Report To:	**EXECUTIVE CABINET**
Date:	25 July 2018
Executive Member/Reporting Officer:	Councillor Bill Fairfoull - Executive Member Performance and Finance Tom Wilkinson – Assistant Director Finance
Subject:	**REVIEW AND REPRIORITISATION OF THE CAPITAL PROGRAMME**
Report Summary:	To review the existing capital programme in light of cost overruns on the Vision Tameside programme, other emerging cost pressures on key schemes and delays to the realisation of key capital receipts.
Recommendations:	That Executive Cabinet recognise the capital pressures that are facing the Council and recognise that to ensure the efficient allocation of these scarce resources that the capital programme needs to be reprioritised to enable it to be delivered within available resources. Recognise that capital receipts fund a large proportion of the current capital programme, and that the size of the capital programme is dependent of the level of capital receipts released. Produce a revised capital receipts schedule to allow the achievement of the £55m required to fund the programme.
Links to Community Strategy:	The Capital Programme ensures investment in the Council's infrastructure is in line with the Community Strategy.
Policy Implications:	In line with Council Policies.
Financial Implications: **(Authorised by the Section 151 Officer)**	These are the subject of the report.
Legal Implications: **(Authorised by the Borough Solicitor)**	It is a statutory requirement for the Council to set a balanced budget. It is important that the capital expenditure position is regularly monitored to ensure we are maintaining a balanced budget and to ensure that the priorities of the Council are being delivered. It is important to keep the capital programme under review to ensure deliverable and it needs to be considered in light of revenue because where the Council fails to keep within its income it has been necessary to use reserves to balance the budget – this in turn affects the capital programme and the ability to borrow. It is worth noting that English councils are set to face six tests under a proposed new "traffic light" scheme rating their financial resilience, including changes in reserve levels and the ratio of government grants to net revenue expenditure. The Chartered

Institute of Public Finance and Accountancy (CIPFA) launched a consultation on its proposed new resilience index this week.
The institute proposed that other criteria used to compile the index would relate to expenditure, Ofsted ratings for social care, and an auditor's value for money judgement. The institute is proposing to rank councils within all six of the criteria, before combining the scores to give an overall rank. The six criteria, and their level of weighting in calculating the overall rank, are proposed as follows:

- The level of total reserves, excluding schools and public health, as a proportion of net revenue expenditure. (0.25)
- The percentage change in reserves, excluding schools and public health, over the past three years. (0.25)
- The ratio of government grants to net revenue expenditure. (0.1)
- Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments. (0.15)
- Ofsted's overall rating for children's social care. (0.15)
- Auditor's VFM judgement. (0.1)

CIPFA emphasised that the resilience index is not proposed as "a performance table of service outcomes, or quality, and is not a comment on the quality of leadership in councils".

However, the institute said the aim was to create "an authoritative measure" of financial resilience, using publicly available information, intended to provide an early warning system. CIPFA believes local government and external auditors could use the information to assist their work.
The consultation on the financial resilience index is open until 24 August. CIPFA said it expects the first edition to be published in the early autumn.

Risk Management:

There are significant risks around the delivery of schemes on budget, and the realisation of capital receipts.

Access to Information:

The background papers relating to this report can be inspected by contacting Tom Wilkinson.

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1. BACKGROUND

1.1. The capital programme budget of £174m was set in October 2017 to run through until March 2020. Between October 2017 and April 2018 a number of additional schemes were added to take the value of the programme to £189m.

Table 1 – Approved Capital Programme

Capital Programme	£000
Programme approved in October 2017	**174,153**
Changes during 2017/18:	
Manchester Airport Investment	11,300
Children's Playgrounds	600
Additional Grants and Contributions	3,687
Total Proposed Expenditure April 2018	**189,740**

1.2. The programme is made up of two main elements, approved and earmarked schemes. Approved schemes are those for which a business case has been produced and which are already in progress. Earmarked schemes are those that are approved in principle but require further business case development, to demonstrate they represent value for money and are aligned with the Council's priorities. All new schemes added to the programme in October 2017 were added as earmarked schemes. Since October 2017 a number of schemes have sought full approval and a number remain as earmarked. Further analysis of earmarked and approved schemes is set out in section 5 below.

1.3. When the £174m programme was approved in October 2017, it was acknowledged that the budget for earmarked schemes exceeded the identified available resources of £173m. At the time of approval, resources identified to fund the programme consisted of the following:

Table 2: Expected funding sources 2017 – 2020

	2017/18 £000	2018/19 £000	2019/20 £000	Total
Grants and Contributions	23,637	1,600	1,600	**26,837**
Revenue Contributions	731	0	0	**731**
Forecast Capital Receipts	46,307	4,762	2,414	**53,483**
Reserves	41,416	22,923	4,871	**69,210**
Prudential Borrowing	16,423	6,524	0	**22,947**
Total	**128,514**	**36,509**	**8,185**	**173,208**

1.4. Executive Cabinet approved the use of additional reserves to fund the investment in Manchester Airport and forecasts for capital receipts have increased since October. The revised forecast for financing the capital programme is set out in Table 3 below. The majority of the funding sources are already in place and the funds readily accessible. The capital receipts are the main key variable, act to balance the programme, and are budgeted to fund a third of the programme. However, only £7.6m of £59m forecast have been achieved to date, and to balance the capital programme over 90% of the assets on the receipts list have to be sold for their estimated price. This is a considerable risk to the affordability and sustainability of the programme.

Table 3: Current forecast for Capital Financing (April 2018)

Current Planning Capital Financing	
Prudential borrowing	22,241
Contributions	1,778
Grants	26,507
Specific Receipts	844
Reserves	80,510
Budgeted receipts	59,000
Total Resources	**190,880**

1.5. The schemes funded from borrowing were designed as invest to save schemes where the capital expenditure would allow additional income to be earned or revenue savings be generated to cover the interest and repayment costs of the borrowing. Failure of these schemes to deliver income or savings will have a direct impact on the Council's revenue budget and result in further budget pressures on top of the funding cuts from central government. The annual cost of borrowing the £22.2m in the programme means the Council committing itself to £1.8m a year of repayment and interest costs for the next 25 years, so it is important that these compensating income streams and savings are delivered.

1.6. Grants and contributions, usually come from central government and developers, and as such are directed to specific schemes, and therefore cannot be spent at the discretion of the Council. They are mainly in relation to providing additional school places and for highways maintenance and development.

1.7. The Council does have maximum discretion over the use of its reserves and capital receipts, in terms of how they are spent, and which receipts are raised.

2. THE RESERVES POSITION

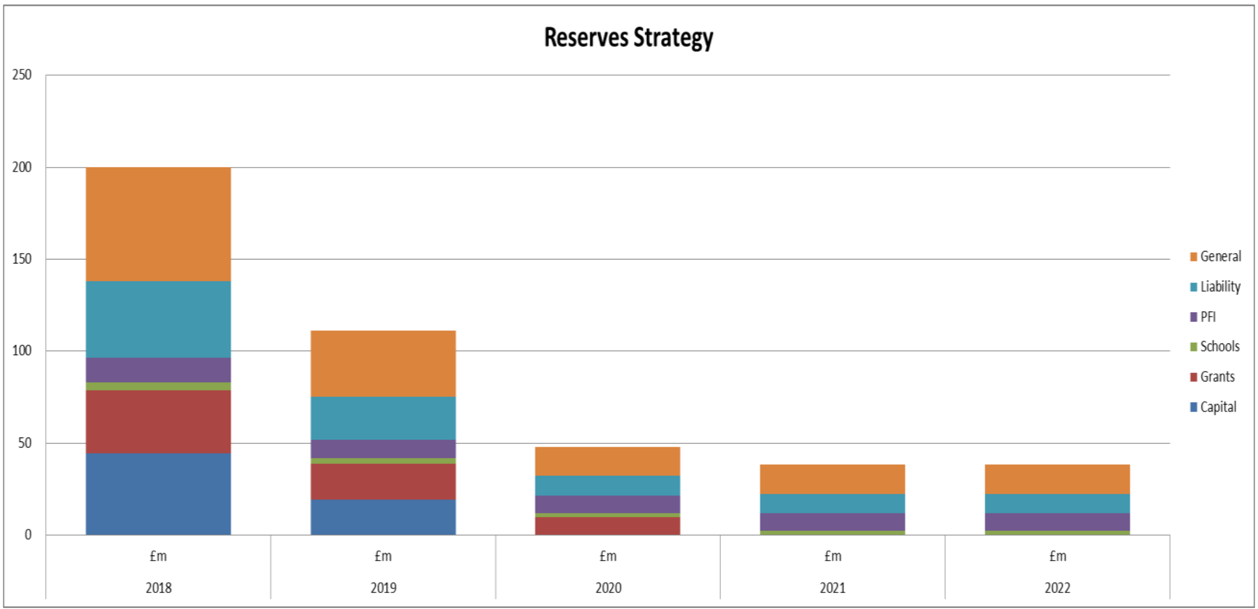
2.1. As at 31 March 2017, Council Reserves stood at £220m. It was acknowledged that the prudent accumulation of these reserves, during a time of great financial uncertainty was the right approach for the Council during the early part of austerity. It was also acknowledged as part of the 2017/18 budget process that it was now the right time to utilise these reserves and deliver an ambitious capital programme to invest in the fabric of the borough.

2.2. A detailed review of reserves took place in 2016/17 and £69m (32%) were earmarked to deliver the capital programme. In February 2018, Executive Cabinet approved a further use of £11.3m of reserves to fund an investment in Manchester Airport, bringing total planned use of reserves for Capital Investment to £80m (42% of total reserves). With all things being equal this would bring the reserves position down to £140m. The capital reserves currently stand at £51m, and assuming there are no further capital receipts, and based on current spending profiles they will stand at £11m by 31 March 2019; and be fully used by 31 March 2020.

2.3. However, revenue budget cost pressures and some reserves earmarked for specific purposes, means that the reserves position is expected to reduce significantly including:

- £23m of reserves planned to allow the revenue budget to be balanced. This is to address the pressures in Children's Social Care;
- £15m has been earmarked for the care together risk share;
- £20m further resources is likely to be needed to fund overspends, non-achievement of savings and delays to the reduction of the Children's services pressures;

- £35m of grants currently held in reserves will be spent (or returned).



2.4. This has the impact of reserves being reduced to less than £50m in under 4 years which is clearly unsustainable.

3. COST PRESSURES

3.1. It has been well documented that the Council is facing significant cost pressures on the Vision Tameside phase 2 (VT2) project following the collapse of Carillion in January 2018. The anticipated shortfall on this scheme is £9.4m (including contingencies). However, there are other cost pressures coming through on other strategically important schemes. Total cost pressures are highlighted in Table 4.

Table 4: Capital Scheme Cost Pressures

Potential Capital Cost Pressures	£000
Vision Tameside Phase 2	9,400
Ashton Old Baths	1,100
Ashton Town Hall	3,300
ICT Devices	3,000
Replacement of Cremators	1,000
Hyde Pool	88
Total	**17,888**

3.2. Apart from the VT2 project and Hyde Pool, the other schemes are earmarked schemes in the programme and have not yet got final approval. However, Ashton Old Baths is the designated site for the Council's data centre and Ashton Town Hall is a grade 2 listed building which the Council has a duty to maintain. The ICT devices scheme will bring forward the IT technology required for a modern organisation operating out of multiple sites and will need to be incurred within the next 2 years regardless. Regarding the replacement of cremators, £1.5m has already been earmarked for their replacement, but this was an initial estimate and costs are expected to be in in the region of £2 - £2.5m. The crematorium is a cash generator for the Council and a failure to replace will result in a net loss of income of around £1.4m per annum which would have to be replaced from other savings or income generation.

3.3. In addition to the above, the Tameside Highways Asset Management Plan for 2017-2021 identified proposals to invest £20m in the Council's highways over a four year period from 2017/18 to 2021/22. The Strategic Planning and Capital Monitoring Panel in March 2017 supported the principle of additional investment in Highways subject to a further report alongside all other requests for funding. The October 2017 capital programme considered the relative priorities and agreed to fund £13.250m of the original £20m identified in the Highways Asset Management Plan, on the grounds that annual Highways Maintenance grant funding of £2-3m per year is anticipated. Against the £13.250m, approvals for expenditure totalling £8m have been sought for the two year period 2017/18 to 2018/19. A residual earmarked sum of £5.250m is included in the Capital Programme for 2019/20.

3.4. Total Capital Expenditure in 2017/18 was £51.385m. Once the additional pressures have been added to the Capital Programme and the 2017/18 actual expenditure removed, the revised three year programme is £161m.

Table 5: Revised Capital Programme June 2018

Total Capital Programme	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	TOTAL £000s
Updated Capital Programme (April 2018 - Table 1 above)	132,201	48,009	9,530	0	**189,740**
2017/18 Actual Expenditure	-51,385				**-51,385**
Budget Re-profiling	-80,816	79,301	1,515		**0**
Additional Grant Funded Schemes		5,094			**5,094**
Pressures:					
Vision Tameside		9,400			**9,400**
Hyde Pool		88			**88**
Refurbishment of Ashton Town Hall		3,300			**3,300**
Ashton Old Baths		1,100			**1,100**
Replacement of Cremators		1,000			**1,000**
ICT Devices		3,000			**3,000**
Revised Total including pressures	**0**	**150,292**	**11,045**	**0**	**161,337**

3.5. The planned financing of the capital programme has been updated to reflect additional grant allocations and the financing of capital expenditure in 2017/18. The revised financing plan is as follows:

Table 6: Revised financing for the 2018/19 – 2020/21 Capital Programme

	Proposed October 2017 £000s	Changes 2017/18 £000s	Revised plan April 2018 £000s	Financing of 2017/18 Actuals £000s	Changes in 2018/19 £000s	Planned 2018/19 - 2020/2021 £000s
Grants and Contributions	**26,837**	-418	26,419	13,292	10,084	**23,211**
Revenue Contributions	**731**	1,135	1,866	1,325	0	**541**
Forecast Capital Receipts	**53,483**	5,057	58,540	7,732	0	**50,808**
Reserves	**69,210**	11,300	80,510	29,036	0	**51,474**
Prudential Borrowing	**22,947**	-706	22,241	0	0	**22,241**
Total	**173,208**	**16,368**	**189,576**	**51,385**	**10,084**	**148,275**

3.6. With the total demands on the capital programme now exceeding £161m (as per table 5 above), this leaves a shortfall in financing of £13m. This shortfall assumes that all the forecast capital receipts can be realised and that the planned borrowing is still taken up (with the associated revenue costs).

4. OPTIONS TO CLOSE THE GAP

4.1. Since the programme was approved a number of potential schemes have become unfeasible and can be removed from the programme. Some of these have revenue implications and have been highlighted in Table 7, and are reflected in the latest budget monitoring report.

Table 7 – Schemes no longer possible

Schemes to remove	£000	Revenue Impact £000	Notes
Plantation purchase	-5,397	-220	Remove as no longer purchasing Plantation
Improvements to Plantation	-1,400		Remove as no longer purchasing Plantation
Refurbishment of Concord Suite	-450		On hold - is it needed for recant on VT2
	-7,247	**-220**	

4.2. By removing these schemes from the programme, the £7.25m released can be used to close the £17.9m gap to £10.7m. There is an ongoing revenue budget impact of £220k per annum, which has arisen by not being able to purchase the Plantation Estate.

4.3. It may also be possible to change the way that some schemes are financed to free up capital receipt or reserve funding that was earmarked for those schemes. These will also have a potential revenue impact, albeit not ones that have been budgeted for. Table 8 summarises those schemes.

Table 8 – Alternative Funding Sources

Schemes with potential alternative funding	£000	Revenue Impact £000	Notes
Investment and Development Fund	-11,500		No proposals have been forthcoming. Alternative funding sources could be considered.
Fleet Replacement	-500		Use Fleet Replacement Reserve
Godley Green	-200		Potentially move to revenue/grant funding
	-12,200		

4.4. By removing schemes or switching funding, £12.2m could be released to fund the budget pressures.

4.5. The Investment and Development Fund was set up to allow a more commercial approach to be taken in relation to property assets. The fund would seek property returns from its investment in the form of rental yield and capital growth. No plans have yet been received for this, but some schemes could be taken forward on a case by case basis on individual business cases. If they were sufficiently lucrative then alternative funding sources could be considered as an invest to save project.

4.6. The Fleet Replacement scheme of £500k could be funded from the Fleet Replacement Reserve, which has more than £2.4m in it. The whole of the fleet replacement strategy needs to be reviewed as it appears there may be multiple funding sources, including existing revenue budgets as well as reserves.

4.7. The Godley Green development could be funded from revenue reserves, development grant, or one off from the collection fund surplus as it will facilitate the increase in housing stock and therefore the council tax collected.

4.8. In addition, following a detailed review of the balance sheet, a sum of £2.038m of unspent Adults Capital Grants can be released to fund the Capital Programme. This balance can be used to fund the Oxford Park and 4C Community Centre Projects, with the balance available to fund other earmarked schemes that support Adults priorities.

5. CAPITAL RECEIPTS

5.1. The capital programme agreed in October 2017 was to be financed by a list of capital receipts that had been drawn up at the time. There was limited consultation on this list of receipts. In order to show transparency, there is a need to review all land and asset holdings to devise a new list that can be effectively consulted on with ward members and local communities. This list is being developed and will be published by the end of the calendar year.

5.2. The original capital programme was predicated on receiving almost one third of its funding from the sale of assets, however, 80% of that is reliant on 12 major sales. Table 9 shows the breakdown of the receipts by value band. In order for the October 2017 programme to be delivered and the cost pressures highlighted in Table 4 funded, an equivalent level of capital receipts will have to be generated.

Table 9 – Capital Receipts by Value Band

	Projected		Actual to end of 2017/18	
Property Values	**Number of Properties**	**Combined Value £000**	**Number of Properties**	**Combined Value £000**
10m plus	2	20,000	0	-
5-10m	1	8,000	0	-
2-5m	1	2,000	0	-
1-2m	8	11,100	0	-
0.5-1m	7	4,531	2	1,475
<0.5m	131	9,917	104	2,936
Total	**150**	**55,548**	**106**	**4,411**

5.3. It is important to note that receipts from the sale of land or other assets can only be used to fund capital investment or for the repayment of long term debt. Capital receipts cannot be spent on balancing the day to day revenue budget. Similarly the Council is only permitted to borrow to fund capital investment, so the use of capital receipts to repay long term borrowing is permitted and in both scenarios the Council's asset base is maintained. The sale of capital assets is akin to selling the family silver to only buy some more family silver albeit it better value or more useful silver!

6. ANALYSIS OF THE CURRENT PROGRAMME

6.1. As mentioned above, the programme is made up of two main elements, approved and earmarked schemes. Earmarked schemes are those that are approved in principle but require further business case development.

6.2. Taking into account the pressures outlined above, the programme has been categorised into the following areas:

Table 10 – Approved and Earmarked Schemes

Fully Approved Schemes	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**	**TOTAL £000s**
Fully Approved Schemes	87,808	0	0	**87,808**
Including:				
Vision Tameside Pressures	9,400	0	0	**9,400**
Financed from:				
Borrowing	16,979	0	0	**16,979**
Grants and contributions (External Funding)	23,666	0	0	**23,666**
Reserves	47,163	0	0	**47,163**
Total	**87,808**	**0**	**0**	**87,808**

Earmarked Schemes	2018/19 £000s	2019/20 £000s	2020/21 £000s	TOTAL £000s
Earmarked Schemes	43,012	11,045	0	**54,057**
Financed from:				
Borrowing	0	0	0	**0**
Reserves	4,811	0	0	**4,811**
Anticipated Receipts	38,201	11,045	0	**49,246**
	43,012	**11,045**	**0**	**54,057**

7. NEXT STEPS

7.1. Given the number and size of pressures facing the capital programme since the budget was set in October 2017 and the required review of the capital receipt plans, it is necessary to pause the programme. The Council is able to proceed with only those schemes which are currently in train and are of a business critical nature, subject to a full business case. A reprioritisation of the remaining programme should also take place. The earmarked programme and schemes can then be reviewed in light of the available resources, which will be restricted by the level of capital receipts anticipated.

7.2. Earmarked schemes that were identified as emergency or statutory compliance works, alongside those of a business critical nature will be progressed. These schemes are a priority and will take the first call on available resources, subject to a satisfactory business case being made. They are estimated to cost £12.657m and are illustrated in Table 11 below.

Table 11 – Business Critical and Statutory Compliance Schemes

Scheme	Reason	2018/19	2019/20	Total
Ashton Old Baths Annex	Business Critical – Data Centre & Revenue Savings	2,700	0	**2,700**
Children's Services	Business Critical – Revenue Savings	1,000	0	**1,000**
LED Street Lighting Scheme for Main Roads	Business Critical – Revenue Savings	1,750	1,850	**3,600**
Flood Prevention and Repairs	Statutory Compliance	300	345	**645**
Cemetery Boundary Walls	Statutory Compliance	200	0	**200**
Property Assets Statutory Compliance	Statutory Compliance	812	1,000	**1,812**
Replacement of Cremators	Statutory Compliance	2,500	0	**2,500**
Woodend Mill Chimney	Statutory Compliance	200	0	**200**
Total		**9,462**	**3,195**	**12,657**

7.3. A formal process to enable the objective assessment of schemes that are aligned with the Council's priorities will therefore take place between now and October 2018, with a view to establishing a revised capital programme for 2019/20 to 2023/24 in line with the Council's revenue budget process. Proposals for currently earmarked schemes will be able to be continued and scored against the assessment process. A further report will come to Executive Cabinet outlining the proposed prioritisation approach and capital receipts strategy.

APPENDIX 1

Earmarked Schemes

Pressures identified above - Business Cases in development:				
Replacement of Cremators	2,500	0	0	**2,500**
Ashton Old Baths Annex	2,700	0	0	**2,700**
Refurbishment of Ashton Town Hall	10,000	0	0	**10,000**
ICT Devices	3,000	0	0	**3,000**
	18,200	**0**	**0**	**18,200**
Other earmarked schemes - Business Cases in development:				
Tameside Highways Asset Management Plan	0	5,250	0	**5,250**
Borough Gateways	300	0	0	**300**
Additional scheme - Children's Playgrounds	600	0	0	**600**
New Children’s Home	1,000	0	0	**1,000**
LED Street Lighting Scheme for Main Roads	1,750	1,850	0	**3,600**
Flood Prevention and Repairs	300	345	0	**645**
Crowded Places Pedestrian Safety	250	0	0	**250**
Cemetery Boundary Walls	200	0	0	**200**
	4,400	**7,445**	**0**	**11,845**
Earmarked Schemes - No business case developed yet:				
Union Street Health Hub	4,250	1,250	0	**5,500**
Denton Festival Hall Health Hub	3,500	0	0	**3,500**
Care Together Digital Funding	3,000	0	0	**3,000**
Property- Refurbishment of Capital Assets	1,750	1,250	0	**3,000**
Hyde Indoor Market Redevelopment	2,500	0	0	**2,500**
Property Assets Statutory Compliance	812	1,000	0	**1,812**
Droylsden Library – Pension Fund Building	1,400	0	0	**1,400**
Hyde Town Hall Roof	1,300	0	0	**1,300**
A&E Streaming	700	0	0	**700**
Asset Management Software	500	0	0	**500**
Ashton Library	200	0	0	**200**
CCTV	200	0	0	**200**
Parking Enforcement System Upgrade	100	100	0	**200**
Woodend Mill Chimney	200	0	0	**200**
	20,412	**3,600**	**0**	**24,012**
Total	**43,012**	**11,045**	**0**	**54,057**