

Meeting:	Council
Meeting date:	Friday 15 February 2019
Title of report:	Capital programme 2019/20 onwards and Capital Strategy
Report by:	Leader of the Council

Classification

Open

Decision type

Budget and policy framework.

Wards affected

All Wards

Purpose and summary

To approve the capital investment budget and capital strategy for 2019/20 onwards.

Appendix 3 provides details of the proposed additions to the existing capital programme that have been identified and the impact of approving these additions.

In line with CIPFA requirements a capital strategy has been written to reflect future direction for capital investment, the strategy is included at appendix 4 and in line with the guidelines requires Council approval.

Recommendation(s)

That:

- (a) the proposed capital programme from 2019/20 attached at appendix 3 be approved;**
- (b) cabinet be delegated authority to add the two deferred projects (Countywide Investment in B, C & U roads and Countywide Investment in Strategic Road Network) in appendix 1 as funding becomes available; and**
- (c) the capital strategy document at appendix 4 be approved.**

Alternative options

1. It is open to Council to propose alternative capital investment options. Any amendment to proposals put forward by Cabinet, must have been discussed with the relevant service director to determine the context and possible consequences of the proposal and have secured confirmation from the chief finance officer that the action proposed is achievable; it would then either require the consent of the Leader of the Council or further consideration by Cabinet before a decision could be taken in accordance with the council's constitution.
2. If delegated authority is not given to include the deferred projects then any future requirements would need to be requested in the same way as new projects. They have been included to allow flexibility to utilise capital funding if it becomes available.
3. A capital strategy is required in accordance with statutory new guidance issued by CIPFA, discretion on content of the strategy but we have applied the guidelines within the draft.

Key considerations

4. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year.
5. The current approved capital programme and forecast outturn is provided at appendix 2. The profiling of capital spend and forecasting against budget is reported to Cabinet in the quarterly performance report which includes an up to date forecast of the timing of capital spend.
6. The approved capital programme has been updated to show additional external funding secured for 2018/19 onwards. Since approval of the programme at July Council, an additional £28.16m has been added to the capital programme (some are included with indicative figures that will be updated once the final announcement has been made), as follows:
 - a) £734k Sustainable Energy in Public Buildings (SEPuBu) grant – this is funding to be issued as grants to match expenditure incurred for providing sustainable energy in public buildings
 - b) £3.6m Schools Maintenance grant, with £1.2m included for each year from 2019/20.
 - c) Removal of original challenge fund estimated budget of £12.045m that was not achieved.
 - d) £8.581m Basic Needs Funding Grant Allocation, which is a grant, provided to create additional places in schools in line with estimated pupil numbers.
 - e) £5.559m Disabled Facility Grant that has been estimated at £1.853m each year from 2019/20, this grant contributes towards the costs of adaptations to allow disabled people to remain living in their own homes.
 - f) £5.108m additional Department for Transport (DfT) grant recently announced to be spent on road improvements.
 - g) £1.461m additional European Agricultural Fund for Rural Development (EAFRD) funding increase towards the 'Fastershire' project to improve broadband across the county.
 - h) £960k Warm Homes Fund to support fuel poor households with first time central heating systems across both Herefordshire and Shropshire; Herefordshire Council is the lead accountable body.
 - i) £14.203m Local Transport Grant that has been indicated on the DfT website, to

Further information on the subject of this report is available from
Karen Morris, Tel: 01432 261865, email: karen.morris1@herefordshire.gov.uk

determine the annual allocation for 19/20 and 20/21 at £12.272m.

7. As part of the 2019/20 budget setting process, priority capital investment needs for 2019/20 have been identified.
8. All proposals were submitted on the basis of need, and are included in appendix 1 along with a description of what each proposal includes. Proposals have been scored based on the following criteria:-
 - a) Consequence of not being included in 2019/20, high score indicates urgency;
 - b) Legal need for inclusion, high score represents a legal need to include;
 - c) Member support secured, high score demonstrates support;
 - d) Linkage to the corporate plan (CP), high score where scheme provides high level of support;
 - e) Funded, high score where the proposal has secured external funding;
 - f) Deliverability, high score where the scheme is ready to go;
 - g) Risk, high score if the scheme decreases exposure to risk.
9. Each of the criteria above has been given an indicative mark out of 5, scoring may be used to prioritise spend if Cabinet/Council wish to limit capital investment or if the overall projects funding request proposed was above the current borrowing limits. Each proposal's score out of a maximum score of 35 is detailed below:-

Scheme	Consequence	Legal need	Member support	Link to CP	Funded	Deliverability	Risk	Total
Upgrade of Herefordshire CCTV System	3	2	2	4	3	3	4	21
Countywide Investment in B, C & U roads	4	3	3	3	3	4	4	24
Countywide Investment in Footways & Cycle Ways	3	3	3	3	3	4	3	22
Countywide Investment in Strategic Road Network	4	4	4	3	3	4	4	26
Countywide Investment in Bridges	3	3	4	4	3	4	4	25
Estate Capital Programme 2019/22	3	2	2	3	3	3	3	19
School Transport Route Planning Software	2	1	2	3	2	3	2	15
Laptop/PC Replacement Programme	3	1	1	2	1	3	3	14
2nd Phase Gypsy & Traveller pitch development	3	3	3	3	2	3	3	20

Scheme	Consequence	Legal need	Member support	Link to CP	Funded	Deliverability	Risk	Total
Hereford Transport Package (HTP)	3	1	4	3	2	3	3	19
Hereford City Centre Improvements (HCCI)	2	1	3	3	2	3	2	16
Hillside	4	3	4	4	3	3	3	24
Corporate Fleet Procurement	2	1	1	4	3	3	3	17
Courtyard Development	2	1	3	3	4	3	2	18
Waverley House, Leominster	4	4	3	4	3	3	3	24
Dual use of Ledbury Children Centre	2	1	2	2	2	3	2	14
Temporary Replacement School Accommodation - Orleton	4	3	3	4	3	3	4	24

10. Approval of provision in the capital programme is not an approval to proceed. Each project will be subject to its own governance and business case before any spend may be incurred.
11. The proposals are recommended to Council by Cabinet and following consultation with all the scrutiny committees as referred to in the consultees section of this report.
12. There are two projects in appendix 1 shown as deferred projects, these were chosen due to the following reasons. The resurfacing of B, C & U roads in 19/20 has been deferred as a recent announcement of an additional grant of £5.108m from the DfT has allowed the council to carry out this maintenance work to the B, C & U road network during the last few months of 2018/19. Investment in the strategic road network of £9.2m will be added to the programme when funding becomes available.
13. Therefore as a result of both of these schemes being deferred a recommendation has been made to allow Cabinet to reinstate these projects if other projects within the programme deliver under budget and create funding that could be reallocated to fund these projects, or additional funding becomes available.
14. The capital strategy has been developed in accordance with CIPFA guidelines. The purpose of the capital strategy is to tell a story that gives a clear and concise view of how the council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It should not duplicate other more detailed policies, procedures and plans but instead sit above these and reference these to allow those seeking more detail to know where to find it. That said, it should provide sufficient detail so that it provides an accessible single source for the reader.

Community impact

15. In accordance with the adopted code of corporate governance, Herefordshire Council achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these is an important strategic choice to make

to ensure intended outcomes are achieved. The council needs robust decision-making mechanisms to ensure our outcomes can be achieved in a way that provides the best use of resources while still enable efficient and effective operations.

16. The capital investment proposals support 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. A specific community impact assessment, including any health and safety implications or corporate parenting responsibilities, will be included in the decision report required prior to any new capital scheme commencing and incurring spend.

Equality duty

17. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The public sector equality duty (specific duty) requires the council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in its decision making in the design of policies and in the delivery of services. An equalities impact assessment will be carried out prior to any new scheme commencing and will form part of the approval process required ahead of incurring capital spend.

Resource implications

18. The proposed additions at appendix 1 total £30.41m over the next three years. Of this, £6.75m is proposed to be funded by capital grants to be applied for as other grants received are added to the programme with approval of the Chief Finance Officer, and £1.28m by capital receipts. This leaves £22.38m requiring financing from prudential borrowing (PB). Of this the cost of financing £1.98m of prudential borrowing repayment costs will be funded from additional revenue streams generated by the investment, leaving additional costs of financing £20.4m prudential borrowing to be funded by the corporate revenue budget, £7.43m being in 2019/20. The grant for the Courtyard will not be added to the capital programme as it will be received directly by them but was included below to enable review of the full business case. Where projects have been added but they depend on grant, if the grant request is not successful the full project including any match funding will be removed.

Scheme	Total Request £000	Capital Grant funding £000	Redirected funding £000	Capital receipt funding £000	Funded by ROI £000	Corporate funded PB £000

Scheme	Total Request £000	Capital Grant funding £000	Redirected funding £000	Capital receipt funding £000	Funded by ROI £000	Corporate funded PB £000
Upgrade of Herefordshire CCTV System	184.0				134.0	50.0
Countywide Investment in B, C & U roads	2,500.0					2,500.0
Countywide Investment in Footways & Cycle Ways	2,250.0	2,250.0				
Countywide Investment in Bridges	5,000.0	4,000.0				1,000.0
Estate Capital Programme 2019/22	4,835.0			180.0		4,655.0
School Transport Route Planning Software	90.0					90.0
Laptop/PC Replacement Programme	1,156.0					1,156.0
2nd Phase Gypsy & Traveller pitch development	1,517.0				545.0	972.0
Hereford Transport Package (HTP)	3,500.0					3,500.0
Hereford City Centre Improvements (HCCI)	5,500.0					5,500.0
Hillside	1,050.0			1,050.0		
Corporate Fleet Procurement	737.6			50.0	687.6	
Courtyard Development	1,111.0	500.0			611.0	
Waverley House, Leominster	468.0					468.0
Dual use of Ledbury Children Centre	60.0					60.0
Temporary Replacement School Accommodation - Orleton	450.0					450.0
Total	30,408.6	6,750.0	0.0	1,280.0	1,977.6	20,401.0

19. The revenue implications of securing this new borrowing is supported in the current Medium Term Financial Strategy and Treasury Management Strategy which included an estimation of £6.7m new prudential borrowing per annum over the strategy period. This means that the proposals have not resulted in an increase to the borrowing repayment costs in the revenue budget over the medium term financial strategy period and there is a surplus of £1.49m retained to use on other projects that may need funding before the end of the 3 year programme proposed.
20. The additional borrowing requirement is reflected in an update to the Treasury Management Strategy as shown in the report appearing elsewhere on Council's agenda today with actual borrowing being secured as cash funding is required at the optimal interest rate available at that time.
21. Individual capital scheme resourcing implications will be detailed in the approval to precede decision.

22. There has been a change in the funding required for the Cyber Centre where originally the £3.5m was to be funded by a £2m loan to be repaid and a £1.5m donation funded by capital receipts. During the set up phase due to tax implications when setting up the Joint Venture (JV) it is the best option to now fund this fully as a loan to the JV and therefore all £3.5m will be repaid to the Council over the terms of the loan. To enable the projects above to be funded and retain the surplus the amount identified from capital receipts has been allocated to the current £1.5m Hillside budget in the current programme, as detailed in appendix 3.
23. Procurement process for care provider for proposed new nursing care home facility at Hillside will commence; the decision to award the contract will come to Cabinet for approval.
24. Moving Hillside into Stage 1 of the Development and Regeneration Programme with Engie and commissioning Engie to undertake a package of pre-construction services at Stage 1 will be subject to a decision by the Cabinet Member for Contracts; the decision to award the contract will come to Cabinet for approval.
25. The Hereford Transport Package proposed budget of £3.5m in 19/20 will enable support of landowners who are impacted by the scheme to be provided subject to appropriate governance decisions.
26. The cabinet member decision for Hereford City Centre Transport Package (HCCTP) programme update taken on 23 November 2017 provided the full breakdown of the current forecast cost of the package. This remains within the £40.651m budget currently allocated in the capital programme.

HCCTP	Forecast £'000
CLR Construction & Statutory Utilities	12,592
CLR Land Acquisition	14,873
CLR Professional Fees	5,715
Risk Allowance	500
Inflation Allowance	480
ATM & Transport Hub Construction and Statutory Utilities	5,927
ATM & Transport Hub Professional Fees	563
Total HCCTP Costs	40,650

27. The recent cabinet member decision in relation to land acquisition for SWTP was taken on 12 November 2018 detailed the current forecast breakdown of costs for the package, which is within the budget of £35m allocated within the current capital programme.

SWTP	Revised Forecast £'000
A465 Public Realm	3,000
Belmont Cycle and Walking Schemes	1,000
Bullingham Cycle and Walking Schemes	1,000
A465/A49 Southern Link	29,729
Total SWTP Costs	34,729

Legal implications

28. The council is under a legal duty to sensibly manage 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.
29. 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 management of its financial affairs.
30. Full Council is responsible for adopting the capital investment budget (referred to above as the capital programme) for the next financial year.
31. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on the Council's budget if he or she has an outstanding council tax debt of over two months. If a councillor who is precluded from voting is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.
32. In accordance with the budget and policy framework rules in the constitution the scrutiny committees shall inform and support the process for making cabinet proposals to Council. General Scrutiny Committee considered the capital investment budget at appendix 1 at its meeting on 30 November, as referred to in the consultees section of this report. As such, the proposals in appendix 1 and 3 have been developed in accordance with the constitution.
33. Cabinet shall have regard to scrutiny recommendations and the responses to the consultation as have been made to it in drawing up or amending draft proposals for submission to Council, and its report to Council shall reflect those recommendations, comments, and the cabinet's response to them.
34. Before approval of any individual scheme and associated spend 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 must be procured in accordance with the council's own contract procedure rules and appropriate contractual documentation put in place to protect the council's interests.

Risk management

35. Monthly budget control meetings give assurance to the Chief Finance Officer on the robustness of budget control and monitoring, to highlight key risks and to identify any mitigation to reduce the impact of pressures on the council's overall position for example through phasing of spend, identifying and securing scheme changes or alternative funding sources.
36. Capital projects inherently give rise to risks in their delivery, both in time and budget. Individual scheme reporting and associated project boards exist to mitigate these risks. A review of capital policies and processes was undertaken in the last few months and a number of policies have been changed and published giving more clarity on governance and mitigating scheme risks.
37. The proposed additions have been reviewed in relation to risks, both in deliverability, costs, impact and associated scheme interdependencies. The individual scheme detail of the risks will be provided as individual schemes progress to approval to deliver.

Consultees

38. The proposed capital programme was presented to Cabinet on 31 January, all recommendations were supported, and no changes have been made to the recommendations.
39. The proposed capital investment budget additions and supporting business cases were presented to adults and wellbeing scrutiny on 27 November, children and young people scrutiny on 29 November and general scrutiny committee on 30 November 2018. The general scrutiny committee asked for clarity on whether proposed schemes 2-5 were just within the city; these are countywide schemes and the wording in appendix 1 now reflects this. A change has also been made to the capital strategy to reflect the recommendation to include our funding partners (health colleagues were referred to) and future funding regimes (that we know about, e.g. LEP).
40. General scrutiny resolved to recommend that; (a) the executive considers a strategy of committing the council's capital budget to being allied to those of their funding partners and funding regimes. This has been reflected in the capital strategy, referenced above in point 38 and will maintained going forward as other funding opportunities occur.
41. The proposals in appendix 1 align to the council's corporate plan priorities consulted with as part of the budget consultation completed over the summer which was available for all residents to respond to either online or via a hard copy response. Part of the consultation asked residents whether they supported borrowing to fund capital investment, a summary of their responses is shown below.
42. Responses support borrowing to fund capital investment at the levels within this report, with 15% supporting borrowing more than an additional £22.3m and 37% supporting the suggested borrowing. Of the respondents who supported borrowing to invest in the county, two fifths supported infrastructure, a fifth public transport and a sixth library, museum, tourism or children's services. There were also some suggestions for investing in affordable housing, new university and health improvement services. Therefore the current programme and the additional projects to be added are in line with the public perspective.

Appendices

Appendix 1 - Proposed capital investment additions from 19/20

Appendix 2 - Current status of approved capital programme

Appendix 3 – Total proposed capital programme

Appendix 4 – Proposed Capital Strategy

Background papers

Proposals received.