

Title of Report:	Officer Presenting: Lead Finance Officer
Strategic capital projects funding strategy	Author: Lead Finance Officer

1 Purpose of Report/Recommendations

1.1 The purpose of this report is for Members to consider the emerging funding strategy for Council's strategic capital projects including the redevelopment proposals for Templemore Sports Complex and Leisure Centre provision for Strabane following on from the Council Notice of Motion in May 2020.

2 Background

2.1 The Council has an extensive and very ambitious capital plan as part of its' overall Strategic Inclusive Growth Plan. From a total net expenditure budget of £63.871m, funding of £9.979m (15.6%) is set aside for capital investment and associated loan repayments (£7.518m for community, statutory and strategic capital projects, £1.3m for City of Derry Airport and £1.162m for Fleet and equipment replacement). This significant investment has been facilitated through both rates investment as well as reallocation of savings realized through the new Council's efficiency plan. This has enabled significant progress to be made since 2015 across Council's capital programme as summarised in the table below:-

Details	External funding		Council funding secured	Balance	Total
	Secured	Targeted			
	£000	£000	£000	£000	£000
Table 1- Projects completed by the new Council	27,399	0	32,400	0	59,799
Table 2- Projects approved, in progress and fully funded	36,641	60	12,072	0	48,773
Table 3- Projects with significant Council funding allocated, a funder identified and awaiting letters of offer	158	5,822	1,542	0	7,522
Sub – Total	64,198	5,882	46,014	0	116,094
Table 4- Projects with significant Council funding allocated and no live external funding source currently available	175	0	5,194	13,198	18,567

Table 5- Projects in progress but not fully funded- some Council funding has been allocated to progress. No external funding source currently identified and will require rates investment to progress	39	0	358	62,128	62,525
Table 6 – City Deal / IFF Projects in Progress	234,258	11,294	1,794	44,029	291,375
Table 7 – Other Strategic Council Projects in Progress	175	79,359	2,388	54,379	136,301
Total	298,845	96,535	55,748	173,734	624,862

2.2 Members will note an overall targeted capital investment programme of circa £625m including;

- Fully funded programme of either completed or in-progress capital investment (Tables 1-3) of over £116m since 2015, of which £46.014m has been funded by Council enabling funding to be levered from external sources totalling £70.08m;
- A remaining £508m of targeted investment of which £9.734m of Council funding has already been allocated to progress, £234.647m of external funding has been secured (including City Deal and Inclusive Future Fund investment) and a further £90.653m targeted from external sources.

2.3 One of the key challenges remaining is identifying the significant funding required to deliver on key strategic projects including the redevelopment proposals for Templemore and Riversdale Leisure developments. Following the notice of motion approved by Council in May 2020, a report has been requested to identify all the funding options available and provide a timetable towards completion so that Council can consider its' options.

3 Key Issues

3.1 To date, a sum of £2.556m has been committed by Council to the strategic leisure projects at Templemore and Strabane with a further £41k development costs funding secured from external sources. From this total secured funding of £2.597m, a sum of £834k has been spent to date in developing the projects to concept design stage (RIBA Stage 2).

3.2 In respect of the full aspirations for both projects, the concept design work has identified a cost of circa £50m in respect of the Templemore project and £20m for the Strabane leisure project (net of disposal proceeds for the current Riversdale site). The Strabane leisure project sits on Table 6 above and forms an important element of the wider Canal Basin Regeneration City Deal project and Council's match funding contribution to the overall City Deal/ Inclusive Future Fund investment. The Templemore project sits on Table 7 above. It is not anticipated that any other external funding sources are available to contribute towards the costs of these projects.

3.3 Timeframes for each project will be developed as concept designs progress. Given the scale and complexity of the projects, it is estimated at this stage that the design, planning and tender process for each from confirmation of budget approval will be approximately 2.5- 3 years with a similar period for subsequent construction on site.

3.4 It is important that investment decisions for these projects are made in the context of Council's wider strategic projects aspirations eg City Deal (DNA museum and Riverfront investment) and continued investment in community projects eg play parks/ greenways. A high level analysis of the associated funding requirements for these projects was discussed at the recent meeting of the Capital and Corporate Projects Planning Group. This identified an overall capital funding requirement from Council of circa £98.75m including a sum of £3.75m over 5 years for community projects.

3.5 The financing of these aspirations will require budgetary provision for 3 key elements:-

- Capital financing cost/ loan repayments associated with the £98.75m capital investment financed over the lifespan of the relevant project;
- The ongoing revenue budgets that will be required to operate the facilities once completed (staffing costs, utility costs, rates, maintenance etc. net of income generation);
- Priorities currently being funded from in-year capital savings eg major repairs and renewals and skills investment.

3.6 The analysis identified an overall annual revenue requirement of £6.24m to be identified by Council. This is obviously a significant sum, representing almost 10% of Council's overall net expenditure budget of £63.871m.

3.7 The following funding sources and emerging strategy has been identified with a view to securing this funding:-

- Council has already identified £1.36m of this sum through recent rates investment as well as reallocation of savings realized through the new Council's efficiency plan. This will provide borrowing capacity ranging from £20m- £27m depending on the length of borrowing and interest rates movements between now and the need to borrow;

- Release of funding from Council's current £2.145m annual subvention to City of Derry Airport. This will be subject to conclusion of ongoing discussions with Government around sharing the burden of the required annual operational subvention;
- Securing cheaper loan interest rates and alternative sources of financing. Council currently finances capital projects through loans from the Public Works Loan Board and a range of discussions are currently ongoing with Government to secure cheaper interest rates, remove Government premiums on NI Council loans and explore other sources of finance;
- Savings/ income generation across all Council services;
- Rates investment- Investment of this magnitude will inevitably require further rates investment by Council. The funding strategy would require a rates investment of circa 0.5% per annum over 6 years to ensure all identified priorities can be funded.

3.8 The emerging funding strategy has obviously been developed in the midst of an extremely challenging financial environment for Council and the significant uncertainty around many of Council's key income sources moving forward including rate-base impact and the recovery of leisure income to pre COVID levels. These challenges obviously present a significant risk and detailed further consideration will be required as part of the ongoing rates estimates discussions for 2021/22.

4 Financial, Equality, Legal, HR, Improvement and other Implications

4.1 As noted and detailed above. An overall capital funding commitment of circa £98.75m will be required from Council to provide funding for the Templemore and Strabane Leisure projects, other strategic projects and including a sum of £3.75m over 5 years for community projects. This will require an overall annual revenue requirement of £6.24m to be identified by Council. This is obviously a significant sum, representing almost 10% of Council's overall net expenditure budget of £63.871m.

- 4.2 Some of this funding (£1.36m) has already been identified by Council through recent rates investment and efficiencies and an outline funding strategy has been set out towards identifying the remainder, including rates investment. This strategy has obviously been developed in the midst of an extremely challenging financial environment for Council and the significant uncertainty around many of Council's key income sources moving forward including rate-base impact and the recovery of leisure income to pre COVID levels. These challenges obviously present a significant risk and detailed further consideration will be required as part of the ongoing rates estimates discussions for 2021/22.

5 Recommendations

- 5.1 Members are asked to endorse the emerging funding strategy for Council's strategic capital projects including the redevelopment proposals for Templemore Sports Complex and Leisure Centre provision for Strabane.
- 5.2 Members are asked to note that the funding strategy continues to be developed in parallel with consideration of the wider financial challenges associated with the COVID pandemic.
- 5.3 Members are asked to note that a further report will be developed for consideration on conclusion of decisions in relation to the 2021/22 rates estimates process and on further advancement of discussions with Government(s) on proposed airport funding models.

Background Papers