

EXECUTIVE BOARD – 22 JULY 2014

Subject:	CAPITAL PROGRAMME UPDATE 2014/15 – 2018/19		
Corporate Director(s)/ Director(s):	Geoff Walker, Director of Strategic Finance and Chief Finance Officer (Acting)		
Portfolio Holder(s):	Councillor Graham Chapman, Deputy Leader/Portfolio Holder for Resources and Neighbourhood Regeneration		
Report author and contact details:	Geoff Walker, Director of Strategic Finance and Chief Finance Officer (Acting) 0115 8763740 geoff.walker@nottinghamcity.gov.uk		
Key Decision	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Subject to call-in	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Reasons:	<input checked="" type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £1,000,000 or more taking account of the overall impact of the decision	<input type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital	
Significant impact on communities living or working in two or more wards in the City	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
Total value of the decision: £311.120m			
Wards affected: All	Date of consultation with Portfolio Holder(s): Ongoing throughout the process		
Relevant Council Plan Strategic Priority:			
Cutting unemployment by a quarter			<input checked="" type="checkbox"/>
Cut crime and anti-social behaviour			<input checked="" type="checkbox"/>
Ensure more school leavers get a job, training or further education than any other City			<input checked="" type="checkbox"/>
Your neighbourhood as clean as the City Centre			<input checked="" type="checkbox"/>
Help keep your energy bills down			<input checked="" type="checkbox"/>
Good access to public transport			<input checked="" type="checkbox"/>
Nottingham has a good mix of housing			<input checked="" type="checkbox"/>
Nottingham is a good place to do business, invest and create jobs			<input checked="" type="checkbox"/>
Nottingham offers a wide range of leisure activities, parks and sporting events			<input checked="" type="checkbox"/>
Support early intervention activities			<input checked="" type="checkbox"/>
Deliver effective, value for money services to our citizens			<input checked="" type="checkbox"/>
Summary of issues (including benefits to citizens/service users):			
<p>This report presents an update of the capital programme for 2014/15 – 2018/19. The capital programme was approved in March 2014 and has now been updated to include schemes that have been prioritised as part of the Council's investment strategy.</p> <p>The report details the resources required to fund the revised programme. In particular the additional prudential borrowing and the return required to fund the revenue impact relating to repayment of interest and principal.</p> <p>The report also sets out the key principles that are to be used to manage the capital programme going forward.</p>			
Exempt information:			
<p>The appendices to the report are exempt from publication under paragraph 3 of Schedule 12A to the Local Government Act 1972 because they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) and, having regard to all the circumstances the public interest in maintaining the exemption outweighs the public interest in disclosing the information. It is not in the public interest to disclose this information because it may prejudice the Council's future negotiations.</p>			
Recommendation(s):			
1. To recommend that Council approve the proposed capital programme for 2014/15 to 2018/19			

of £677.567m.
2. To recommend that individual schemes be subject to separate approval in accordance with the constitution and scheme of delegation prior to expenditure being incurred.
3. To approve the Key Principles for managing the capital programme within its available resources as set out in section 5.2
3. To note the potential funding required as set out in section 4.5, which includes £230.480m of additional prudential borrowing, and the potential annual return of £20m required to fund the associated borrowing.
4. To note the associated risks of the proposed investments as set out in section 4.6

1 REASONS FOR RECOMMENDATIONS

- 1.1 The investment strategy is an ambitious programme over the next five years which will result in major investment and regeneration throughout the city centre and neighbourhoods. It also provides for investment in areas where we have a statutory and legislative responsibility, including schools and health and safety issues.
- 1.2 The programmes of investment are split into two categories:
- Strategic Regeneration Schemes (SRS), which aim to stimulate the local economy, generate long term employment, inward investment and regeneration.
 - Other capital schemes, which includes statutory and legislative requirements and community provision in neighbourhoods.

2 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

- 2.1 The five year capital programme was presented at Executive Board on 25 February 2014 as part of the Medium Term Financial Plan. A number of changes and approvals were reflected in the 2013/14 Outturn report, which was presented at Executive Board on 17th June 2014. The report noted that the Council is currently developing a Capital Investment Strategy which will focus on supporting a higher level of growth and regeneration across the city.
- 2.2 This report sets out the scope of that ambition which will result in major investment and regeneration within the city and in neighbourhoods. It ensures that resources are also available for investment in areas where we have a statutory and legislative responsibility, including schools and health and safety issues.
- 2.3 The availability of funds plays a key part in the size and content of the capital programme. The impact of national reductions in funding has significantly reduced the level of government support for capital investment and the Council must rely more on its own funding to lever in other sources of funding where this is available.
- 2.4 This strategy is being developed to set out how Nottingham will drive economic growth and increase investment over the next five years to provide major benefits for the City's businesses and citizens. It will form the basis of a clear, delivery focused framework that will:
- provide a strategic context for guiding regeneration and co-ordinating investment by the Council;
 - further enhance partnership with the private sector by setting a clear vision and programme of activity which will facilitate the leverage of external funds;
 - ensure that economic growth is linked to the creation of jobs and to supporting local people into employment;
 - align with existing and emerging key policies and initiatives;
 - stimulate growth in business rates;

- create a balance between the city centre and the outer area activity.

2.5 A number of capital schemes have been reviewed and considered in line with the Council's prioritisation process and this report recommends that £311.120m (which represents high and medium priority schemes) be included in the capital programme, pending approval of full business cases in accordance with the constitution and scheme of delegation before expenditure is committed.

2.6 The four priority area of regeneration and transformational investment include:

- The Broadmarsh area;
- The Southern Gateway;
- City Centre North;
- Outer sites.

In addition there are several areas of other capital projects which include:

- Commercial Opportunities
- Community Provision
- Health and Safety
- Meeting Statutory and Contractual Responsibilities
- Saves money and other

2.7 **Table 1** summarises the proposed General Fund capital programme of £677.567m, including £311.120m of projects in development. This approval does not constitute an approval to spend

TABLE 1: PROPOSED TOTAL CAPITAL PROGRAMME						
DESCRIPTION	2014/15	2015/16	2016/17	2017/18	2018/19	TOTAL
	£m	£m	£m	£m	£m	£m
Current Programme	243.163	53.738	34.072	19.790	15.684	366.447
Investment Strategy – Projects in Development	31.392	84.797	108.331	48.800	37.800	311.120
TOTAL PROPOSED PROGRAMME	274.555	138.535	142.403	68.590	53.484	677.567

2.8 Funding the investment programme will include:

- current capital programme surplus;
- review and alignment of existing reserves;
- dedicated capital grants and contributions;
- prudential borrowing;
- leveraging external sources of funding including private sector investment.

2.9 The inclusion of the Investment Strategy will require a different approach, to reporting and monitoring the capital programme. This will be reflected and presented as part of the Quarter 1 monitoring to Executive Board in September. Schemes will be split between those which have had formal approval and those which are in development and require further approval to progress.

3 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

3.1 This programme represents an essential element within the Council's overall Corporate Planning Framework. It relates to the Council's over-riding vision and aims for the planning and generation of capital financing resources in the medium term. It sets out the Council's approach to capital investment over the next five years and

provides a framework through which the Council's resources, and those matched with key partners, are allocated to help meet strategic priorities.

- 3.2 Schemes which have a statutory and legislative nature need to be carried out in order for the Council to meet its statutory responsibilities, failure to carry out these schemes may result in the Council breaching their statutory duties and therefore increasing risk.

4 **FINANCIAL IMPLICATIONS (INCLUDING VALUE FOR MONEY/VAT)**

- 4.1 **Table 2** below shows the proposed capital programme of **£677.567m** for the next five years.

TABLE 2 PROPOSED CAPITAL PROGRAMME						
DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	TOTAL £m
Current Programme	243.163	53.738	34.072	19.790	15.684	366.447
Strategic Regeneration Schemes – Projects in Development						
Broadmarsh Area	0.262	25.097	25.097	0.000	18.000	68.456
Southern Gateway	2.040	5.040	3.040	0.000	0.000	10.120
City Centre North	3.640	19.140	23.144	0.000	9.000	54.924
Outer Sites	0.000	1.750	1.750	0.000	10.000	13.500
Total - Strategic Regeneration Schemes	5.942	51.027	53.031	0.000	37.000	147.000
Other Capital Projects in Development						
Commercial Opportunities	10.310	22.900	43.500	42.500	0.000	119.210
Community Provision	1.450	0.000	0.000	0.000	0.000	1.450
Health and Safety	3.070	0.900	1.600	2.100	0.600	8.270
Meeting Statutory and Contractual Responsibilities	5.960	8.220	7.700	4.200	0.200	26.280
Saves Money	1.020	0.500	2.500	0.000	0.000	4.020
Other	3.640	1.250	0.000	0.000	0.000	4.890
Total Other Capital Schemes	25.450	33.770	55.300	48.800	0.800	164.120
Total Investment Strategy	31.392	84.797	108.331	48.800	37.800	311.120
Total Proposed Programme	274.555	138.535	142.403	68.590	53.484	677.567
Resources at Outturn	254.258	50.638	38.366	18.975	14.434	376.671
Additional Proposed Resources	27.707	86.513	106.157	47.140	37.100	304.617
Total Resources	281.965	137.151	144.523	66.115	51.534	681.288
Surplus	(7.410)	1.384	(2.120)	2.475	1.950	(3.721)

- 4.2 The proposed additions will be funded through a variety of sources, including:
- £16.710m of the Council's own resources (made up from the surplus in the current capital programme, reserves and additional capital receipts);

- £230.480m of additional prudential borrowing (£93.190m of prudential borrowing for schemes which are expected to cover their own costs and £137.290m of commercial borrowing for schemes which are expected to make a return on investment).

4.3 The key principle of prudential borrowing is that it must be affordable and sustainable. The level of prudential borrowing for the authority is currently £469.422m (this includes £212.090m which supports the current capital programme); the proposals will increase the level of borrowing by £230.480m to £699.902m.

4.4 The increase in borrowing will also require an additional return of £20m per annum in order to cover the principal and the interest payments associated with the borrowing. It is assumed that commercial schemes would be required to make an additional return of at least 5% above borrowing costs.

4.5 **Table 3** sets out the revised proposed resources required to fund the proposed programme.

TABLE 3 : PROPOSED RESOURCES						
DESCRIPTION	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Total £m
Resources at Outturn						
Resources b/f	26.162	0.000	0.000	0.000	0.000	26.162
Prudential Borrowing	162.758	20.768	15.678	8.435	4.451	212.09
Grants/Contributions	40.44	25.037	17.321	8.692	6.642	98.132
Internal Funds / Revenue	14.673	1.318	0.000	1.848	3.341	21.180
Unsecured Capital receipts	10.225	3.515	5.367	0.000	0.000	19.107
Subtotal -Resources at Outturn	254.258	50.638	38.366	18.975	14.434	376.671
Proposed Resources						
Prudential Borrowing	17.845	70.635	94.760	43.640	3.600	230.480
Grants/Contributions	4.255	10.878	11.397	3.500	33.500	63.530
Reserves	5.607	0.000	0.000	0.000	0.000	5.607
New Capital Receipts	0.000	5.000	0.000	0.000	0.000	5.000
Subtotal - Proposed Resources	27.707	86.513	106.157	47.140	37.100	304.617
TOTAL PROPOSED RESOURCES	281.965	137.151	144.523	66.115	51.534	681.288

4.6 Treasury Management

As part of the Treasury Management Strategy prudential indicators are set to reflect levels of external debt. The Council has set levels for its authorised limit; (the upper level of gross external indebtedness which must not be breached without approval), and its operational limit; (the prudent view of the level of gross external indebtedness). For 2014/15 the additional borrowing requirements for 2014/15 will be contained within current limits. The Treasury Management Strategy and Prudential Indicators will be updated to reflect the required level of borrowing for future years and will be presented for approval at Full Council in March 2015.

4.7 Schemes of this nature will require adequate resources and robust project management. The project management principles will be subject to a future report to Executive Board.

5 RISK MANAGEMENT ISSUES (INCLUDING LEGAL IMPLICATIONS, CRIME AND DISORDER ACT IMPLICATIONS AND EQUALITY AND DIVERSITY IMPLICATIONS)

5.1 The five year proposed programme is ambitious and will require the Council to use much of its available resources. Substantial investment of this nature will result in the Council being exposed to additional risks as follows:

- a 52% increase in the authority's borrowing over the next five years;
- exposure to interest rate changes; a 0.5% increase in interest rates will increase the cost of borrowing by c£0.700m per annum;
- major schemes have a long pay back period which will require the use of reserves in the early years to fund short term deficits in business plans;
- the cost of feasibility studies are all undertaken at risk;
- Schemes may not cover their costs or make the desired return.

5.2 In order to manage these risks the following key principles will be adopted in managing the programme:

- new projects (unable to cover their costs) added to the programme, would result in an existing project being removed or amended;
- all projects must have a robust and viable full business case, which considers and includes whole life costing and revenue implications.
- all schemes will be subject to robust and deliverable business plans and models which demonstrate the necessary return on investment required;
- the decision to progress schemes will be dependent on securing the stated level of external funding or grant as appropriate;
- new projects will be considered where the Council can make a return on investment;
- where new sources of external funding/grants become available, the programme will be revisited;
- all schemes will be subject to an independent internal 'Gateway review process'.

5.3 The outlook for local government is now much more challenging in the light of global, national and regional issues and any investment decisions should be taken in the context of the current Medium Term Financial Outlook.

5.4 The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services, and decisions on implementation of policies developed outside the Council.

5.5 Legal Issues

The pursuit of the proposed programmes and projects will require a wide range of legal issues to be identified and addressed. Generally, in addition to specific issues addressed in this report, the City Council, and decision-makers within it (collectively and individually) have general obligations to act rationally / reasonably in taking decisions and have a fiduciary obligation to its citizens, council tax and rate payers in respect of its financial management and the proposals in this report and the pursuit of individual proposals within the revised Capital Programme are subject to these duties.

The proposals in the report constitute a significant revision of the capital programme which require Council approval.

6 SOCIAL VALUE CONSIDERATIONS

6.1 None

7 REGARD TO THE NHS CONSTITUTION

7.1 Not applicable

8 EQUALITY IMPACT ASSESSMENT (EIA)

Has the equality impact been assessed?

- (a) not needed
- (b) No
- (c) Yes

9 LIST OF BACKGROUND PAPERS RELIED UPON IN WRITING THIS REPORT (NOT INCLUDING PUBLISHED DOCUMENTS OR CONFIDENTIAL OR EXEMPT INFORMATION)

9.1 None

10 PUBLISHED DOCUMENTS REFERRED TO IN THIS REPORT

10.1 Previously published documents can be viewed on the Councils website using the following link: <http://www.nottinghamcity.gov.uk/article/23479/Council-Meetings-and-Decisions>

11 OTHER COLLEAGUES WHO HAVE PROVIDED INPUT

Theresa Channell – Head of Corporate and Strategic Finance (Acting)
0115 8763657
theresa.channell@nottinghamcity.gov.uk

Tina Adams – Capital and Taxation Manager
0115 8763658
tina.adams@nottinghamcity.gov.uk

