u>	<u>52,482</u>

Schools

- 5.17 Historically the Schools Maintenance Programme has been funded from the Capital Maintenance grant allocation from the Department for Education (DfE). The allocation from the DfE for 2016/17 of £2.105m will be used to tackle the highest priority items identified in the condition surveys indicated above.

Non-schools

- 5.18 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 2016/17 Revenue Budget proposals to meet these liabilities.

- 5.19 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 current financial constraints on both the revenue and capital budgets an allocation of £1.670m is recommended to address the most pressing 1C & 1D works whilst accepting that this will not meet all of the Council's immediate backlog needs but places a focus on tackling the highest priority items first. The implications of not meeting all of these priorities due to budget constraints are likely to be seen in later years with a greater risk of more extensive repairs needed to rectify maintenance issues.

Rolling programmes

- 5.20 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

- 5.21 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

- 5.22 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. However in addition to this, two significant schemes have come forward that are best considered within the overall programme as a whole. These are to invest £1m on a new Chapel at the Cemetery and Crematorium and to redevelop the Waymead Flats at a cost of £0.580m creating additional emergency accommodation for care leavers.

Additional Chapel

- 5.23 Over the past five years, business at the Cemetery and Crematorium has grown significantly at the expense of local competitors. This growth is believed to be largely due to the investment, attractiveness of the site and the attitude of the staff. All of the feedback received from funeral directors confirms that they are promoting Easthampstead Park Cemetery and Crematorium as their preferred facility. A second chapel could potentially double capacity and generate income to recover the capital investment and deliver future additional income. A feasibility report has been commissioned and an operationally acceptable solution has been devised and costed. The proposal includes for additional car parking with the minimal visual impact to the grounds. The estimated cost would be £1m.
- 5.24 It is believed that demand for the facility will increase both as a result of population growth and the diminishing burial plots as local churchyards reach capacity. In order to fund the investment, a net income stream of approximately £67,000 per annum will be required based on a 25 year life and current interest rates for a 25-year loan of 3.5%. Based on past performance and future demand it is believed this level of additional cremations can be easily met. Annual running costs of the Chapel are estimated to be in the region of £60,000 and include Business Rates (£16,000), Utilities (£10,000), Staffing (£24,000), Cleaning (£5,000) and miscellaneous expenditure (£5,000). To fund this level of net income an additional 15 cremations a month would need to be undertaken generating income of £127,000 per annum.

5.25 The existing Chapel is currently supporting up to 150 cremations a month and as such there is scope to increase the net income from the new facility in future years. Any additional income over and above that needed to payback the initial investment will be used to support the budget savings required by the Council over the medium-term and will be monitored as part of the Council's normal budget monitoring processes.

Waymead Flats

5.26 Waymead Flats is currently void and a plan is proposed to refurbish the property in order to provide accommodation for a supported housing group (Care Leavers) which in turn will generate revenue savings for the Council. Through a combination of rental income and savings in the current budget for care leavers accommodation an Invest-to-Save bid can be successfully developed that will bring back into use Waymead Flats as a viable asset and improve the level of service provided by the Council. In addition, by working closely with a Registered Social Landlord who will take a long-lease of the newly refurbished Waymead Flats, this proposal offers the opportunity of developing an additional site for redevelopment.

5.27 These two schemes are proposed for inclusion within the Council's 2016/17 Capital Programme and a further £1m made available for opportunities that arise during the year.

Changes since Consultation

5.28 The schools programme continues to be reviewed and prioritised reflecting progress on existing schemes and the most effective timing of the future programme. The 3-year programme has been updated to reflect this. The Council also secured an additional £2m from the Local Enterprise Partnership to be spent on Town Centre Infrastructure works as part of the redevelopment. These changes have been reflected in the external financing section.

5.29 The Executive agreed on 9th February 2016 to support the purchase of a local commercial investment property to provide a revenue income stream to support the Council's budget. An amount of £4.5m has been added to the overall programme to cover the full costs of this acquisition with the assumption that the financing costs will be met from the rental income of the property and the net surplus be used to support the revenue budget.

5.30 A request for additional funding for Downshire Homes has come forward during the consultation period. The Downshire Homes Board has been reviewing its business plan in light of the current housing market which has seen property prices increase beyond that modelled in the original business plan. Consequently Downshire Homes has now requested an additional £446,000 in loan finance. The Board believes the business case remains viable with this additional funding and the savings that the Council would stand to make by avoiding bed and breakfast costs would also be unchanged.

5.31 The Council's initial budget proposals were published for consultation ahead of the Local Government Finance Settlement. The Settlement included previously unannounced changes to the distribution of resources amongst authorities depending on the different sets of services provided by them and their relative ability to raise income through council tax locally. This has had a significant detrimental effect on the level of central government funding that the Council had been expecting. The impact of these changes is dealt with in a separate report on tonight's agenda. The report considers, subject to consultation, reducing

expenditure on a number of schemes and reviewing the scope, timing and financing of others.

Capital Programme 2016/17 – 2018/19

- 5.32 A summary of the cost of 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 – F. Total Council funding amounts to £59.983m.

Capital Programme 2016/17-2018/19				
Annex	Service Area	2016/17 £000	2017/18 £000	2018/19 £000
B	Adult Social Care, Health & Housing	9,673	500	0
C	Children, Young People & Learning	36,813	21,864	2,250
D	Corporate Services	4,665	0	0
E	Council Wide	6,493	3,780	2,144
F	Environment Culture & Communities	22,185	12,606	6,509
	Total Capital Programme	79,829	38,750	10,903
	Externally Funded	19,846	16,201	4,414
	Total request for Council funding	59,983	22,549	6,489

Externally Funded Schemes

- 5.33 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. Excluding Binfield Learning Village, the total identified investment for Schools is £12.462m.

A second key constituent of capital grant funding relates to the Highway Maintenance and Integrated Transport Block. Grant approvals of £2.28m are currently anticipated for 2016/17.

Section 106 (£2.440m)

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. The total money available at present, which is not

financially committed to specific projects, is £3.8m, although conditions restricting its use will apply to almost all of this.

Officers have identified a number of schemes that could proceed in 2016/17, where S106 funding becomes available. These are summarised below

Department	Schemes	Budget
		<i>£000</i>
ASCHH	Affordable Housing	501
CYPL	Various School Schemes	949
ECC	Leisure & Culture	125
ECC	Local Transport Plan	865
	Total	2,440

The level of new funding available through Section 106 is expected to reduce in the future following the introduction of the Community Infrastructure Levy (CIL). However the more flexible CIL funding should offset this reduction.

On-going Revenue Costs

- 5.34 Schemes may have associated on-going revenue costs and tend to become payable in the year after implementation. As such these costs will be included within the Council's Commitment Budget for 2016/17. These total £36,000 and relate to the licence and maintenance contracts associated with the new IT hardware investment.

Funding Options

- 5.35 Following the transfer of the housing stock in 2008, the Council's capital receipts are limited to miscellaneous asset sales, the contribution from the VAT Shelter Scheme and Right-to-Buy claw back agreed as part of the transfer and the new Community Infrastructure Levy (CIL).
- 5.36 The Council introduced CIL in April 2015 and it is expected that this will begin to generate capital receipts in the latter half of 2015/16. 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 £2m is an appropriate assumption for 2016/17.
- 5.37 The Council will also be bringing forward the sale of land at Sandy Lane during 2016/17. The aim is to market the land with the benefit of outline planning permission which should maximise the potential receipt. However this will increase the time taken to dispose of the site and at this stage it is not certain that this can be achieved in 2016/17, as such it has been excluded from the projected value of receipts in 2016/17 but factored into future years. It is also hoped that other small scale miscellaneous receipts will arise over the year.
- 5.38 The proposed capital programme for 2016/17 has been developed, therefore, on the assumption that it will be funded by a combination of £5m of capital receipts, Government grants, other external contributions and borrowing. The financing costs associated with the cash-profiled Capital Programme have been provided for in the Council's revenue budget plans. Should any additional capital receipts be generated in 2016/17 these will be used to mitigate the revenue cost of the capital programme.
- 5.39 Given the level of investment proposed in 2016/17, in particular Binfield Learning Village and Coral Reef, it is inevitable that the Council will be required to borrow

externally over the short-to-medium term. 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.

- 5.40 The use of Council's cash-balances is known as internal borrowing and the Capital Finance regulations require the Council, through the General Fund, to set aside an amount, the Minimum Revenue Provision (MRP), which would be broadly equivalent to the amount the Council would need to re-pay if it borrowed externally. Any external borrowing will also require MRP in addition to an interest charge depending on the maturity of the loan.
- 5.41 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.
- 5.42 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.
- 5.43 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 2016/17 to 2018/19 in February 2016, alongside its consideration of the specific budget proposals for 2016/17 and the Council's medium-term financial prospects.
- 5.44 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 2017/18 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 budget proposals impact on a wide range of services. A detailed consultation was undertaken on the draft budget proposals published in December to provide individuals and groups the opportunity to provide comments. 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. All new spending on services will need to be funded from

new capital receipts or borrowing from internal resources whilst these are available. The Council still has substantial cash resources, but with interest rates so low they do not contribute significantly to the Council's revenue budget however they do enable the Council to avoid borrowing in the external market (where interest rates are in excess of 3%). The financing costs associated with the Capital Programme reflect this. This effect is compounded by future year's capital programmes. As revenue resources are limited it is clear that a capital programme of this magnitude may not be sustainable in the medium term. 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.

7 CONSULTATION

- 7.1 See the General Fund Revenue Budget 2016/17 report on tonight's agenda outlining the results of the budget consultation

Background Papers

None

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