CABINET

Thursday 9 April 2015

COMMUNITY INVESTMENT PROGRAMME – STRATEGY REVIEW AND APPROVAL OF SCHEMES

Report of the Chief Financial Officer

RECOMMENDATIONS

It is recommended that Cabinet:

(1) recommend to Council to approve the Community Investment Programme Strategy 2015/16 to 2018/19 as set out in Appendix A;

(2) recommend to Council the changes to the Prudential Indicators (Appendix B);

(3) approve £500,000 for the initial works for demolition and making safe at the former Civic Office site. This will be funded by future income from the development of the site;

(4) approve £150,000 ongoing to enable the development of the Digital Strategy and initial delivery of projects. This will be self financing from efficiencies as projects are implemented;

(5) approve a grant of up to £60,000 for 2015/16 for the resurfacing of Hiltingbury Tennis Courts to be funded from New Homes Bonus;

(6) approve £35,000 to repair the roof of units 3A & 3D Herald and £19,000 be approved for the urgent redecoration works of units 3A, C & D. The total sum will be funded as an invest to save scheme;

(7) approve allocation of £12,500 from the allocated housing capital funds to purchase the Homeless Module of the Hampshire Home Choice, Abritas software, web-based solution and

(8) note the change in funding from future S106 contributions to New Homes Bonus to fund the new guides HQ and scout hall at Ramalley.

Summary

The Community Investment Programme set out in this report is based on the best information available regarding costs and phasing of individual schemes but it should be recognised that, particularly for the later years, the estimates are only indicative.
Alongside the provision of schemes to enhance the Community is the need to minimise historic long term unfunded debt. The continuation of the policy to use of 50% of future capital receipts (not already earmarked) to reduce this debt is included within this Strategy.

This Strategy covers the 4 years from 2015/16 to 2018/19 and totals over £89M.

**Statutory Powers**
**Local Government Act 1972, Sections 111, 151**

**Background**

1. The overall aim of the CIP Strategy is to ensure it delivers the priorities of the Council. These priorities are:
   - A Clean and Green Borough – making a difference to our environment.
   - A Healthy Community – active and lively with a spirit of community, togetherness and wellbeing.
   - A Prosperous Place – where business can flourish and everyone is able to share in prosperity.

2. Each year Cabinet approves a 4 Year Strategy for the Community Investment Programme (CIP). In addition reports are submitted to Cabinet on a monthly basis seeking approval for individual schemes as necessary. Local Area Committees approve the schemes within their respective Programme. All schemes included within Cabinet reports for approval have been considered and recommended by the relevant Programme Board.

3. Since December 2002 almost 820 individual schemes totalling over £170M have been completed delivering a wide range of facilities across the Borough. These vary from major construction works costing £Ms down to smaller, mainly Area Committee schemes.

4. The original Strategy in 2002 was established on the basis that finance would be realised from the sale of some major assets and a continuing stream of developers’ contributions. The Council had, until 2009, limited its borrowing to only one scheme, the purchase of Wessex House. However, the economic downturn that developed in the latter half of 2008 created a situation where the Council could no longer generate the volume of asset sales and developers’ contributions previously enjoyed.

5. The financing of the CIP follows a hierarchy to ensure that schemes are funded by appropriate resources. Financing tools applied to schemes are primarily:
   - Capital Receipts and Developers Contributions
   - Prudential Borrowing
   - New Homes Bonus – typically to support infrastructure where there is a gap in the business case
   - Revenue funding or other grant income
6. The core financing for the CIP is now Prudential Borrowing and the Strategy adopted from 2010/11 onwards reflects a significant increase in the Council’s plans to borrow from the Money Market. Over the past few years the Council has very effectively used the Prudential Code for capital financing for those schemes generating an income. This has been particularly relevant to the Property Acquisition Strategy which has enabled strategic property purchases with rental income meeting borrowing costs. Steps are taken to ensure that schemes are self financing wherever possible and financial appraisals are undertaken to ensure that capital and borrowing costs can be recovered over the life of the asset.

7. The bigger challenge is the schemes within the CIP for which there is no income, most particularly operational building repairs, vehicles and IT replacement equipment. Expenditure on these infrastructure assets is unavoidable as without them the Council cannot provide services however they do not directly generate income. With limited capital receipts it is important that borrowing does not simply grow without related costs being recognised and a source of finance being identified. Efforts are being made where possible to reduce the historic long term unfunded debt. This includes the annual application of 50% of future non-earmarked capital receipts to finance non-income generating / unfunded assets.

8. To control non income generating expenditure it is vital that long term asset plans are in place to profile projects and expenditure. These plans can then be built into the Budget. The Vehicle and Plant Replacement Programme is being developed as part of the review of the Transport Unit that is currently underway. This will be brought to Cabinet in September 2015 and the financial effects will be incorporated within the Medium Term Budget process.

9. A long term Asset Plan concentrating on our Property Portfolio is also important to identify the level and timing of potential maintenance costs. The Head of Regeneration and Policy Planning reported the current Asset Plan to Cabinet in September 2014 and the financial effect is included within this strategy where known.

10. The development of the Digital Strategy is a key strand of the Future Eastleigh programme which will ensure that the Council operates effectively and efficiently in the future with regard to digital innovation. In order to develop the strategy there is a need to invest to determine a programme of change that will lead to efficiencies and budget savings for the future. Cabinet are asked to approve an ongoing capital budget of £150,000, initially funded by borrowing, which will be repaid from future efficiencies as digital projects are developed.

11. The cost of assets is written off over their useful life ensuring that we do not have any borrowing outstanding for an asset that no longer exists. There is already provision for the revenue costs of non-income generating assets within the revenue budget. In approving future plans for non-income generating assets consideration will need to be given to the level of available funding. Additional revenue costs would need to either be found from within existing resources or considered as a growth bid.
12. There are two significant CIP projects in the short term. The Council is continuing to support the development at the Ageas Bowl and will spend £27M to take ownership on completion of the hotel/conference centre early in 2015/16. The other material scheme is the redevelopment of the Fleming Park Leisure Centre. Progress on this scheme is detailed elsewhere on this Cabinet agenda.

**Process of Scheme Approval and Monitoring**

13. The CIP Strategy consists of schemes identified by Members and Officers as being of benefit to the community. The Strategy gives an indication of the indicative cost of schemes and when they are planned to commence depending upon funding becoming available. Many of the schemes begin with a feasibility study after which the scope, timescale and costs of schemes will be refined. The CIP is a rolling Strategy to maximise the use of resources and conflicting scheme priorities.

14. The Planning Policy Team identify potential infrastructure improvements as part of the Local Plan process. In future it is intended to incorporate relevant areas of this plan into the CIP strategy and monitoring. This will enable the Planning Policy Team to more easily identify sources of funding for schemes. This will also be a mechanism for identifying schemes to be considered as part of the negotiation of Developers Contributions.

15. To provide a manageable structure there are 4 Programme Areas:
   - CIP (Infrastructure/Urban Regeneration & Leisure)
   - Housing
   - Information Communications and Technology (ICT)
   - Local Areas

16. For each Programme Area there is a Programme Board managed by a member of Management Team and comprising a member of Cabinet alongside officers involved with the implementation of the schemes. The aim of the Boards is to ensure that schemes progress as planned and that finances and staff resources are managed efficiently and effectively. Crucial to this work is the determination and changing of priorities to ensure that the potential for implementing schemes is maximised.

**Housing Strategy**

17. Substantial funding was injected into the Council’s Housing Capital Programme in March 1996, when the Council successfully achieved a Large Scale Voluntary Transfer (LSVT) of its Council houses. The total gross receipt for the sale was subject to a Government levy, capital receipt reservation and other deductible costs eventually resulting in the Council receiving £14M as a usable capital receipt.

18. The Council allocated the entire sum of £14m to Housing Capital Programme projects. A further £7M, mainly resulting from a Right to Buy (RTB) contract with housing associations associated with the LSVT have also been progressively credited to the housing funds over the years. However, these
RTB receipts have reduced considerably in recent times due to a reduction in qualifying, long-standing tenants wishing to exercise their RTB intent.

19. The Housing and Environmental Health Unit have carefully managed the capital funds over the many years since its creation and a sum of nearly £6M is still retained for future application to housing capital projects in line with the Housing Strategy. A new income stream for the Housing Strategy is the affordable housing element of the New Homes Bonus. This is further discussed in paragraph 27.

20. Cabinet are asked to approve the commitment of £12,500 from the Housing capital fund to implement the Homeless module within the Hampshire Home Choice system. This will cover the cost of Licenses (Fixed fee – unlimited number), training and expenses incurred in the delivery of the software solution. £3,200 per annum annual support and maintenance is to be funded from existing revenue budgets.

21. The new Special Purpose Vehicle (SPV) has been set up in partnership with Fareham Borough Council, First Wessex and Radian Housing. This new company, Aspect Building Communities Limited, is an independent company to aid in the delivery of housing across the Borough.

22. The Council and its partners will issue repayable grants to the company to help facilitate its activities. These grants will be treated as capital expenditure and will be financed by Prudential Borrowing. Each scheme will be considered individually and will be treated on a commercial basis to ensure payback of revenue costs. In line with the Council’s strategy for New Homes Bonus there is the opportunity to subsidise schemes to offset borrowing costs and achieve a viable financial position.

Funding Streams

23. As previously mentioned, there is no longer a high volume of capital receipts or developers contributions available to fund the CIP. CIP funding comes from a variety of sources and the table below shows the use of funding tools over the past 4 years:

<table>
<thead>
<tr>
<th></th>
<th>2011/12 – 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
</tr>
<tr>
<td>Developers Contributions</td>
<td>6,061</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>166</td>
</tr>
<tr>
<td>New Homes Bonus</td>
<td>4,049</td>
</tr>
<tr>
<td>Other Grants</td>
<td>4,240</td>
</tr>
<tr>
<td>Revenue Contributions including grants and reserves</td>
<td>2,196</td>
</tr>
<tr>
<td>Borrowing</td>
<td>51,462</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>68,174</strong></td>
</tr>
</tbody>
</table>

24. The costs of borrowing are borne by the General Fund Revenue Account as interest costs and the repayment of capital over the life of the asset (Minimum
Revenue Provision - MRP). Although the level of borrowing is high this needs to be seen in context as much of this is funded from additional income accruing to the General Fund. All borrowing is made in accordance with the approved Treasury Management Strategy. The table below demonstrates the split between funded/income generating assets and non income generating assets that are funded by borrowing:

<table>
<thead>
<tr>
<th></th>
<th>£M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income generating assets</td>
<td>126</td>
</tr>
<tr>
<td>Non Income generating assets</td>
<td>36</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>162</strong></td>
</tr>
</tbody>
</table>

25. With pressures on the Revenue Budget and the need to secure additional efficiencies in the General Fund Revenue Account any increased level of borrowing must be accompanied by the identification of revenue consequences and resources. Interest rates have been at 0.5% since 2009 and our treasury advisors suggest that we may see the first modest rises during 2016 and increased costs of borrowing for non income generating assets can only result in growth.

26. Each individual income generating CIP scheme is assessed to determine whether there is a reasonable payback period compared to the expected life of the related asset. The financial appraisal model applies the long term interest rate to each scheme to determine viability. Currently the majority of borrowing is short term and therefore at more favourable rates than those used within the appraisal.

**New Homes Bonus**

27. The New Homes Bonus grant scheme was introduced by the Government in 2011/12 with the aim of incentivising housing build and also bringing empty residential properties back into use. The Council has committed all New Homes Bonus grant income to community projects as detailed below:

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Housing Strategy</td>
<td>87</td>
<td>2,709</td>
<td>1,207</td>
<td>2,888</td>
<td>6,891</td>
</tr>
<tr>
<td>Lowford Community Centre</td>
<td>3,782</td>
<td></td>
<td></td>
<td></td>
<td>3,782</td>
</tr>
<tr>
<td>Lakeside Country Park</td>
<td></td>
<td>1,000</td>
<td></td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Chandler’s Ford Projects</td>
<td>110</td>
<td>469</td>
<td>286</td>
<td>135</td>
<td>1,000</td>
</tr>
<tr>
<td>Fleming Park Leisure Centre</td>
<td></td>
<td></td>
<td></td>
<td>3,747</td>
<td>3,747</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,979</strong></td>
<td><strong>3,178</strong></td>
<td><strong>2,493</strong></td>
<td><strong>6,770</strong></td>
<td><strong>16,420</strong></td>
</tr>
</tbody>
</table>

**Developers’ Contributions**

28. Clearly there are risks from implementing schemes before funding has been secured. To minimise these risks there need to be parameters in place before schemes to be forward funded from Developers’ Contributions can be approved.
- The scheme earmarked to provide the Developers’ Contribution must have received outline planning approval;
- The Section 106 agreement must have been negotiated with the Developer;
- The scheme being proposed must be covered by the potential Developers’ Contribution and be part of the list of schemes already highlighted as desirable within the CIP;
- The borrowing costs relating to the scheme costs will need to be included as part of the CIP scheme cost.
- There must be some certainty that the Developers’ Contributions will payback the costs within 3 years.
- The level of CIP expenditure being forward funded will be regularly reported to Members as part of the quarterly financial monitoring process.

As this is a new policy it will be closely monitored and may need to be refined as more instances are worked through practically.

**Capital Receipts**

29. Although capital receipts are no longer a significant source of finance there are still receipts each year from the sales of assets including vehicles and some properties. The policy to earmark 50% of annual capital receipts not specifically earmarked to non-income generating assets is continuing. The aim of this is to reduce borrowing costs for assets that historically led to increased debt.

**Proposed Programme 2015/16 to 2018/19**

30. The proposed Programme contains a range of schemes, some of which are committed and underway whereas others have been submitted by Programme Boards as potential bids for future resources. Recognising the current economic climate and the importance of aligning the CIP to meet the strategic priorities all of the Programme Boards have undertaken a review of their respective schemes priorities. As a result the proposed Programme in this Strategy amounts to schemes totalling over £89M analysed as follows (see Appendix A for details):

<table>
<thead>
<tr>
<th></th>
<th>2015/16 £'000</th>
<th>2016/17 £'000</th>
<th>2017/18 £'000</th>
<th>2018/19 £'000</th>
<th>Total £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developers’ Contributions</td>
<td>3,799</td>
<td>419</td>
<td>0</td>
<td>700</td>
<td>4,918</td>
</tr>
<tr>
<td>Revenue Contribution</td>
<td>327</td>
<td>1,137</td>
<td>984</td>
<td>1,081</td>
<td>3,529</td>
</tr>
<tr>
<td>New Homes Bonus</td>
<td>3,158</td>
<td>2,493</td>
<td>2,299</td>
<td>1,767</td>
<td>9,737</td>
</tr>
<tr>
<td>Grants</td>
<td>5,504</td>
<td>436</td>
<td>400</td>
<td>400</td>
<td>6,740</td>
</tr>
<tr>
<td>Borrowing</td>
<td>62,798</td>
<td>876</td>
<td>0</td>
<td>461</td>
<td>64,135</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>75,606</strong></td>
<td><strong>5,361</strong></td>
<td><strong>5,333</strong></td>
<td><strong>4,604</strong></td>
<td><strong>89,059</strong></td>
</tr>
</tbody>
</table>
31. The delay in realising the developers’ contribution for the Drapers site in Chandler’s Ford means that funding needs to be reassigned from New Homes Bonus monies to ensure that the scheme to develop a new girl guiding and scouts headquarters is fully funded (recommendation 8).

32. The implementation of individual schemes will be in accordance with the currently agreed processes requiring approval from the respective Programme Board and then progressing to Cabinet via the monthly CIP Approval of Schemes report. Area Committee schemes are approved by the respective Area Committee. Included in the Corporate Financial Monitoring Report submitted to Cabinet each quarter is an update on the overall Programme and explanations of significant variances.

33. Members are requested to consider and approve the overall Strategy.

**Approval of Schemes**

**Demolition and making safe of former Civic Offices site £500,000**

34. With the imminent redevelopment of the former Civic Offices and Magistrates Court site, approval is sought for £500,000 to enable the demolition and making safe at the site. All costs of developing the site will be recovered from future income streams. Further details on the development proposals for the site will be brought to Members when more details are known.

**Resurfacing of Hiltingbury Tennis Courts £60,000**

35. At the November 2014 meeting of the Chandler’s Ford and Hiltingbury local area committee, Members approved a list of priority capital schemes for the area that could be funded by the New Homes Bonus grant. This included the funding of the resurfacing of the tennis courts at the Hiltingbury Recreation Ground which has recently been transferred to Chandler’s Ford parish council.

36. Cabinet are asked to approve the allocation of £60,000 to the scheme and the parish council will undertake the project during 2015/2016. The scheme will comply with appropriate tendering processes and monies will be payable on receipt of invoices.

**Herald Industrial Estate Repairs**

37. In November 2014 £45,000 was set aside from reserves for roof works at Herald Industrial Estate. External repair works have been completed to unit 2b however no acceptable quotes were obtained for the repair works necessary to units 3a and 3d. Contractors were unwilling to offer guarantees for the works due to the fragile nature of the surrounding roof. Therefore the most viable option is to completely recover the roof of each unit. This has
been estimated to cost £30,000 per unit. £25,000 is remaining from the original budget and there is a requirement for an additional £35,000 to undertake this work. The work will come with a 10 year guarantee.

38. In addition, the industrial estate is in urgent need of external decoration. The Council has an obligation to undertake the decoration of 3 units (Units 3a, 3c and 3d). A sum of £19,000 is required for this work.

39. Terms have recently been agreed with a new tenant on a unit previously unoccupied for some years. This additional rental income will be set aside to fund the repair and redecoration works identified above as an invest to save scheme.

Financial Implications

40. The background to this Strategy report explains the financial implications regarding the overall Strategy and the financing of the additions to the Programme will be financed in accordance with the Strategy.

41. The table in paragraph 30 gives an initial view of funding but this will be dependent on the actual Developers’ Contributions and Capital Receipts received. New Homes Bonus will be utilised on projects with a direct community benefit. Any borrowing will be financed from revenue over the life of the asset. For example the cost of vehicles will be recovered over seven years. It is therefore very important when considering schemes that all the revenue implications, including borrowing costs, are properly considered and provision identified in the Revenue Budget.

42. In order to minimise growth in the Revenue Budget resulting from capital expenditure, all future corporate non-income generating projects will be funded from within existing revenue budgets where possible.

43. Prudential rules will continue to be followed and the financial viability of each scheme will be fully assessed and presented to the relevant committee for approval. The financial impact of the potential increased level of borrowing is built within the current Budget Strategy and is reflected in the recently approved Budget.

44. All borrowing will be undertaken in accordance with the Council’s Treasury Management Strategy. The Prudential Indicators are included at Appendix B.

45. Previous experience has shown that schemes within the Programme will be re-phased into future years and the reality is that there is a limit to the amount that can actually be spent in any one year. What is clear, however, is that there is very little scope to add additional schemes to the Programme without first deleting existing schemes and that as the Programme is rolled forward year on year the level of borrowing will increase.

46. Financial Standing Orders make it very clear that no capital spend can be committed unless the revenue implications have also been considered and included in the Revenue Budget.
Risk Assessment

47. The management of risk has always been an essential element of the Programme, particularly in respect of finance. This remains the crucial issue and it is important to assess the source of funding whether Capital receipts or borrowing before a scheme can progress.

48. With the funding of schemes from Developers’ Contributions not yet received there is a risk that income will be delayed or indeed not received at all. The measures set out in para 28 aim to mitigate this risk.

49. As with previous years, active management of the Programme is essential with Programme Boards being prepared to react swiftly to the changes in the financial position. This process has worked very successfully to date and it is envisaged that it will continue to do so for 2015/16 and beyond.

Equality and Diversity Implications

50. An equal opportunities assessment has not been carried out as there are no proposed significant changes to new or existing services, policies or strategies.

Chief Financial Officer’s Statement

51. The Local Government Act 2003 (sections 25 and 26) requires the Chief Financial Officer (CFO) to report to the Council, when making budget related decisions, on:

   i. The robustness of the estimates made for the purposes of setting the Council Tax

   ii. The adequacy of the proposed financial reserves

52. It has been demonstrated over the past eleven years that the financing of the overall CIP has been very prudent. This current Strategy reflects the shift in funding in that the Council will now rely heavily on borrowing to ensure schemes progress as planned. With the current economic climate this is a sensible and prudent plan but it will need to be kept under close scrutiny to ensure the borrowing is undertaken at the most advantageous terms. All borrowing will be undertaken in line with the approved Treasury Management Strategy.

Conclusion

53. The Council should quite rightly be very proud of what it has achieved over the past eleven years since the CIP Strategy, in its current form, was launched. This Strategy for the next four years seeks to preserve the ambition to implement a wide range of schemes but in doing so also takes account of the current economic climate.

54. The CIP Strategy has been revised for the period 2015/16 to 2018/19.
doing so it sets out a further ambitious and exciting Programme for the next four years totalling over £89M.

55. As in previous years the importance of managing the financial resources available cannot be over emphasised and it needs to be understood that action will have to be taken to vary the Programme to match available resources.

56. The implication of the Capital Strategy is progressing and this report seeks:

- Cabinet’s recommendation to the Council of the Community Investment Programme Strategy 2015/16 to 2018/19 as set out in Appendix A

- Cabinet’s recommendation to the Council of the changes to the Prudential Indicators (Appendix B)

- Approval of £500,000 for the initial works in demolition and making safe at the former Civic Office site. This will be funded by future income from the development of the site (para 34)

- Approval for £150,000 ongoing to facilitate the Digital Strategy to be funded from future efficiencies (para 10)

- Approval of £60,000 for 2015/16 for the resurfacing of Hiltingbury Tennis Courts to be funded from New Homes Bonus (paras 35-36)

- Approval of £35,000 to repair the roof of units 3A & 3D Herald and £19,000 be approved for the urgent redecoration works of units 3A, C & D. The total sum will be funded as an invest to save scheme. (para 37-39)

- Approval of the allocation of £12,500 from Housing capital funds to purchase the Homeless Module of the Hampshire Home Choice, Arbirts software, web-based solution. (para 20)

- Note the change in funding from future S106 contributions to New Homes Bonus to fund new guides HQ and scout hall at Ramalley (para 31).

SARAH KING
Chief Financial Officer

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LOCAL GOVERNMENT ACT 1972 – SECTION 100D

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information:

None