

<b>MEETING:</b>	<b>Cabinet</b>
<b>MEETING DATE:</b>	<b>1 December 2016</b>
<b>TITLE OF REPORT:</b>	<b>Proposed 2017/18 capital budget</b>
<b>REPORT BY:</b>	<b>Economy and corporate services</b>

## **Classification**

Open

## **Key decision**

This is a key decision because it is likely to result in the council incurring expenditure which is, or the making of savings which are, significant having regard to the council's budget for the service or function to which the decision relates.

Notice has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

## **Wards affected**

County-wide

## **Purpose**

To recommend the proposed capital budget for 2017/18 onwards to Council on 16 December 2016.

## **Recommendation**

**THAT:**

- (a) **the schemes detailed in Appendix 2 are recommended to Council for inclusion in the capital budget.**

## **Alternative options**

- 1 The proposed capital schemes will enable the delivery of savings targeted in the medium term financial strategy, are self-funded, grant funded or address critical service needs. There are no alternative options that would not radically effect the provision of services.

- 2 Additional capital spend could be proposed however they must be affordable, deliverable, support the corporate plan objectives and consider the use of alternative solutions.

## **Reasons for recommendations**

- 3 The council's budget and policy framework rules require that Council approves the capital budget.

## **Key considerations**

- 4 The capital programme builds on the council's medium term financial strategy, core strategy and corporate plan priorities.
- 5 The current capital programme and funding sources, originally approved by Council in December 2015 and updated as reported to cabinet through budget monitoring, is provided in appendix 1. Changes reported include the re-phasing of budgets between financial years and the addition of £0.5m Sports England grant funded spend at Halo leisure centres and the inclusion of the approved £2.5m Marches business improvement grants scheme.

### **Proposed additions to the capital programme**

- 6 Proposed additions to the capital programme are provided in appendix 2. If proposals are approved by Council in December then each new scheme will commence following a separate approval detailing the scheme, funding and implications in line with the council's constitution requirements. The proposals focus on priority schemes, school investment strategy and schemes subject to confirmation of external funding contributions. The additional investment proposed will support the corporate plan priorities by improving schools, infrastructure, housing and the creation of job opportunities.
- 7 Of the £72.5m proposed additions, £62.8m is to be funded by capital grants, redirected funding allocated in prior years, capital receipts or returns on investment. This leaves £9.7m to be financed by prudential borrowing, to be secured over the medium term financial strategy (MTFS) period, 2017/18 through to 2019/20. The revenue implications are detailed in the financial implications section of this report and are supported in the MTFS.
- 8 Of the £9.7m prudential borrowing requirement, detailed in appendix 2, £0.7m will be held as a contingency to fund unforeseen immediate requirements and the remaining sum is proposed to fund the following:
  - £1.2m is required for priority corporate property estate works to ensure continued compliance with health and safety standards.
  - £2.0m is required for the purchase and repair of existing open market properties to house vulnerable young adults, care leavers and those that require assistance to live independently. This scheme will provide match funding to registered social landlord (RSL) to adapt properties to meet client groups' needs that can be complex. This scheme will reduce revenue budget pressures in adults and wellbeing, including temporary accommodation costs.
  - A further investment of £1.2m is recommended to continue to grow the offering at Herefordshire enterprise zone. The money will be used alongside grant funding (subject to confirmation in the autumn statement) to develop the

shell store building to provide space for business start-ups. Public sector led investment for space to rent has proved successful, confirming demand, and by providing this space it is anticipated that more businesses will be attracted to Herefordshire.

- £3.8m funding is proposed to support an application for external capital grant funding towards continued improvements to the county's roads. Non principal roads have benefited from investment in prior years however principal road conditions have deteriorated and require additional investment. The bid will also target investment in the county's bridges. The submission for grant funding will be made in the new year.
- £0.6m is proposed to fund site investigation, feasibility and preparatory works as part of the development partnership project. This project will see the council commission a developer to progress the development of suitable sites in its ownership including the capability to progress development funding and provision of services and to be open for use with other collaboration partners as required. Procurement of a preferred supplier is progressing with appointment expected to be approved in the summer. A number of projects are expected to start post appointment, the affordability of the programme will be assessed at all stages during the process.
- The remaining sum will fund capital equipment costs supporting the delivery of savings in library and customer services, investment in Stretton Sugwas closed landfill site remediation works and corporate funding towards externally funded energy saving schemes.

- 9 The £4.8m schools capital investment strategy is linked to preliminary works to inform key investment need and an expansion to Marlbrook school. It is anticipated that a significant number of schemes will come forward over the next five years to deliver sustainable, high quality education facilities in Herefordshire. Funding for the completion of such schemes will be explored with partners such as the education funding agency, schools, the diocese of Hereford, archdiocese of Cardiff, local communities as well as opportunities for releasing sites and reinvesting in education.

### **Borrowing implications**

- 10 The additional borrowing requirement of £9.7m will be included in the treasury management strategy (TMS) to February Council which will be updated following approval of this report. Actual borrowing will be secured as cash funding is required at the optimal interest rate available at that time.
- 11 Total gross outstanding debt was £196.5m as at 31 March 2016, the 2017/18 operational boundary for borrowing as approved in the TMS is £290.0m, the approval of the proposed additions in this report will remain below this operational limit.
- 12 Herefordshire has a long term debt to asset ratio of 28% which means just over a quarter of Herefordshire's assets are financed by long term debt, which is in line with the average for all unitary authorities. Herefordshire currently provides 12% of its net revenue budget to cover the repayment cost of debt. This is slightly higher than the all unitary average of 9% and represents the council investments in a number of schemes that will generate returns, for example investment in an energy from waste plant and the county's leisure centres.

## Community impact

- 13 The capital programme proposed supports the overall corporate plan and service delivery strategies in place. The overall aim of capital expenditure is to benefit the community through improved facilities and by promoting economic growth.

## Equality duty

- 14 The Public Sector Equality Duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying “due regard” in our decision making in the design of policies and in the delivery of services.
- 15 Following the commencement of a new capital scheme an equality impact assessment is completed to assess any potential impact on the protected characteristics as set out in the Equality Act 2010.
- 16 The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified.

## Financial implications

- 17 The majority of proposals are funded as detailed in appendix 2. Proposals are subject to the confirmation of external funding sources expected over the coming months.
- 18 It is estimated that the phasing and cost of the £9.7m new prudential borrowing requirement, using the current weighted average cost of capital of 3.42%, will be as follows. Actual borrowing is only secured when cash funds require.

	Capital cost	Cost of borrowing per annum
	£m	£m
2017/18	3.2	0.1
2018/19	3.5	0.1
2019/20	3.0	0.1
	<u>9.7</u>	<u>0.3</u>

- 19 The expected additional borrowing costs will continue for approximately 25 years and comprise both interest and debt repayment. These estimations will be included in the revenue budget proposals for future years.

## Legal implications

- 20 The council is under a legal duty to sensibly manage their own capital finance. The council is able to borrow subject to limits set by the council and any nationally imposed limits and it must do so in accordance with the prudential code on borrowing.
- 21 The Local Government Act 2003 allows the council to borrow for any purpose relevant to its functions under any enactment and for the purposes of the prudent

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Further information on the subject of this report is available from Mark Taylor, interim director of resources on tel (01432) 383519

management of its financial affairs. Before approval of any individual scheme it will be necessary to ensure that the need for the scheme arises out of a legal obligation on the council for its provision. Any scheme will need to be procured in accordance with the procurement regulations and the council's own contract procedure rules and appropriate contractual documentation put in place to protect the council's interests.

## **Risk management**

- 22 The level of prudential borrowing required as a result of these proposals is within the existing MTFS. Borrowing is only secured when required as detailed in the TMS. When schemes are approved they are included in the monthly budget control meetings which highlights individual scheme risks and possible mitigation action.

## **Consultees**

- 23 General overview and scrutiny committee considered the proposals on 14 November, and made no substantive recommendations.

## **Appendices**

Appendix 1 - Approved capital programme

Appendix 2 - Proposed additional schemes

## **Background papers**

- None identified.