Report to:	**EXECUTIVE CABINET**
Date:	27 March 2019
Executive Member/ Reporting Officer:	Cllr Bill Fairfoull – Deputy Executive Leader Kathy Roe – Director of Finance Tom Wilkinson – Assistant Director of Finance
Subject:	**CAPITAL PROGRAMME – METHODOLOGY FOR PRIORITISATION**
Report Summary:	In July 2018 Executive Cabinet received a report setting out the capital pressures that are facing the Council. The report recommended that the programme as approved in October 2017 would need to be reprioritised, and noted that the size of the capital programme would be dependent on the level of capital receipts realised. This report provides members with an outline of the methodology proposed for prioritisation of earmarked schemes. A report was presented to Executive Cabinet in December 2018 to update members on the Asset Disposals. The report highlighted the earmarked capital schemes currently on hold have an indicative budgeted cost of £47m, which has now increased to £59m. The current level of expected capital receipts is £37m, of which £5.989m is needed to fund schemes in progress. This leaves a balance of £30m to fund the earmarked schemes, creating a shortfall of £29m. It is proposed that this prioritisation methodology is used to prioritise the existing earmarked schemes and is then adopted in supporting future capital investment decisions and ensuring that scarce capital resources are allocated in the most efficient, effective and sustainable way and thus ensuing value for money. The methodology will form part of an annual capital budget process that will be aligned with the revenue budget process, with the priorities reviewed and refreshed as part of this, and schemes will be subject to a business case process.
Recommendations:	That the Executive Cabinet be recommended to: 1) **approve** the methodology for prioritisation of schemes as set out in section 3; 2) **agree** to the principle that all cross organisational schemes are self-financing, as set out in Section 4; 3) **acknowledge** that the assets identified in Section 5 will become surplus to requirement and available for disposal; 4) **approve** the removal of earmarked schemes from the capital programme as set out in section 6; 5) **agree** that all schemes above the red cut off line in Appendix 4 progress to the business case stage; *6)* **acknowledge** that capital receipts of £37m are required to be delivered to enable the delivery of schemes above the red cut off line.

Corporate Plan:	The Capital Programme ensures investment in the Council's infrastructure is in line with the Community Strategy.
Policy Implications:	Budget is allocated in accordance with Council Policy.
Financial Implications: **(Authorised by the statutory Section 151 Officer & Chief Finance Officer)**	In July 2018, Executive Cabinet received a report setting out the capital pressures that are facing the Council. The report identifies critical capital schemes totalling £12m. The current expected level of capital receipts is £37m and £4m is currently available in capital reserves. The report highlighted the capital schemes with funding earmarked to them. These "earmarked" schemes are currently on hold and had an indicative budgeted cost of £47m, which has now increased to £59m, if aspirations were to be fully funded. An additional £1m in pressures has also emerged for current schemes. Overall, if all of these schemes were progressed there would be a funding shortfall of £29m. In order to aid the decision making process an initial prioritisation exercise has been completed for all of the schemes currently on hold. The prioritisation exercise could include the option of borrowing for three schemes worth £15.4m and funding the replacement of the fleet from the fleet reserve of £2.4m which would result in the shortfall reducing to £11m as shown in Appendix 3. Any borrowing would still need to be repaid and the business case would have to identify how savings will be generated from the investment. Failure to deliver savings would place a pressure on the revenue budget. There is an increasing demand on services and on the Council to deliver these capital schemes which have been delayed over the past 12 months whilst the prioritisation process has been developed. Some schemes are now urgent in nature and by agreeing the capital priorities these can be progressed. Early planning work for the next phase of the capital programme, as part of the recent Budget Report to Full Council is a requirement of the CIPFA prudential code and points to additional capital investment aspiration of a further £116m on top of the existing approved capital programme, this is summarised in appendix 5, and will be considered in more detail as part of the 2020/21 to 2024/15 budget setting process.
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 in setting any capital programme there isclarity as to what old assets we are going to sell to replace with new assets to ensure that the Council ensures it retains if not grows its asset base whilst being clear as to how it will be afforded this requires a balancing act between disposals and the cost of any borrowing together with clarity as to cash flows and how the assets will be maintained. Accordingly to ensure a balanced budget members need to be clear they have set clear priorities and they only undertake those projects can afford and have clear business cases to justify expenditure and have certainty over cost and project management. The strategic Planning and Capital Monitoring are charged with supporting the Capital by monitoring

the programme.

Risk Management: There are significant risks around the delivery of capital schemes within budget and the realisation of capital receipts, as set out in the report to Executive Cabinet in July 2018. Delays to the approval of a revised programme and schedule of planned disposals is likely to have revenue budget implications if the Council is required to undertake interim maintenance or safeguarding work on assets that require significant capital investment.

Background Information: The background papers relating to this report can be inspected by contacting Saira Azim

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1. INTRODUCTION

1.1 A three year capital programme was originally approved in October 2017 for the period 2017 – 2020. This three year programme was to be financed from a combination of reserves, grants, borrowing and an assumed level of capital receipts based on the planned disposal programme at that time. Between October 2017 and April 2018 a number of additional schemes were added to the programme. Details of the schemes included and the financing assumed in the programme were set out in the report to Executive Cabinet on 25 July 2018.

1.2 The July 2018 report to Executive Cabinet also identified a number of "earmarked" schemes which were considered to be business critical, emergency or statutory compliance related works. These schemes were identified as a priority to be progressed and first call on the available resources including anticipated capital receipts, and had an estimated total budgeted cost of £12.6m.

1.3 The "earmarked" capital schemes currently on hold have an indicative budgeted cost of £59m. Appendix 3 of this report identifies that the current level of expected capital receipts is £37m, of which £5.989m is needed to fund schemes in progress. This leaves a shortfall balance of £29m when the business critical schemes highlighted in paragraph 1.2 are added and, if all schemes were to be progressed. It is therefore necessary to give priority of some schemes over others to ensure that all capital schemes that progress have maximum impact for the Council.

1.4 The prioritisation methodology outlined in this report has been used to score the existing "earmarked" schemes currently on hold. The result of this reprioritisation exercise and the adopted methodology is shown in Appendix 3.

1.5 It is proposed that this prioritisation methodology is adopted to aid discussion and the decision making process when considering future capital investment decisions to help ensure that scarce capital resources are allocated in the most efficient, effective and sustainable way and thus ensuing value for money.

1.6 The CIPFA prudential code, which governs how Local Authorities account for and manage capital assets, requires the production of a comprehensive capital strategy, which stretches many years into the future. Work has therefore been done to assess the capital demands for the next 5 years that are on top of the current approved investment programme. The result of this work is presented in Appendix 5 and provided for all service areas. This further highlights the need for a robust and transparent decision making process for the capital programme. The capital strategy indicates that the level of investment required over the next five years is £116m which is in addition to the current programme and earmarked schemes.

2. PRIORITISATION OF CAPITAL SCHEMES

2.1 The main sources of funding of capital assets is either through one off grant funding, the capital receipts from the disposal of surplus assets, reserves, or long term borrowing, all of which are one off in nature (an asset can only be sold once) or have long term revenue budget consequences, in the case of borrowing. Therefore the scarcity of capital resources means that any capital investment has to be carefully considered to ensure it is appropriate and in line with Council policies and objectives.

2.2 It is proposed that officers will undertake a process of reviewing and assessing the remaining earmarked schemes (listed in **appendix 1**) to inform a prioritisation of the capital programme. For each of the planned schemes, officers will assess the scheme against a number of criteria including:

- **Strategic Context –** What is the purpose of the scheme and how does it fit with the Council's priorities, and the local and national context.
- **Mandatory or discretionary investment –** Is the scheme intended to address Health and Safety, Legal or Statutory obligations? Is it a cost-avoidance or invest to save scheme? Is the planned scheme to address regeneration, improvement and development or transformation of services?
- **Objectives and benefits of the scheme** – What is the scheme expected to deliver for the Council, service users and residents?
- **Financial implications and options for delivery** – to consider whether alternative options can be considered, what financial investment is required and whether any external funding is available.

2.3 It is proposed that this prioritisation methodology is adopted in supporting future capital investment decision and ensuring that scarce capital resources are allocated in the most efficient, effective and sustainable way and thus ensuing value for money.

3. METHODOLOGY FOR PRIORITISATION

3.1 A methodology has been created in order to introduce objectivity to allow schemes to be ranked according to organisational need and ensure the best allocation of our scarce capital resource. The following document considers the process to be followed when prioritising schemes.

3.2 Officers will undertake the following steps in achieving a methodology for prioritisation:

1) Prioritisation documents are completed by officers and reviewed by the Capital Officers Group. The prioritisation document will cover the criteria shown section 1.1.
2) Based on prioritisation documents completed, a scoring exercise will be completed. A scoring sheet has been produced which will factor in the above and provide the following scores:

Obligations to deliver scheme

	Health & Safety	4
OR	Legal / Statutory	4
	Business Continuation	4
	Cost avoidance	3
	Invest to save	3
	Improvement/Development	2
	Regeneration	2

Urgency of scheme

Desirable	1
Priority	2
High Priority	3
Essential	4

The maximum score which can be achieved is 22.

3) The Capital Officers group will agree and finalise scoring for capital schemes to present to Executive Cabinet. The Capital Officers group consists of Directors and Assistant Directors across all service areas.
4) The proposed prioritised list of schemes is reviewed by the Senior Leadership Team.

5) Executive Cabinet approve to progress capital schemes after taking note of the prioritisation schedule.

4. REVIEW OF EXISTING SCHEMES

4.1 The development of the prioritisation methodology revealed that some of the proposed schemes could potentially be self-financing and not be a call on the Council's capital receipts.

Cross Organisational Working

4.2 The schemes in relation to cross organisational working with the Health Service, in particular, are able to generate significant service improvement and NHS and Council estate rationalisation opportunities that they should be self-financing over the life of the new asset. This self-financing can be through the sale of surplus Health assets through the One Public Estate initiative, or through the exiting of expensive leases generating budget savings, as well as through the reconfiguration of services delivered from the new assets that achieve operational and performance efficiencies.

4.3 The principle should be established that such initiatives should generally be self financing in this way.

4.4 If this approach is adopted, then the two Health Hub schemes in Denton (£5.5m) and Hyde (£3.5m) could be funded through the Council's prudential borrowing powers, removing need for Council capital receipt investment. The Health Hub schemes are not risk free for the Council and would be subject to detailed due diligence and business cases before being progressed.

4.5 This principle would equally apply to the Care Together digital funding scheme.

Self-Funding Capital Schemes

4.6 The Fleet Replacement Programme, is funded by charging service Directorates an annual charge towards the cost of purchasing the vehicles. This needs to be included in the capital programme for completeness, but does not require any capital receipt funding. The fleet replacement programme is also subject to a rational business case being made before it progresses, in order to demonstrate value for money.

5. CAPITAL RECEIPTS

5.1 Officers are continuing with the disposal of development sites that have already been approved or agreed for development and sale, and which are mainly based around the legacy school sites following the Building Schools for the Future along with the sites identified for development by Matrix Homes. These sites are anticipated to realise approximately £37m in capital receipts over the next 2-3 years. Without these receipts there will be insufficient funding to progress any more capital schemes.

5.2 Any additional future capital receipts will be dependent on the Asset Management Plan being updated. The capital programme being proposed will result in the following assets becoming surplus to requirements. These can therefore be considered for sale or alternative use:

- Denton Pool (on completion of Denton Wellness Centre)
- Droylsden Library (once transferred to Guardsman Tony Downes House)

5.3 If disposed of the capital receipts can be used to contribute to the Council's capital priorities.

5.4 The development of the estates strategy needs to consider the Council's investment assets, which generate a rental income, as well as its operational land and buildings, alongside any non-strategic assets. It will be driven by the operational needs of the organisation, and may result in the identification of further sites for disposal, from which the sale proceeds can be invested back into the estate.

6. PROPOSAL TO REMOVE EARMARKED CAPITAL SCHEMES

6.1 The earmarked schemes were set in October 2017 as part of a capital programme initiation for 3 years. As part of the on-going review into the capital programme's earmarked schemes since the report to Executive Cabinet in July 2018, schemes and its priorities have been re-evaluated. A proposal to remove the following schemes from programme should be considered:

- Ashton Library £0.2m – Library developed as part of Tameside One building.
- A&E streaming – NHS capital funding has been sought.

7. CONCLUSION

7.1 The proposed approached to reviewing the capital programme and changed proposed in sections 4, 5 and 6, will result in there being a shortfall of £11.157m. The proposed methodology aims to prioritise schemes in an approach that will meet both strategic aims and corporate priorities. It ensures capital resources are allocated in the most efficient, effective and sustainable way and thus ensuing value for money.

7.2 If the prioritisation process is approved and it is agreed that the schemes above the cut off line are progressed, the Council will have to deliver on the sale of the former school sites at Hartshead, Mossley Hollins, Two Trees and the Matrix Homes sites. Failure to realise these capital receipts will mean that the capital ambitions of the Council will not be delivered.

8. RECOMMENDATIONS

8.1 As set out at the front of the report.

APPENDIX 1

EARMARKED SCHEMES TO PRIORITISE

Capital Scheme	Estimated Cost £000s
Active Medlock	120
A&E Streaming	700
Ashton Library	200
Asset Management Software	500
Borough Gateways	300
Care Together Digital Funding	3,000
CCTV	900
Children's Playgrounds	600
Crowded Places Pedestrian Safety	250
Denton Festival Hall Health Hub	6,900
Fleet replacement	2,400
GTDH / Droylsden Library	1,400
Highways Asset Management Plan	14,250
Hyde Indoor Market	2,500
Hyde Town Hall Roof	1,300
ICT Devices	3,000
Parking Enforcement System Upgrade	200
Refurbishment of Ashton Town Hall	10,000
Refurbishment of Capital Assets	2,500
Union Street Health Hub	5,500
Total	**56,520**

BUSINESS CRITICAL EARMARKED SCHEMES TO PROGRESS

Capital Scheme	Estimated Cost £000s
Children's Homes	950
Property Statutory Compliance	1,653
Woodend Mill Chimney	200
Total	2,803

APPENDIX 2

CAPITAL PROGRAMME RESOURCE REVIEW

Financing	P10
Corporate	108,339
RCCO	4
Borrowing	16,979
Contribution	1,718
Grant	31,385
S106	57
Specific Receipt	-
Budgeted Financing	**158,482**
Available Corporate Funding	
Capital Reserve	39,952
Plus Additional Reserve Funding for Airport	11,300
Total Reserves	51,252
Capital Receipts required	37,000
Total Available Corporate Funding	**88,252**
Total Approved Schemes requiring Corporate Funding	57,886
Surplus after Financing Approved Schemes	**30,366**
Earmarked Schemes (including business critical schemes)	59,323
Shortfall of Funding Available to Finance Earmarked Schemes	**(28,957)**
Prudential Borrowing (linked to specific schemes)	15,400
Fleet Reserve	2,400
Revised Shortfall of Funding Available to Finance Earmarked Schemes	**(11,157)**

APPENDIX 3

PRIORITISATION AND PROPOSED SCORING

	£000
Approved Schemes - call on future capital receipts	-6,634
Anticipated Capital Receipts - to be sold	37,000
Balance of Anticipated Capital Receipts for new schemes	**30,366**

Capital Scheme	Value	Remaining Resources £000	Funding Required	Total Score
Statutory Compliance	1,653	28,713	Capital Receipts	BUSINESS CRITICAL
New Children's Home	950	27,763	Capital Receipts	BUSINESS CRITICAL
Woodend Chimney	200	27,563	Capital Receipts	BUSINESS CRITICAL
Tameside Highways Asset Management Plan 19-20	5,250	22,313	Capital Receipts	17
ICT Devices	700	21,613	Capital Receipts	17
Children's Playgrounds	600	21,013	Capital Receipts	16
Refurbishment of Ashton Town Hall	10,000	11,013	Capital Receipts	16
Pension Fund Building (Droylsden Library)	1,400	9,613	Capital Receipts	11
CCTV	900	8,713	Capital Receipts	11
Property- Refurbishment of Capital Assets	2,500	6,213	Capital Receipts	11
Hyde Town Hall Roof	1,300	4,913	Capital Receipts	11
Parking Enforcement System Upgrade	200	2,413	Capital Receipts	10
Asset Management Software	500	1,913	Capital Receipts	10
Hyde Indoor Market Redevelopment	2,500	1,713	Capital Receipts	9
Crowded Places Pedestrian Safety	250	1,463	Capital Receipts	9
Active Medlock	120	1,343	Capital Receipts	9
CUT- OFF BASED ON £37M OF CAPITAL RECEIPTS BEING ACHIEVED				
Tameside Highways Asset Management Plan 20/21-22/23	9,000	-7,657	Capital Receipts	8
ICT Development	2,300	-9,957	Capital Receipts	6
Borough Gateways	300	-10,257	Capital Receipts	3
Ashton Library	200	-10,457	Capital Receipts	3
A&E Streaming	700	-11,157	Capital Receipts	2
Total earmarked schemes	41,523			
Funding Shortfall / Additional Capital Receipts to be identified for sale		**-11,157**	**New Capital Receipts Requirement**	

Self Financing Schemes

Capital Scheme	Value	Remaining Resources £000	Funding Required	Total Score
Fleet replacement (Fleet Reserve)	2,400	n/a	Fleet Reserve	Subject to Fleet Reserve
Denton Festival Hall Health Hub	6,900	n/a	Prudential Borrowing	11
Union Street Health Hub	5,500	n/a	Prudential Borrowing	11
Care Together Digital Funding	3,000	n/a	Prudential Borrowing	1
Total Self Financing Schemes (subject to full business case)	**17,800**			

APPENDIX 4

5 YEAR INDICATIVE CAPITAL INVESTMENTS

	19/20	20/21	21/22	22/23	23/24	Total
	£000	£000	£000	£000	£000	£000
Vision Tameside	-	-	-	-	-	-
Investment & Development	10,815	16,050	11,500	9,000	5,000	52,365
Estates	-	-	-	-	-	-
Total Growth	**10,815**	**16,050**	**11,500**	**9,000**	**5,000**	**52,365**
Engineering Services	400	3,150	3,050	3,550	-	10,150
Environmental Services	200	850	300	250	200	1,800
Transport	2,750	1,150	-	170	100	4,170
Corporate Landlord	-	-	-	-	-	-
Stronger Communities	150	55	-	-	-	205
Total Operations and Neighbourhoods	**3,500**	**5,205**	**3,350**	**3,970**	**300**	**16,325**
Education	5,053	211	-	-	-	5,264
Children	-	-	-	-	-	-
Total Children's	**5,053**	**211**	**-**	**-**	**-**	**5,264**
Finance	-	-	-	-	-	-
Digital Tameside	270	340	485	340	785	2,220
Total Finance & IT	**270**	**340**	**485**	**340**	**785**	**2,220**
Active Tameside	-	-	-	-	-	-
Total Population Health	**-**	**-**	**-**	**-**	**-**	**-**
Adults	-	-	-	-	-	-
Adult Social Care - Estate	-	-	-	-	-	-
Community Health - Estate	-	10,000	25,000	2,500	2,500	40,000
Total Adults	**-**	**10,000**	**25,000**	**2,500**	**2,500**	**40,000**
Exchequer	-	-	-	-	-	-
Total Governance	**-**	**-**	**-**	**-**	**-**	**-**
GRAND TOTAL	**19,638**	**31,806**	**40,335**	**15,810**	**8,585**	**116,174**