

## Report of the Deputy Chief Executive

**CAPITAL BUDGET VARIATIONS 2019/20**1. Purpose of report

To seek approval for a number of capital budget variations in respect of the 2019/20 financial year.

2. Background

Examination of the approved capital programme for 2019/20 has resulted in a number of proposed amendments to the 2019/20 capital programme. Further details are set out in appendix 1 with a financial summary shown in appendix 2.

Included in appendix 1 is an in-depth analysis of the anticipated expenditure and accompanying financing of the Beeston Town Centre Phase 2 Development. This provides details of expenditure incurred in 2018/19 and current projections for the scheme over the following years.

Tender invitations were sent out to a shortlist of 5 contractors on 7 June 2019. The Project Board is due to review responses on 12 August 2019 with a view to selecting a construction partner. Bids will be evaluated on a combination of quality and cost. The Council's Financial Regulations (section 9.3) requires the evaluation of tenders in excess of £25,000 that include a qualitative evaluation to be presented to the appropriate Committee with a recommendation as to the tender that should be accepted and the basis for such a recommendation. The Committee cycle will not allow for this without significant delay (and potential cost) to the project. Accordingly, the Committee is requested to waive this requirement, particularly in view of the Project Board's cross-party representation and delegate authority to the Deputy Chief Executive to award the building contract following the consideration of the tenders by the Project Board.

**Recommendations**

The Committee is asked to:

1. **RECOMMEND** to Council on 17 July 2019 that the budget in the 2019/20 capital programme for the Beeston Town Centre Phase 2 Development be increased by £1,000,000 to £3,553,850.
2. **DELEGATE** to the Deputy Chief Executive, following consultation with the Beeston Town Centre Project Board, authority to award a building contract for the Beeston Town Centre Phase 2 based on qualitative and quantitative analysis of tenders
3. **RESOLVE** that the other capital budget variations for 2019/20 as set out in appendices 1 and 2 be approved.

Background papers

Nil

## APPENDIX 1

1. Beeston Town Centre Phase 2 Development

The Policy and Performance Committee on 21 November 2017 delegated to the Interim Deputy Chief Executive responsibility for the financing of the Beeston Town Centre Development scheme (sometimes referred to as Beeston Square Phase 2)..

The 2018/19 capital programme included £539,800 for the Beeston Town Centre Development scheme. Expenditure for the year totalled £421,865. This included £282,795 paid to Atkins Limited for site investigation, work on the planning application and elements of detailed design. A planning fee of £25,535 was paid to the Council. There were also payments totalling £16,638 to Cartwright Communications for public relations work, £9,500 to Jones Lang LaSalle for valuation work and £7,000 to Grant Thornton for undertaking a financial appraisal of a potential cinema operator. There was also expenditure of £50,675 on the services of the Interim Regeneration Manager.

The expenditure of £421,865 was financed using grant income of £320,000 and borrowing of £101,865. The grant income was comprised of £70,000 received from the Nottinghamshire Pre-Development Fund and £250,000 received from the D2N2 Local Enterprise Partnership (LEP) towards the regeneration of Beeston Town Centre. The LEP grant is to be supplemented with a further £500,000 to be received in 2019/20.

A further report on this agenda seeks approval to carry forward the unspent £117,350 budget in the 2018/19 capital programme into 2019/20.

The capital programme 2019/20 to 2021/22 presently includes a total of £10,436,500 for the scheme spread across each of the three years as follows:

	£
2019/20	2,436,500
2020/21	6,000,000
2021/22	2,000,000

The budget of £2,436,500 in 2019/20 will be increased to £2,553,850 once approval for the carry forward (£117,350) is granted as set out above.

As reported to the Beeston Town Centre Project Board on 3 June 2019, it is proposed that the budget for the scheme be increased by a further £1.0m. This is to reflect a number of factors that were not envisaged at the initial viability assessment stage including a change to the cinema to include an additional screen and more seating, the need to re-locate a sub-station in the public realm and other structural changes designed to reduce the risk of and increase the speed of construction. Whilst approval to increase budget for the scheme is being requested from the Finance and Resources Committee, it is considered appropriate given the scale of the scheme to seek further approval from Full Council.

The originally-approved project budget was £10.856 million, of which £8.6 million was to be funded by borrowing. Although the total capital investment required to deliver the project has risen to an estimated £11.829 million, increased capital receipts from the sale of the part of the site for residential development has reduced the Council’s borrowing requirement to £8.1 million. These figures all exclude interest on loans until such time as sufficient rental income has been generated to cover debt service.

Finance and Resources Committee on 8 January 2019 considered bids for the sale of part of the site for residential development and resolved to delegate responsibility for concluding this to the Interim Deputy Chief Executive in consultation with the three party leaders. The resulting capital receipt is to form part of the financing of the scheme. It is now apparent that this receipt will be significantly in excess of that originally envisaged to the extent that it will more than offset the additional cost of the scheme as set out above.

In addition, the resources available to finance the remaining expenditure on the scheme will be enhanced by the receipt of £500,000 in 2019/20 from the D2N2 LEP and by a further £25,250 that has been made available by the Nottinghamshire Pre-Development Fund.

It is presently anticipated that the remaining capital costs over the next three years are met by borrowing, amounting to £8,112,000. The project team will continue to actively pursue grant opportunities to offset this.

Members will note that this regeneration project is intended to be self-financing in the medium term. Over the first 5 years following completion, total rental income is forecast to be sufficient to cover interest payments on the Council’s loans. After 5 years, rental income is forecast to exceed both interest and MRP, generating a profit rent of some £134,000 per annum. 5-yearly rent reviews should further improve medium- to long-term viability. This can be shown as follows:

**VIABILITY DASHBOARD**

	£000's		
	<b>ORIGINAL BUSINESS CASE</b>	<b>CURRENT FORECAST</b>	<b>REMARKS</b>
<b>Overall project budget</b>	10,865	11,829	Excluding interest / MRP
<b>Borrowing requirement</b>	8,595	8,112	Net of previous years CapEx
<b>Viability tests:</b>			
Initial interest cover %	Target - 100%	0.94	<u>Committed</u> rents / loan interest
FRV interest & MRP cover %	Not reported	1.34	Full rent (2025+) / (loan interest + MRP)
Profit rent on maturity	Not reported	134.95	FRV less interest & MRP

The sensitivity of the project to variations in key development components has been tested and can be summarised as follows:

Increase in costs / decrease in income needed to negate profit rent

Rental value / occupancy	25.46%
Project costs	23.43%
Interest/MRP combined	34.16%

Regular updates on the projected costs and risk profile of the scheme and its financing (including any further external contributions that may be received) will continue to be reviewed by the Project Board and reported to the Policy and Performance and the Finance and Resources Committees as appropriate.

2. Former Stapleford Police Station Redevelopment Project

As reported to the Housing Committee on 5 March 2019 and the Jobs and Economy Committee on 4 July 2019, this project involves the re-development of an under-utilised Council asset on a brownfield site. The former Police Station will be redeveloped for small business and office uses and will be charged at full market rate with an anticipated income of £16,000 rental income. The approximate running costs of the offices will be broadly offset by the additional NNDR income. It is expected that this project will create approximately 15 jobs. The estimated total project cost is £171,000, with £88,135 grant funding from the D2N2 Local Enterprise Partnership (LEP), and match funding from the Council of £82,865. If further grant funding becomes available and is secured, the Council match funding contribution will be reduced.

The additional D2N2 LEP funding has recently become available, and presents an excellent opportunity to leverage capital funding to this project. The business case for this project will be presented to the D2N2 LEP on 12 July 2019.

In order to deliver this project, Council funding of £82,865 is requested. This may be in the form of grants, capital receipts, revenue contributions or borrowing. The exact nature of the financing of the scheme will be determined when the total capital expenditure for 2019/20 is financed as part of the production of the 2019/20 accounts.

3. Disabled Facilities Grants

The 2019/20 capital programme approved at Finance and Resources Committee on 14 February 2019 includes £747,300 for Disabled Facilities Grants (DFGs). These are for the provision of adaptations to the homes of those disabled persons who qualify for the grant. Funding for these is provided initially by the Ministry for Communities, Housing and Local Government (MHCLG) to County Councils who, in two tier areas, then pass this down to District Councils through the Better Care Fund.

MHCLG announced on 9 May 2019 that Broxtowe Borough Council are to receive a DFG allocation for 2019/20 of £796,855 (net of .0 contribution to the NCC Handy Person Service) to meet its statutory duty to provide home adaptations as set out

above. The Council is permitted to spend part of this on wider social care capital projects should it wish to do so.

The 2019/20 capital budget for DFGs can now be revised from £747,300 to £796,850 accordingly.

Summary of Proposed Changes to 2019/20 Capital Programme

<b><u>No</u></b>	<b><u>Scheme</u></b>	<b><u>Budget 2019/20 (£)</u></b>	<b><u>Revised Budget 2019/20 (£)</u></b>
1	Beeston Town Centre Phase 2 Development	2,553,850*	3,553,850
2.	Former Stapleford Police Station redevelopment project	0	82,865
3.	Disabled Facilities Grants (2019/20 only)	747,300	867,200
	<b>TOTAL</b>	3,301,150	4,503,915

\*Includes carry forward of £117,350 as set out in another report on this agenda.