*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 7

TITLE OF REPORT: ITEM REFERRED FROM CABINET: 26 JANUARY 2016 – CAPITAL PROGRAMME 2016/17 ONWARDS

The following is an extract from the Draft Minutes of the Cabinet meeting held on 26 January 2016.

104. CAPITAL PROGRAMME 2016/17 ONWARDS

The Executive Member for Finance and IT presented the report of the Strategic Director of Finance, Policy and Governance in respect of the proposed Capital Programme 2016/17 onwards. The following appendices were submitted with the report:

Appendix A - Capital Programme Summary;
Appendix B - Capital Programme Detail; and
Appendix C - Capital Investment Proposals for 2016/17 and onwards.

The Executive Member for Finance and IT advised that the estimated capital spend in 2016/17 was £8.35million, including £550,000 of new Capital Investment Proposals. The total capital spend to 2019/20 was estimated at nearly £20million.

The Executive Member for Finance and IT stated that the Council would be asked to consider a Capitalisation Direction to allow payment of a lump sum of up to £2.5million to the Pension Fund to avoid the increased revenue contributions that would be required in coming years.

The Executive Member for Finance and IT explained that the Capital Programme was funded by a contribution of third party contributions (eg. Section 106 and grants), Government grants, revenue contributions, prudential borrowing and useable and set aside capital receipts. From 2016/17 to 2019/20 the total useable and set aside capital receipts would be £17.625million. Approved disposals during 2016/17 were expected to generate £3.5million.

In the light of the provisional Finance Settlement, the Executive Member for Finance and IT would be requesting fellow Executive Members to re-examine their respective elements of the Capital Programme, in order to ascertain the revenue implications of each project. Executive Members would also be asked to ascertain whether there were sufficient resources to undertake each scheme.

RECOMMENDED TO COUNCIL:

(1) That the inclusion of all the capital investment proposals, listed in Appendix C of the report, which total £13.043million overall (£3.293million profiled in 2016/17) in the proposed Capital Programme, be approved;

(2) That the provisional Capital Programme for 2016/17 to 2019/20 of £19.4million, as detailed at Appendix A and Appendix B of the report, be adopted; and

(3) That authority be delegated to the Strategic Director of Finance, Policy and Governance, in consultation with the Executive Member for Finance and IT, to seek a capitalisation direction of up to £2.5million to enable a contribution to be made to the Pension fund as soon as possible to improve the revenue position of the General Fund.

REASON FOR DECISION: To ensure that the Capital Programme meets the Council's objectives and officers can plan the implementation of the approved schemes.

The following is the report considered by Cabinet at its meeting held on 26 January 2016 (Note: the appendices have been revised to take account of the revised information set out in the addendum report – Item 7A)

TITLE OF REPORT: CAPITAL PROGRAMME 2016/17 ONWARDS

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

1. SUMMARY

1.1 To obtain Cabinet's approval for the provisional capital programme for 2016/17 to 2019/20.

2. RECOMMENDATIONS

2.1 That Cabinet approves the inclusion of all the capital investment proposals, listed in Appendix C, which total £13.043million overall (£3.293million profiled in 2016/17) in the proposed capital programme.

2.2 That Cabinet recommends the provisional capital programme for 2016/17 to 2019/20 of £19.4million, as detailed at Appendix A and Appendix B, to Council for adoption.

2.3 That Cabinet recommends to Council that authority be delegated to the Strategic Director of Finance Policy & Governance in consultation with the Executive Member for Finance and IT to seek a capitalisation direction of up to £2.5m to enable a contribution to be made to the Pension fund as soon as possible to improve the revenue position of the General fund.

3. REASONS FOR RECOMMENDATIONS

3.1 To ensure that the capital programme meets the Council's objectives and officers can plan the implementation of the approved schemes.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Each proposed capital scheme is the result of consideration of options for continuous service improvement by the relevant Head of Service in consultation with the relevant Portfolio Holder.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1 All Members were given opportunity to comment on the Capital investment proposals at Member Budget Workshops held in November 2015. Notes of the comments and questions raised at the workshops were provided to Cabinet in December.

5.2 Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

6. FORWARD PLAN

6.1 This Report contains a recommendation on a key decision to be taken by Council on 11 February 2016 that was first notified to the public in the Forward Plan on the 29 October 2015.

7. BACKGROUND

7.1 The Corporate Business Planning Process begins each year with consideration of policy priorities and the Council's Priorities for the District and a review of the Medium Term Financial Strategy. Finance and other resources are aligned to the strategic priorities as set out in the Priorities document. This requires that each proposal for additional investment is linked to one of the three priorities identified in the Priorities document.

7.2 The December meeting received the capital programme estimates, as at the end of the second quarter of 2015/16, and also received the further capital investment proposals as part of the annual Corporate Business planning process.

7.3 The 2015/16 second quarter monitoring report advised Members of a reduction of £1.558million in the projected expenditure in 2015/16 to £10.798million. This reduction in spend was partly due to £1.539million of revisions in the timing in completion of schemes, leading to re-profiling into future years and partly due to a net decrease in the expected spend on existing schemes of £19,000.

7.4 The second quarter report also provided a reminder that the capital programme will need to remain permanently under close review due to the limited availability of useable capital receipts and the affordability in the general fund of the cost of using Council's set aside capital receipts.

8. ISSUES

Capital Programme 2016/17and onwards

8.1 The strategic summary in Appendix A aligns the capital programme to a Council priority whilst also demonstrating the overall funding position year on year. The scheme by scheme detail is shown in Appendix B. The estimated capital spend in 2016/17 is £8.349million and includes the £0.540million of new proposed investment schemes bought forward in the 2016/17 Corporate Business Planning process and listed in appendix C. The total estimated capital spend over the period 2016/17 to 2019/20 is £19.4million.

8.3 The new capital investment proposals detailed in Appendix C (those not highlighted in bold) total an investment of £1.29million over the period 2016/17 to 2019/20. All proposals have been linked to Council priorities.

8.4 In addition to the proposals already listed in the programme, the Council may wish to consider either seeking a Capitalisation Direction to allow payment of a lump sum of up to £2.5m to the Pension Fund in advance of the next triennial revaluation to avoid the increased Revenue contributions that will be required from 2017/18 (£558K and then a further £100K in subsequent years) or making a revenue contribution from General Fund reserves. A similar contribution was made following the 2013 revaluation. Such a contribution benefits the Council in two ways. Firstly, it improves the funding position on the pension fund which helps to keep base contribution rates down and that fund earns interest at rates higher than the Council can achieve on its set aside funds and secondly by reducing the deficit on the fund, it means that the amount of interest that has to be paid to the fund on that deficit is reduced.

8.5 The triennial valuation will be completed in March 2016 and resulting revised payments become due from April 2017. The Actuaries have provided an indicative position to assist with budgeting and whilst they estimate that the overall funding position of the North Hertfordshire share of the fund has improved slightly to 77% from 75% thanks to the lump sum contribution made in 2014, they anticipate that there will still be a deficit which will require additional payments of around £650k per annum from 2017/18. Making a capital contribution would maintain contributions at existing levels and has the added advantage that the Council's lump sum investment benefits from the higher investment returns of the fund which has returned 17.3% over the last two and a half years, far outstripping anything the Council can achieve.

8.6 The impact on the general fund of using reserves to pay for capital investment has been considered as part of the general fund budget estimates. The new capital investment proposals are summarised into the following headings:

- Those that are "invest to save". These proposals follow the principle agreed in the Medium Term Financial Strategy to look for ways of investing capital resources in order to save on running costs in the general fund.
- Those that relate to investment in the Leisure Centres.
- Those for general asset management.
- Those to re-prioritise the on-going commitment to provide grants to third parties.
- Those that are to deliver the action plans of the Green Space Strategy.
- Those that relate to investment in the provision of car parks, and
- Those for investment in IT infrastructure.

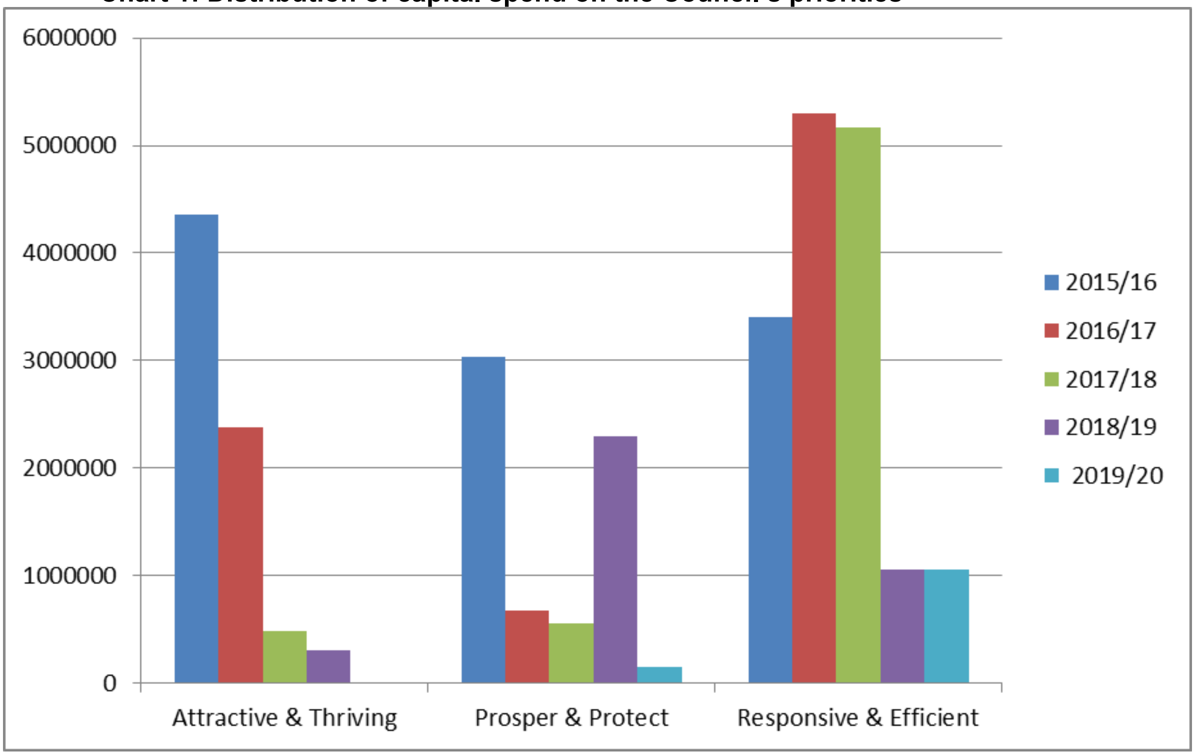
Link to the Council's three priorities

8.6 The Council has adopted high level priorities for 2016/17 and onwards. These are:

- Attractive & Thriving;
- Prosper & Protect; and
- Responsive & Efficient.

8.7 The capital programme includes a total investment in these three priorities, over the period 2016/17 to 2019/20, of £19.4million. This is demonstrated in Chart 1.

Chart 1: Distribution of capital spend on the Council's priorities



Capital Programme Funding 2015/16 and onwards

8.8 The capital programme can be funded by a combination of third party contributions (e.g. S106 and grants), government grants, revenue contributions, prudential borrowing and useable and set aside capital receipts. The estimated intended funding source for the capital programme is shown in Appendix A.

8.9 The largest assumed source of funding is through the use of Council resources, either via useable capital receipts or set aside capital receipts. The impact of using set aside receipts (which are not replenished with more receipts) is to reduce the amount of cash available for investment. There is, therefore, a general fund cost resulting from capital expenditure which is funded by this means, as the amount of interest received on investments reduces. Over the period 2016/17 to 2019/20 the total demand on useable and set aside capital receipts is estimated to be £17.625million. At an average interest rate of say, 1%, this money would have generated the general fund approximately £176k per annum. Each capital scheme must be individually assessed on its own merits and business case but the overall affordability of the capital programme must also remain under review. This is done by reviewing the Capital Financing Requirement in the Treasury Strategy and making sure an appropriate level of adjustment is reflected in the general fund estimates.

8.10 The availability of third party contributions and grants to fund capital investment is continuously sought in order to alleviate pressure on the Council's available capital receipts and allow for further investment. In 2016/17 a total of £1.0million of third party contributions and grants is expected to be applied.

Asset Disposals

8.11 A number of assets have been identified for disposal via the asset management plan and it is anticipated that the Council will complete disposals during 2016/17 and 2017/18 which will generate receipts of around £3.75million. The new freedom announced in the Finance Settlement to allow new capital receipts to be used for one-off revenue purposes to support transformation and efficiency projects will also be considered as receipts become available.

9. LEGAL IMPLICATIONS

9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering the capital programme and its impact upon the revenue budget Cabinet is able to make informed recommendations on the budget to Council.

9.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

10.1 The main financial implications are covered in section 8 of the report. The Authority can call upon borrowing or the disposal of its non-core assets if needed and if considered affordable.

10.2 The Authority operates a 10% tolerance limit on capital projects and on this basis over the next four-year programme (2016/17 - 2019/20) it should be anticipated that the total spend over the period could be £1.9million higher than the estimated £19.4million. The authority will need to continuously review the affordability of the capital programme in the light of the asset disposal programme, availability of third party funds and impact on the general fund, including the on-going revenue liabilities arising from new capital schemes. The asset disposal programme has to be carefully reviewed in the light of market conditions while considering the demands for resources from the capital programme.

11. RISK IMPLICATIONS

11.1 Capital investment is sometimes needed to mitigate against a risk to the Council. This should be detailed to Members when a new investment comes forward (see the anticipated impact column on Appendix C).

11.2 The risk implications of each individual scheme are considered in project plans as the schemes are progressed.

11.3 The capital programme assumes a level of third party contributions and grants towards the cost of the schemes. There is a risk that not all the contributions are forthcoming. For example, the estimates anticipated a contribution of £490k towards the North Hertfordshire Museum and Community Facility at Hitchin Town Hall from Hitchin Town Hall Ltd.

12. EQUALITIES IMPLICATIONS

12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.3 There are no direct equalities implications directly arising from the adoption of the Capital Programme for 2016/17. Individual schemes and business plans will be reviewed to ensure they align with equalities legislation as schemes come to fruition; any which exceed £50k in value or benefit more than two wards will be subject to equality analysis which will accompany project proposals.

13. SOCIAL VALUE IMPLICATIONS

13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual capital scheme which is subject to the award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no direct human resource or employee equality implications.

15. APPENDICES

15.1 Appendix A - Capital Programme Summary.
Appendix B - Capital Programme Detail.
Appendix C - Capital Investment Proposals for 2016/17 and onwards.

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17. BACKGROUND PAPERS

Addendum To Item 8 Corporate Business Planning – Budget 2014/15 (28 January 2014) – Pension Fund capitalisation.