

CAPITAL PROGRAMME UPDATE 2019/20-2022/23
Councillor Howard Mordue
Cabinet Member for Finance and Resources

1 Purpose

- 1.1 This report presents the proposals for the Capital Programme for 2019-20, as recommended by Cabinet on 16 January 2019.

2 Recommendation

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| 2.1 That the updated Capital Programme for 2019-20 onwards be approved. |
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3 The Cabinet's Budget Recommendation

- 3.1 The report to Cabinet on 18 December 2018 presented a set of initial capital proposals for Cabinet's consideration.
- 3.2 On 16 January 2019, Cabinet reconsidered the final capital budget. The latter meeting was informed by the views of Finance and Service Scrutiny Committee.
- 3.3 Finance and Services Scrutiny Committee considered the draft Final proposals at its meeting 14th January 2019.
- 3.4 The Scrutiny made a number of comments but were broadly supportive of the proposals contained within the report. The comments made by Scrutiny were considered and noted by Cabinet in determining their final proposals.

4 Executive summary

- 4.1 This report sets out the Capital Programme for 2019/20 onwards
- 4.2 As reported to Cabinet in December 2018 the focus of the capital programme is on delivery of existing schemes which have already been approved by Council.
- 4.3 The plan reflects the Council strategy to ensure both the prudent use and the maximisation of available capital resources.
- 4.4 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy.
- 4.5 To comply with statutory requirements, an expanded, but still abridged (because of unitarisation) capital strategy is presented within the Treasury Management Strategy Report. The key principles of the capital strategy are set out in this paper to allow Cabinet Members to cross reference whilst considering this update of the capital programme.

5 Background

- 5.1 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.
- 5.2 The programme is reviewed annually with the current programme being last approved and adopted at Council in February 2018. 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.
- 5.3 At the time of writing the report, the Secretary of State has confirmed his decision to create a single Unitary District Council for Buckinghamshire which will come into existence in May 2020.
- 5.4 This fundamental change will happen during the period of the proposed capital plan. This clearly removes the need for medium term planning for Aylesbury Vale as a single entity organisation, as the new organisation will want to determine its own medium and long term investment priorities. However, the Council remains obligated to handover its affairs to the new organisation in the best state it can and so the focus of this Programme is now on the delivery of those projects previously committed and those which need a decision in a shorter timeframe.
- 5.5 Future investment and borrowing decisions are likely to be influenced by the outcome of the unitary arrangements.
- 5.6 This report provides an updated position with respect to forecast receipts and the position with regards to current and future major investment projects.

6 Capital Resources

- 6.1 This report sets out the high level issues facing the Council in terms of developing its Capital plans.
- 6.2 In addition to the unitary decision, there remain a number of other key uncertainties, e.g. the financial impact of Brexit and wider changes to the economy. Economic and interest rate forecasting also remain difficult with so many external influences weighing on the UK.
- 6.3 Investment returns are likely to remain low during 2019/20 but appear to be on a gently rising trend over the next few years.
- 6.4 Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer in response to economic uncertainty. The policy of avoiding new borrowing by running down spare cash balances has served AVDC well over the last few years and the intention is to continue to do this where balances allow. This will also allow the new unitary Council the greatest flexibility in terms of determining its own investment and borrowing strategy.
- 6.5 The focus of the capital plan will now be primarily on 2019/20, but consideration will still be given to 2020 and beyond because of the obligation to hand Aylesbury Vale's affairs to its successor in a fit state.
- 6.6 A number of external and internal factors do have a bearing on the available resources for the capital programme. Changes in anticipated resources

effectively increase or reduce the level of resources available to fund new schemes and so impact directly on the Council decisions to invest or borrow resources.

6.7 The changes in anticipated resources which need to be factored into the programme are as follows:

- Revenue Contribution – Currently there is a proposed £400,000 contribution from revenue to supplement existing capital resources. In the Provisional Finance Settlement on 6 December 2018, the Government announced the removal of Negative Revenue Support Grant (RSG) and financial impact of the proposed change will benefit the Council by almost £0.7m. This is a non-recurrent re-alignment of funding. Given the non-recurrent nature of the proposed additional funding, it has been recommended to Cabinet, (as part of the Revenue Budget), that the funding will be ring fenced to support likely and known pressures during 2019-20, specifically £0.4m to meet the costs of the car park changes detailed in the Car Park Strategy.
- Reserve utilisation of £4.5m for the Town Centre Regeneration. This scheme has previously been conditionally agreed by Council.
- Borrowing will be required to support the capital programme. The plan includes £9.2m of borrowing to support spend on Silverstone and Westcott Enterprise Zones and also Pembroke Road. The revenue costs of the borrowing are included in the agreed business plans. The level of borrowing will be managed in year and only actioned after cash balances have been utilised.
- 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 14 for 2018/19, with the same number being forecast for 2019/20 equating to sales of an estimated £1.5millions. The number of residual RTB house sales has consistently fallen over the last couple of years.
- Asset Sales - these are sums released from disposal of Council owned assets, mainly land or property. The generation of any significant receipts from the Council's current reduced asset base is no longer possible, but periodically some small receipts are received from parcels of land and capital repayments from some loans. No asset sales have been assumed for 2019/20, but does include £0.440m in 2019/20 for AVE loan repayments
- Lottery, Grants & Section 106 – This relates to external resources not related to asset sales.

6.8 The table below sets out the available resources at the beginning of 2018/19 and projected resources during 2018/19 and 2019/20, before any expenditure has been taken into account.

	Current Resources	Resources Projection
	Apr-18	Mar-19
	£'000s	£'000s
Balance of Capital Resources	8,311	6,131
Share of Right to Buy Receipts	1,500	1,500
Asset Sales		
Lottery, Grants and Section 106	2,080	4,940
Revenue Contributions (NHB)	327	
Revenue Contributions		400
Total End of Year	12,218	12,971

7 Capital Expenditure

7.1 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.

7.2 Major Projects: The following are listed under the Major Projects section – Pembroke Road depot, Silverstone Heritage Centre, Silverstone Enterprise Zone and the Town Centre Regeneration. The capital programme includes the latest forecast costs for the individual schemes and reflects the current position.

7.2.1 Depot - Pembroke Road

- a) The scheme to develop existing waste and recycling depot site at Pembroke Road continues. The scheme was agreed by Council in October 2016.
- b) The total scheme cost is £9.2 million. The scheme includes £1.9 million for the provision of expanded vehicle testing facilities and the business decision to continue with this element of the scheme is still under review.
- c) The report and business case was predicated on the cost of the scheme being met from borrowing, whilst recognising that the amount might be reduced if there is additional capital resources received during the year. Expenditure incurred thus far for the scheme (mainly design and demolition) has been funded from the balances of unallocated capital resources. The Programme presented in the Appendix includes an assumption of borrowing for the scheme. However, it is proposed that all unallocated capital resources are allocated in the first instance in lieu of borrowing as a mechanism to reduce borrowing costs. The borrowing costs have been included in the business case for the development.
- d) 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.

7.2.2 Silverstone Heritage Centre

- a) 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.
- b) This levered 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.

- c) The Silverstone management team presented to Finance and Services Scrutiny Committee in October 2018. Progress on the development is good and there is an anticipated opening dates of the facilities in spring of 2019.

7.2.3 Silverstone Enterprise Zone

- a) In Autumn 2017 Council agreed to provide Capital funding for enabling works for the Silverstone Enterprise Zone in the form of a of £5.00m loan to be repaid from the additional Business Rates generated on site.
- b) 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.
- c) 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.

7.2.4 Westcott Enterprise Zone – Space Catapult Innovation Centre

- a) As accountable body for the Aylesbury Vale Enterprise Zone, the Enterprise Zone Board has made a request of Aylesbury Vale District Council to provide funding at Westcott to enable the expanded development Space Catapult Innovation Centre.
- b) Accordingly, the Capital Programme provides Capital funding for development of the Westcott Enterprise Zone in the form of a £1.20m loan to be repaid 50/50 from Grant received by BTVLEP and the additional Business Rates generated on site.
- c) As with the Silverstone Enterprise Zone detailed above, there is no net cost to the Council of this decision (although, as accountable body it does shoulder the risk of non-repayment), but as a capital scheme the borrowing decision needs to be reflected to the Council's approved programme.
- d) Two key facilities have recently opened within the emerging 'Space Cluster' at Westcott EZ (5G Step Out Centre and Business Incubation Centre). These are both operated by the Satellite Applications Catapult (SAC).
- e) The SAC's Space Cluster facilities at Westcott offer start-up businesses in the rocket propulsion, 5G, satellite and other space related sectors opportunities to utilise specialised equipment that would otherwise not be affordable / available, take advantage of free supported workspace, and obtain expert business and technical support.
- f) The third element of the SAC's strategy for the Westcott Space Cluster is the provision within the next 12 – 18 months of an Innovation Centre to provide accommodation for start-up businesses emerging through the 5G / BIC facilities, from elsewhere at Westcott, or from other outside companies where location within the Westcott Space Cluster would be beneficial.
- g) The original proposal for the Innovation Centre is supported by Bucks Thames Valley LEP (BTVLEP) with the award of £2m Local Growth

Fund (LGF) funding (50% loan/50% grant). SAC and BTVLEP entered into an Agreement for the LGF funding in December 2017. Under the agreement the facility is due to be completed by December 2019. The Business case put forward by the Satellite Catapult and supported by the Enterprise Zone Board proposes that the £1.2 million of funding for the project is split £600,000 Loan and £600,000 grant. As its Accountable Body, the Enterprise Zone Board is seeking for AVDC to borrow the £1.2m funding and to recover this (plus any interest costs) from the EZ retained business rates.

- h) The Borrowing will be reduced by repayment of the 50% loan element (£0.6m plus interest) by SAC which will occur in 2 staged payments (as provided for in the BTVLEP / SAC Agreement). This would serve to reduce the net EZ cost of the project to £0.6m. In addition the building will generate business rates for retention by AVEZ of approximately £30,000 per annum.
- i) The balance of £600,000 (the Grant element) will be repaid by the Enterprise Zone from the retained Business Rates. There are currently sufficient unallocated business rates receipts to fund the estimated repayment, even without the development of new business rates paying premises. This scheme is therefore considered affordable by the Enterprise Zone Board.
- j) It is proposed that the EZ funding is provided to BTVLEP and that BTVLEP amends its existing Grant and Loan Agreements with SAC to reflect the increased funding from the EZ. This (subject to further detailed discussion with AVDC / BTVLEP) seems to provide the simplest mechanism for provision of funding.
- k) A separate funding agreement will need to be put in place between AVDC / BTVLEP relating to the provision of the EZ funding and return of the 50% loan funding. As BTVLEP has no legal company status of its own the accountable body will be Bucks County Council.
- l) The Council, will require BTVLEP to secure a charge over the property (if achievable) but will ultimately seek underwriting from BTVLEP (via Bucks CC) for the Loan element of the transaction.
- m) If the Council is supportive, the detail of the funding agreement (together with a legal review and state aid review) will need to be refined to protect the Council's interests.

An independent Appraisal of the Business Case was carried out by Hewdon Consulting's which concluded that the project is robust and that the Innovation Centre as now proposed would be a positive addition to the Westcott Space Cluster. The Funding provided by Aylesbury Vale can be covered by existing retained Business Rates being delivered from the existing 3 Enterprise Zones. The roll of the LEP and the County Council (as its Accountable Body) provides sufficient security and confidence of repayment to justify provision of funding in accordance with this request.

7.2.5 Town Centre Regeneration

- a) At a meeting of its full Council on Wednesday 19 September, AVDC agreed to invest in the rejuvenation of the Aylesbury Town centre public

spaces. The planned investment into Kingsbury and Market Square will address the operational and aesthetic challenges, while making improvements to the safety, sustainability and accessibility of the areas. The improvements will also look to emphasise Kingsbury as the gateway to the old town, celebrating Aylesbury's rich heritage as a market town.

- b) The funding will be sourced from specifically earmarked funding and grants, including: existing Section 106 funding allocated to Aylesbury town centre, a Heritage Lottery Funding Townscape Grants bid and New Homes Bonus. This will enable AVDC to achieve its prospects without the need to borrow.
- c) Council required the scheme to be re-presented once further planning work has taken place, the full provision has been included in the Capital Programme in order to reserve the funding.

7.3 Housing Schemes

- The main element of funding within this category relates to the Council's housing enabling function.
- 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.

7.4 Other Projects

A number of new projects are included as well as provision for schemes that have been delayed for reasons outside of the Council's control.

- Notable other projects in this section of the Capital Programme include £1.25m for the purchase of new vehicles to support bringing the provision of the Street Cleaning and Horticulture contract in-house. The vehicles are required in order to provide the statutory functions of the horticulture services and would be required whether the existing contract was extended or the service brought in-house.
- The programme allows for a rolling replacement for 5 food waste vehicles.
- The car parking strategy agreed by Cabinet in December 2018 outlined a need for capital funding to upgrade payment equipment in AVDC car parks in other towns across the Vale. Provision for this equipment has been included in the capital plan for 2019/20, together with a contribution from Revenue to fund the cost of these works.
- Finally, spend 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.

- 7.5 Members will note that the major development for the Exchange is due for completion in 2018/19 with no further expenditure planned. The Exchange scheme commenced in January 2017 and consists of restaurants, one and two bedroom apartments above and a new public square. The scheme also provides commercial space.

- 7.6 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 £100,000 from the New Homes Bonus (NHB) Fund. Work to progress this initiative has now been suspended following the unitary announcement.
- 7.7 Although not a funding pressure, the programme for 2019/20 includes provision for a payment to be made 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. Transfer of this sum to the Parish Council has been previously agreed, but long delayed whilst the legal ownership is resolved.

8 Capital Strategy

- 8.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy.
- 8.2 The purpose of the Capital Strategy is to drive the authority's capital investment ambition over a 20-30 year time frame, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long term delivery of services.
- 8.3 The capital programme for the council would normally be a long term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving council assets and operational buildings is very long term and as such should be considered accordingly in financial and asset management planning.
- 8.4 The development of the Capital Strategy for AVDC is disadvantaged by the uncertainty resulting from the unitary decision. However, to comply with statutory requirements, an expanded, but still abridged strategy, (reflecting a single year planning period) will still be presented alongside the Treasury Management Strategy in January 2019. However, the key principles of the strategy are set out below for contextual consideration.
- 8.5 The Capital Strategy for AVDC for 2019-20 will focus on core principles that underpin the council's capital programme in the short term only and the issues and the risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Aylesbury Vale.
- 8.6 Within a shorter timeframe the focus of the capital strategy is towards the delivery and implementation of existing capital schemes.
- 8.7 Within the short term timeframe the capital programme may still be amended by the introduction of urgent, high priority capital schemes. The programme will need to be flexible to ensure that the capital programme can incorporate schemes to meet the requirements or opportunities that arise. As part of capital programme and resource management, schemes may be phased over multiple years due to factors such as complexity, resourcing, legal and planning requirements.

- 8.8 The development, management and monitoring of capital investments for 2019/20 will remain under the control of AVDC.
- 8.9 The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio now mainly consist of small land holdings and our operational buildings i.e. offices, leisure facilities, public conveniences etc.
- 8.10 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 8.11 The Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 8.12 Risk is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the council's low risk appetite.
- 8.13 The Treasury Management Strategy for 2019-20, to be presented to Council for approval, will include detail on expenditure plans and the associated prudential indicators.
- 8.14 The development of capital investments beyond 2020 will ultimately be delivered by the new Authority.

9 Options considered

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

10 Reasons for Recommendation

- 10.1 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.
- 10.2 The CIPFA Prudential Code (December 2017) includes the requirement to produce a Capital Strategy.

11 Resource implications

- 11.1 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.
- 11.2 The revenue costs are incorporated into the initial Budget Planning report included elsewhere on this agenda.

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Background Documents

Capital Programme 2017/18 to 2021/22 Cabinet November 2017