

<b>Meeting:</b>	<b>Cabinet</b>
<b>Meeting date:</b>	<b>Thursday 30 January 2020</b>
<b>Title of report:</b>	<b>Capital Programme 2020/21 onwards and Capital Strategy</b>
<b>Report by:</b>	<b>Cabinet member finance and corporate services</b>

## **Classification**

Open

## **Decision type**

Budget and policy framework

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**

(All Wards);

## **Purpose and summary**

To recommend to Council for approval the capital investment budget and capital strategy for 2020/21 onwards.

Appendix 1 provides details of the proposed additions to the existing capital programme that have been identified and the impact of approving these additions. Eighteen capital investment budget proposals totaling £88.3m have been identified, to be funded by capital grants (£39.1m), redirected existing funding (£1.5m), capital receipt funding (£21.2m), returns on capital investment (£18.6m) and prudential borrowing of (£7.9m).

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: the following be recommended to Council**

- (a) the proposed capital programme from 2020/21 attached at appendix 3; and**
- (b) the capital strategy document at appendix 4.**

## **Alternative options**

1. It is open to Cabinet to recommend alternative capital investment options to Council. No alternative options have been brought forward to date and suggestions would require review and assessment, in line with those completed on the options presented in this report. In addition, as an amendment to proposals put forward by Cabinet, any amendment would either require the consent of the Leader of the Council or further consideration by Cabinet, and scrutiny, before a decision could be taken in accordance with budget and policy framework rules.
2. 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**

3. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year.
4. 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.
5. The approved capital programme has been updated to show changes to external funding secured for 2019/20 onwards. Since approval of the programme at July Council, an additional £5.085m has been added to the capital programme (some are reduction in assumed grant or virements of grant to fund other schemes), as follows:
  - a) £0.349m Special Provision Capital Fund – this is an increase in the grant to be used to fund works at Brookfield school.
  - b) £0.603m additional grant for pothole repairs awarded to increase LTP.
  - c) (£1.131m) LTP project line reduced after funding allocated to SWTP project costs in 2019/20.
  - d) £1.042m S106 additional funding drawn down from reserves to fund projects being delivered in 2019/20.
  - e) £0.146m additional Disabled Facility Grant awarded in 2019/20, this grant contributes towards the costs of adaptations to allow disabled people to remain living in their own homes.
  - f) (£0.113m) an assumed grant for Brookfield was included but not received so has been removed from the capital programme.
  - g) £1.188m Marches Renewable Energy Grant (MarRE) was awarded in

2019/20 for the next three financial years – this grant will be allow any eligible applicants to apply for a 50% grant for the new installation of eligible renewable technologies on their premises.

- h) £3m Marches Business Investment Programme Grants was awarded in 2019/20 for three financial years – grants are awarded to business for a specific project or purpose.

6. As part of the 2020/21 budget setting process, priority capital investment needs for 2020/21 have been identified.
7. All proposals were submitted based on need, and are included in appendix 1 along with a description of what each proposal includes.
8. Cabinet completed an informal review of all prospective capital funding requests, two schools maintenance projects were not progressed, as it was felt the work should be carried out within the existing schools maintenance grant. A number of individual highways assets capital funding requests were not progressed but an overall budget of £2m to cover the highest priority work to be agreed is being proposed for progression.
9. The informal review was carried out to ensure all funding requests proposed were manageable within current borrowing limits in the existing medium term financial strategy and retains approximately £10m in the capital receipts reserve.
10. Latest assessment indicates a shortfall of around 4,000 social and affordable homes; the council intends to respond to this challenge by progressing plans to invest in developing additional genuinely affordable housing stock and retaining it in public ownership. These ambitions are for both the rental and shared ownership markets.
11. This could lead to investing up to £100m in housing in the four years from 2022/23, it is anticipated that the income streams generated would cover the revenue costs of providing the housing including any borrowing costs.
12. Approval of provision in the capital programme is not an approval to proceed. Each project will be subject to its own governance and full business case before any spend may be incurred.
13. Cabinet recommends the proposals to Council and following consultation with all the scrutiny committees as referred to in the consultees section of this report.
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.
18. 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. An equality impact assessment (EIA) 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**

19. The proposed additions at appendix 1 total £88.3m over the next three years. Of this, £39.1m is proposed to be funded by capital grants, of this only £2m for Leominster Heritage action zone has been secured and the remainder will need to be applied for, £1.5m is funded from redirected existing funding and £21.2m by capital receipts. This leaves £26.5m requiring financing from prudential borrowing (PB). Of this the cost of financing £18.6m of prudential borrowing repayment costs will be funded from additional revenue streams generated by the investment, leaving additional costs of financing £7.9m prudential borrowing to be funded by the corporate revenue budget. 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	Capital Grant funding £000	Redirected funding £000	Capital receipt funding £000	Funded by ROI £000	Corporate Funded PB £000	Total Request £000
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**Community:- Build communities to ensure everyone lives well and safely together**

Brookfield School	0.0	0.0	1,195.0	0.0	0.0	1,195.0
Peterchurch Primary School	0.0	0.0	5,353.0	0.0	0.0	5,353.0
Technology Enabled Communities	0.0	1,500.0	0.0	0.0	0.0	1,500.0
Super Hubs	0.0	0.0	2,000.0	0.0	0.0	2,000.0
Widemarsh Gardens	80.0	0.0	0.0	0.0	0.0	80.0
Care home and Extra Care Development	0.0	0.0	6,081.0	7,000.0	0.0	13,081.0
Affordable Housing	0.0	0.0	800.0	0.0	0.0	800.0
<b>Total Community</b>	<b>80.0</b>	<b>1,500.0</b>	<b>15,429.0</b>	<b>7,000.0</b>	<b>0.0</b>	<b>24,009.0</b>

**Economy:- Support an economy which builds on the county's strengths and resources**

EDRMS Storage	0.0	0.0	0.0	0.0	380.0	380.0
Hereford Transport Package	0.0	0.0	0.0	0.0	3,600.0	3,600.0
Fleet Replacement	0.0	0.0	0.0	19.0	0.0	19.0
Employment Land and Incubation Space in Market Towns	2,053.0	0.0	4,020.0	7,558.0	0.0	13,631.0
Leominster Heritage Action Zone	2,000.0	0.0	1,800.0	0.0	0.0	3,800.0
Investment in Infrastructure Assets	0.0	0.0	0.0	0.0	2,000.0	2,000.0
Strangford Welfare Facilities	0.0	0.0	0.0	0.0	25.0	25.0
<b>Total Economy</b>	<b>4,053.0</b>	<b>0.0</b>	<b>5,820.0</b>	<b>7,577.0</b>	<b>6,005.0</b>	<b>23,455.0</b>

**Environment:- Protect our environment and keep Herefordshire a great place to live**

Passenger Transport Fleet - Contracted fleet (Electric)	26,500.0	0.0	0.0	4,000.0	0.0	30,500.0
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Passenger Transport Fleet - Hereford City Commercial (Electric)	8,500.0	0.0	0.0	0.0	0.0	8,500.0
Better Ways of Working	0.0	0.0	0.0	0.0	850.0	850.0
Hereford Active Travel Measures & Super Cycle Highways	0.0	0.0	0.0	0.0	1,000.0	1,000.0
<b>Total Environment</b>	<b>35,000.0</b>	<b>0.0</b>	<b>0.0</b>	<b>4,000.0</b>	<b>1,850.0</b>	<b>40,850.0</b>
<b>Total</b>	<b>39,133.0</b>	<b>1,500.0</b>	<b>21,249.0</b>	<b>18,577.0</b>	<b>7,855.0</b>	<b>88,314.0</b>

20. 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. Central government announced that from the 9th October 2019 a 1% increase in the public works loan board (PWLb) interest rate will be applied. PWLB is the usual route of obtaining loan finance for councils including Herefordshire Council. The forecast interest cost of new borrowing has therefore been increased in the revenue budget proposals to reflect the anticipated additional cost burden based on the capital strategy borrowing requirement..
21. 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.
22. Individual capital scheme resourcing implications will be detailed in the approval to precede decision.
23. There is a line in the capital programme, within children and families for Preliminary works to inform key investment need throughout the county for £2m. This line has been reduced by £1m to allow a surplus of £1.45m to be retained to use on other projects that may need funding before the end of the 3-year programme proposed.

## Legal implications

24. 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, any nationally imposed limits, and it must do so in accordance with the prudential code on borrowing.
25. 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.
26. Full Council is responsible for adopting the capital investment budget (referred to above as the capital programme) for the next financial year. Local Authorities deliver a range of services some of which are required to be undertaken under statutory duties and others which are a discretionary use of statutory powers. Local Authorities powers and duties are defined by legislation. The Localism Act 2011 provides a General Power of Competence

under Section 1, which provides local authorities with the power to do anything that an individual may do, subject to limitations. Capital expenditure is defined under the Local Government Act 2003. It is therefore not only schemes that are necessary for the council to meet its statutory duties, which can be approved. 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.

27. 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.
28. In accordance with the budget and policy framework, rules in the constitution the general scrutiny committee 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 29 November, as referred to in the consultees section of this report. As such, the proposals in appendix 3 and 4 have been developed in accordance with the constitution.
29. 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.

## **Risk management**

30. 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.
31. 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 processes is currently taking place and any recommendations to help mitigate scheme risks will be put in place once approved.
32. 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**

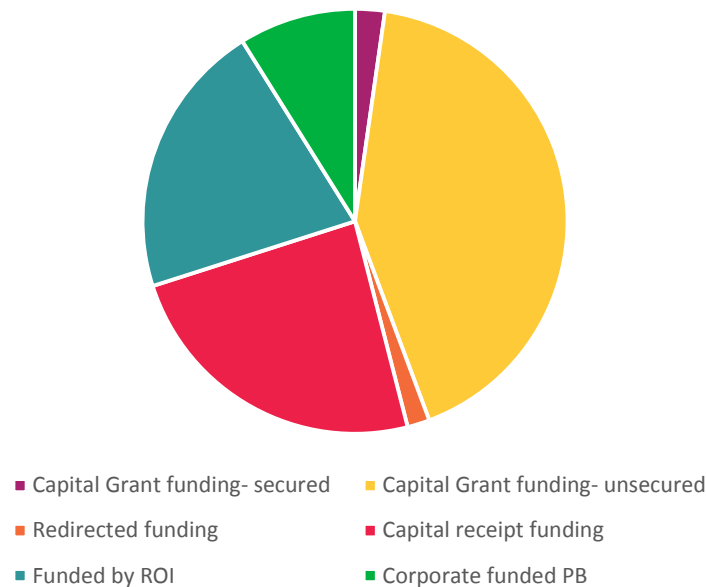
33. The proposed capital investment budget additions and supporting business cases were presented to adults and wellbeing scrutiny on 18 November, children's wellbeing scrutiny on 25 November and general scrutiny committee on 29 November 2019. All proposals were supported at each of the meetings and no amendments have so far been made to the capital investment proposals.

34. General scrutiny resolved to recommend that; (a) for business cases to specify the existence of partnership and the consideration of state aid as appropriate. This will be reflected in the full business case before the projects seeks permission to progress.
35. The proposals in appendix 1 align to the council's new corporate plan priorities consulted on as part of the public consultation on the 2020/21 budget and corporate plan 2020-24, which ran from the 6<sup>th</sup> November to 4<sup>th</sup> December. The consultation questionnaire was published on the Herefordshire Council website and residents were invited to complete it online. A printable version was given upon request. The consultation was promoted on the council's social media sites (Twitter and Facebook). In addition to the online survey, there were pop up events held in the market towns and in Hereford City.
36. Residents were asked to comment on the council priorities, the full report was shared at each scrutiny meeting in January but a summary of the responses that support the proposed capital investment proposals are;
- Regarding the proposal to develop community "super-hubs" that could potentially offer a range of council and partner services within different localities around the county, 63% of respondents indicated that Herefordshire would benefit compared to 31% who did not think it would benefit.
  - 79% of respondents agreed that the council should invest money in developing additional affordable housing stock and retaining it in public ownership.
  - 81% of respondents supported for investing in council owned care homes or care villages to support vulnerable children, young people and adults with accommodation and care needs.
  - 65% of respondents thought that it was important for the council to invest to support tourism.
  - 76% of respondents agreed with the additional funding in public realm.
  - 72% of respondents supported further investment in technology to enable new and improved ways of delivering services and 18% did not.
  - It was clear that some priority areas for investment were more favoured than others. If we take the overall weighted average for each priority, five areas were noticeably more favoured than the others, with not much difference in support between these five. They were, in order of priority, maintenance of highways and public spaces, planning and investment to address the climate emergency, care homes and accommodation for vulnerable people (children, young people and adults), affordable housing (publicly owned) and public housing.
37. The proposed capital investment budget additions were again presented to adults and wellbeing scrutiny on 13 January, children's wellbeing scrutiny on 14 January and general scrutiny committee on 20 January 2020, where again all proposals were supported but adults and wellbeing made some recommendations to general scrutiny.
38. General scrutiny resolved to recommend that;
- The Cabinet considers providing a specific capital allocation for market towns to be able to bid for public realm improvements. This will be discussed at the Cabinet meeting.
  - Greater transparency around the figures presented in item 23 on the leaders report in relation to where the funding originates from. The below graph shows how the £88.3m of new capital investment proposals are being funded and individual project details are included in section 19 of this report. Further details of the types of



funding can be found in section 4 of the capital strategy in appendix 4.

### Capital Funding Requests for approval



- To inform the detailed business cases for the key areas of capital investment and to provide assurance that they are sustainable and represent value for money, the executive be asked to arrange an all members' seminar to explore the options appraisals. As full business cases are developed, member involvement will be reviewed by Cabinet.
- That the options appraisal for public housing also consider the potential to support key workers with their accommodation needs. This will be taken into account as the full business case is developed.

## Appendices

Appendix 1 - Proposed capital investment additions for 20/21

Appendix 2 - Current status of approved capital programme

Appendix 3 – Total proposed capital programme

Appendix 4 – Proposed Capital Strategy

## Background papers

Proposals received.