

**SUBJECT: CAPITAL BUDGET PROPOSALS 2016/17 TO 2019/20**

**MEETING: Cabinet**

**DATE: 2<sup>nd</sup> December 2015**

**DIVISION/WARDS AFFECTED: Countywide**

**1. PURPOSE:**

1.1 To outline the proposed capital budget for 2016/17 and the indicative capital budgets for the three years 2017/18 to 2019/20.

**2. RECOMMENDATIONS:**

- 2.1 That Cabinet issues its draft capital budget proposals for 2016/17 to 2019/20 for consultation purposes as set out and referred to in Appendix 2.
- 2.2 That Cabinet affirms the capital strategy, which seeks to work towards a financially sustainable core capital programme without recourse to further prudential borrowing or use of capital receipts so that these resources can be directed towards the Council's priority of 21<sup>st</sup> Century Schools Programme, whilst recognizing the risks associated with this approach.
- 2.3 That Cabinet approves the revised budget allocations on 21<sup>st</sup> century schools as outlined in paragraph 3.3
- 2.4 That Cabinet reviews the priorities in the Capital programme in the light of the issues raised in 3.6 and other demands for capital resources
- 2.5 That Cabinet reaffirms the principle that new schemes can only be added to the programme if the business case demonstrates that they are self financing or the scheme is deemed a higher priority than current schemes in the programme and therefore displaces it.
- 2.6 That Cabinet agrees to maximize the use of capital receipts when received to fund the capital programme (therefore reducing the need to borrow) and/or set aside to repay debt as outlined in paragraph 3.9.

- 2.7 That Cabinet agrees to the sale of the assets in accordance with the Asset Management Plan and identified in the exempt background paper in order to support the capital programme, and that once agreed, no further options are considered for these assets.

### 3. KEY ISSUES:

#### **Capital budget strategy**

- 3.1 The capital MTFP strategy put in place in the face of an ever reducing resource base from Welsh Government has been reviewed. The strategy going forward has the following key components:

- The core MTFP capital programme needs to be financially sustainable without drawing on further funding.
- Match funding has been identified for the Council's priority of 21<sup>st</sup> century schools (currently estimated at £40 million).
- Budgets for Disabled Facilities Grants and Access for all schemes will be maintained in line with the Council's priority of protecting services to vulnerable adults and children.
- No inflation increases will be applied to any of the capital programme with property maintenance budget and Infrastructure maintenance budget set at the same level as last year
- The County farms maintenance and reinvestment programme is based on the revised asset management plan for County farms, supported by the latest condition survey data
- Budget for Area Management of £20k in the programme could be further reduced or cut in the face of other pressures
- £1m unsupported prudential borrowing per annum has been contained in the programme for a number of years and this will continue in the current 4 year programme
- The capital MTFP currently projects no increase in supported borrowing for 2016/17 onwards (provisional settlement due in Dec 2015)
- Use of the capital investment reserve to ease the transition to a balanced budget
- Budget to enhance or prepare assets for sale will be maintained and funded through the capital receipt regeneration reserve in order to maximize this funding stream for the 21<sup>st</sup> century schools programme priority

#### **Capital MTFP issues**

- 3.2 The four year capital programme is reviewed annually and updated to take account of any new information that is relevant.
- 3.3 The major component of the capital MTFP for the next few years is the 21<sup>st</sup> century schools programme, and since the Council approved the budgets for this programme on 16<sup>th</sup> July 2014, considerable work has been undertaken to enable the various projects to move forward with WG funding. A subsequent report on the Pool at Monmouth, approved a budget of up to £5.168 million at Council on 25<sup>th</sup> June 2015, with £4 million funded within the 21<sup>st</sup> century schools budget, leaving an additional £1.168 to be funded by MCC. The allocation of budgets within the original £81.5 million programme (including £2 million for feasibility) plus the £1.168 million additional for the pool are now as follows:

<b>Scheme</b>	<b>Council Approved</b>	<b>Revised budgets</b>
Monmouth Comprehensive school	£36,900,000	£41,102,475
Additional leisure funded aspect of Monmouth Pool	£1,168,000	£1,168,000
Caldicot Comprehensive school	£31,500,000	£35,093,130
Welsh Medium Secondary schools	£5,000,000	£1,000,000
Raglan Voluntary controlled Primary	£4,700,000	£4,551,000
Primary schools	£3,400,000	£0
Virement from Dewstow School	£246,605	£0
<b>Total</b>	<b>£82,914,605</b>	<b>£82,914,605</b>

The revisions to the budgets as shown above need formal approval and as such recommendation 2.3 has been included in this report.

- 3.4 The strategy that has previously been set, that links with the AMP, delivers 21<sup>st</sup> century schools and enables the programme to be balanced, already has significant risk associated with it. Cabinet have previously accepted this risk. The issues identified below, however add another layer to the level of risk and pressure on the capital MTFP and therefore need to be carefully considered.
- 3.5 The current policy is that new schemes can only be added to the programme if the business case demonstrates that they are self financing or the scheme is deemed a higher priority than current schemes in the programme and therefore displaces it.
- 3.6 The following issues have been identified:
- Potential projected overspend on 21<sup>st</sup> century schools programme due to inflation of costs in the construction industry – the exact amount will not be known until tenders are received but indications are that the overspend could be in the region of circa £3.5 million. The authority is in discussion with Welsh government about additional funding and is seeking every possible option for reducing the level and impact of any possible overspend. Further reports will be necessary should the overspend be confirmed.
  - Capital investment required to deliver revenue savings – this is principally in the area of office accommodation and looking at alternative delivery models for leisure and culture, and possibly Additional Learning needs. The level of investment is currently being assessed however, in accordance with the principle already set above, if the schemes are not going to displace anything already in the programme then the cost of any additional borrowing will need to be netted off the saving to be made
  - Abergavenny cattle market receipt – there is limited time left for Morrisons to build out the site, the deadline is May 2016. Morrisons have confirmed they are committed to the site and discussions are on going.
  - Allocation of funding previously identified for Abergavenny library – there is a report elsewhere on the agenda that allocates some of this funding. Given the pressures on the capital budget consideration of the priority of committing to these schemes in advance of the Abergavenny receipt being received need to be considered.
  - Additional pressures from withdrawing from buildings in Usk and having to reinstate them – possible £200k, this would need to be funded by displacing current projects in the programme.
  - The IT reserve is depleted so funding for new IT investment is limited. Any additional IT schemes will need to either be able to pay for themselves or displace other schemes in the programme.
  - City Deal – 10 Authorities in the Cardiff City region are looking at a potential £1.2 billion City Deal, this is still at the very early stages of development, but any agreement would impact on the capital MTFP and would need to be considered when more detail is known.
  - Circuit of Wales – the Authority has been approached to look at possibly engaging in this scheme in Blaenau Gwent, this is still at the very early stages of development but may impact on the capital MTFP, if the Authority decides to commit to this project.
  - Long list of back log pressures – infrastructure, property, DDA work, Public rights of way, and DFGs outlined in Appendix 1. None of these pressures are included in the current capital MTFP, but this carries with it a considerable risk.

## **Available capital resources**

- 3.7 The capital strategy identified above establishes that the core programme will not increase so that available funding can be prioritised for the 21<sup>st</sup> Century Schools Programme.
- 3.8 In light of the current pressures on the Authority's medium-term revenue budget, and the principles on which any prudential borrowing must be taken of affordability, prudence and sustainability, the use of prudential borrowing for the 21<sup>st</sup> Century Schools Programme has been carefully assessed.
- 3.9 Given the altered profile of expenditure on 21<sup>st</sup> century schools and the balance of receipts available in 2015/16, the use of receipts to fund the programme has been maximized in 2015/16 to reduce the impact of the cost of borrowing on the revenue budget. In addition the decision to set aside receipts to repay debt that was originally profiled in 2016/17 has been brought forward to the current year. The Recovery Plan elsewhere on this agenda identifies the beneficial impact on the revenue budget. The table below illustrates the balance on the useable capital receipts reserve over the period 2015/16 to 2019/20 taking into account capital receipts forecasts provided by Estates and revised balances drawn to finance the existing programme. The Council still needs to continue to make a concerted effort to maximize its capital receipts generation over the next few years. Further opportunities to set aside capital receipts to repay debt have been modelled for 2016/17 and 2017/18, however this is dependent on significant asset sales taking place and the profile of expenditure in the relevant years. Further detail is provided in Appendix 4.

<b><u>GENERAL RECEIPTS</u></b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance as at 31st March</b>	<b>6,306</b>	<b>18,151</b>	<b>6,452</b>	<b>3,985</b>	<b>3,481</b>

- 3.10 The above table illustrates that the capital receipts balance is set to reduce over the MTFP. This is dependent on the capital receipts forecasts provided materializing which in itself is a significant risk, then being used to fund the capital programme. Experience suggests that there is often significant slippage in gaining receipts which may be due to factors outside the control of the Authority. The risk assessment on the receipts projected is contained in Appendix 5. It is crucial that once assets are identified and approved for sale that this decision is acted upon. Exploration of any alternative use of surplus assets needs to be undertaken before Council approves them for sale in order to assist in the capital planning process.
- 3.11 Opportunities to generate further receipts and funding streams in line with the AMP are continuously being sought, these are outlined below:
- Review of accommodation/buildings in use by the council, with a view to further rationalization – some further rationalisation of office accommodation has been done, but there may be further potential leading to other buildings being released for sale and this is also key in identifying revenue savings

- Identification of services that can be combined as part of the whole Place agenda and establishment of community Hubs, and therefore release buildings for sale
- Review the existing County Farms strategy
- Authority's role in low cost home ownership scheme – a business case has not yet been prepared but further work is ongoing to identify the options available to maximize the receipt to be gained from this scheme.
- Community Infrastructure Levy – this will be relevant for future years of the capital MTFP and can include funding for more general 'place-making' schemes that support the growth proposed in the LDP e.g. sustainable transport improvements, upgrade/provision of Broadband connectivity, town centre improvements, education, strategic sports/adult recreation facilities and green infrastructure.

#### **4. REASONS:**

4.1 To provide an opportunity for consultation on the capital budget proposals.

#### **5. RESOURCE IMPLICATIONS:**

5.1 Resource implications are noted throughout the report both in terms of how the core programme is financially sustainable, the key issues that require further quantification and also the risks associated with not addressing the pressures outlined in Appendix 1.

#### **6. EQUALITY AND SUSTAINABILITY IMPLICATIONS:**

6.1 Capital budgets which impact on individuals with protected characteristics, most notably renovation grants and access for all budgets are being maintained at their current levels.

6.2 The equality impact of the mechanism to allocate maintenance budgets to individual schemes should be in place and being used to aid allocation of funding

6.3 The actual impacts from this report's recommendations will be reviewed on an ongoing basis by the Capital Working Group.

#### **7. SAFEGUARDING AND CORPORATE PARENTING IMPLICATIONS**

None

#### **8. CONSULTEES:**

Senior Leadership Team  
All Cabinet Members

Head of Legal Services  
Head of Finance

**9. APPENDICES:**

Appendix 1 – Capital MTFP pressures  
Appendix 2 – Capital budget summary programme 2016 to 2020  
Appendix 3 – Schools programme  
Appendix 4 – Forecast capital receipts 2015/16 to 2019/20  
Appendix 5 – Capital receipts risk factors  
Exempt Appendix 6 – Forecast receipts  
Appendix 7 – Future Generations Evaluation

**10. BACKGROUND PAPERS:**

List of planned capital receipts: Exempt by virtue of s100 (D) of the Local Government Act 1972

**11. AUTHOR:**

Joy Robson – Head of Finance

**12. CONTACT DETAILS:**

Tel: (01633) 644270  
Email: [joyrobson@monmouthshire.gov.uk](mailto:joyrobson@monmouthshire.gov.uk)