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| MEETING: | Council |
| MEETING DATE: | 18 December 2015 |
| TITLE OF REPORT: | Proposed capital programme 2016/17 |
| REPORT BY: | Director of resources |

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To approve the proposed capital programme for 2016/17 to 2019/20 inclusive, as proposed by Cabinet on 3 December 2015.

Recommendation(s)

THAT: the 2016/17 to 2019/20 capital programme as set out at appendix 2 to the report be approved.

Alternative Options

1. The capital schemes detailed below will either enable the delivery of savings targeted in the medium term financial strategy, are self-funded, grant funded or address critical service needs.
2. Additional capital spend could be approved, this has not been recommended due to affordability, lack of clarity on need and the opportunity for alternative solutions.

Reasons for Recommendations

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

Key Considerations

4. The capital programme plays a key role in delivering the council's broader ambitions to drive economic growth in the county and the delivery of more jobs and homes. It builds on the foundations provided by the recently adopted core strategy and is aligned with both the Marches strategic economic plan and the council's corporate plan.
5. Capital proposals are invited and ranked by the capital strategy group, a senior officer group chaired by the director of resources. Expressions of interest were submitted in August and if the request aligned with corporate priorities business cases were completed and reviewed in October.
6. The current capital programme approved by Council in December 2014 with updated spend profiles is provided in appendix 1.
7. The capital programme was updated in the year to include the Marches and Worcestershire redundant building grant programme of £1.5m. Herefordshire is the accountable body of this Local Enterprise Partnership (LEP) grant funded fund providing capital grant support of between £3k and £50k to small job-creating businesses to refurbish underused and redundant buildings, bringing them back into commercial use.
8. Since the last update the Leominster junior and infant school amalgamation has been completed on time and within budget.
9. If the proposals in this report are approved the capital programme will total £174m in future years, as shown in appendix 1. This will be funded by grants, capital receipts, borrowing and revenue savings.

Proposed additions to the capital programme

10. The proposed programme focuses capital spend on key infrastructure issues such as broadband, roads and schools all of which will deliver the conditions required to enable the provision of new housing and for businesses to thrive, to help them create new and better paid jobs for the county's residents.
11. Proposed additions to the capital programme to be spent 2016/17 – 2019/20 are summarised below and detailed in appendix 2. This follows the review of submissions by the capital strategy group. Rejected submissions were received for additional investment in the property estate, flood remedial works and fleet renewals. These were rejected due to affordability, uncertainties, lack of clarity on need and the opportunity for alternative solutions.
12. The bulk of the proposed £37.6m programme is funded by capital grants, service charges, capital receipts or revenue savings. This leaves a balance of £13.4m to be financed by prudential borrowing. The revenue implications are detailed in the financial implications section of this report and will be reflected as pressures in future years' budget proposals. Spending will support the corporate plan priorities by improving infrastructure, support the local economy, housing development and the

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creation of job opportunities.

| Scheme | Total Cost £000 | Total Funding £000 | Net Cost £000 |
|--|----------------------------|-------------------------------|--------------------------|
| Infrastructure | | | |
| Hereford city centre transport package | 13,600 | (13,600) | - |
| Fastershire broadband | 8,000 | (7,000) | 1,000 |
| Schools | | | |
| Brookfield school improvements | 1,370 | - | 1,370 |
| Westfield school improvements | 710 | (500) | 210 |
| Peterchurch primary school improvements | 4,500 | (1,000) | 3,500 |
| Service delivery improvements | | | |
| Purchase of green waste bins to meet recycling targets | 150 | (150) | - |
| Property estate | | | |
| Emergency property estate enhancement works | 2,000 | - | 2,000 |
| Corporate accommodation | 1,700 | (300) | 1,400 |
| 1A St Owen street, adjacent to Shire Hall | 70 | - | 70 |
| Edgar street works | 100 | - | 100 |
| Smallholding health and safety improvements | 100 | - | 100 |
| Hereford library accommodation works | 1,000 | - | 1,000 |
| Highway depot improvements | 800 | (800) | - |
| Office and car park lighting replacement | 300 | (300) | - |
| ICT | | | |
| Data centre consolidation | 1,170 | - | 1,170 |
| IT network upgrade | 500 | - | 500 |
| PC replacement | 740 | - | 740 |
| Software to enable remote access to desktops and automate upgrades | 500 | (500) | - |
| 1% contingency | 290 | - | 290 |
| Total | 37,600 | (24,150) | 13,450 |
| Estimated annual revenue borrowing cost upon completion | | | 807 |

13. Of the £13.4m funding needed, £5m relates to the schools capital investment strategy. This is currently in development and the proposals are within the overall strategic approach. 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 such schemes will be explored with partners such as the education funding agency, schools, the diocese of Hereford, archdiocese of Cardiff, and local communities as well as opportunities for releasing sites and reinvesting in education.
14. A further investment of £8m is recommended to expand broadband coverage throughout the county as outlined in the fastershire broadband strategy 2014-2018. The council is committed to reach rural premises in the county with broadband of 30Mbps by 2016. Additional investment is required to provide further coverage to properties predominantly in more rural areas which are more expensive to reach. Of

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the £8m total cost external funding of £7m has been secured with the balance of £1m proposed to be funded from council resources.

15. In addition to this the council has secured grant funding of £2m from broadband UK, a government agency which would enable the programme to continue beyond 2018/19. However this funding will require match funding. Prudential borrowing of £2m would cost approximately £120k pa over 25 years to repay. The council is seeking external funding as an alternative, minimising any contribution from its own resources.

Overall borrowing implications

16. The additional borrowing requirement of £13.4m will be included in the treasury management strategy 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.
17. Total gross outstanding debt was £165m as at 31 March 2015. This is being repaid at approximately £10m per annum.
18. Assuming the proposals are approved and including the capital programme approved to date, there would be a net increase in the debt requirement from £165m as at 31 March 2015 to approximately £195m as at 31 March 2020. This additional borrowing includes spend on the waste plant and Halo leisure centres, the cost of which will be financed from payments received.
19. Herefordshire has a long term debt to asset ratio of approximately 25% which means a quarter of Herefordshire's assets are financed by long term debt, which is in line with the average position when compared to all unitary authorities. Herefordshire is in the lower (better) half of the comparative authority debt positions when comparing the cost of borrowing to net revenue budget.

Community Impact

20. 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 and Human Rights

21. A full community impact assessment will be carried out prior to any scheme commencing.

Financial Implications

22. The majority of proposals are funded as detailed in appendix 2. A separate Cabinet report on the business case for new individual projects will be approved before spend begins.
23. It is estimated that the phasing and cost of the £13.4m new prudential borrowing requirement will be as follows:

| | Capital cost £m | Cost of borrowing per annum £m |
|---------|--------------------|--------------------------------------|
| 2016/17 | 5.6 | 0.3 |
| 2017/18 | 6.3 | 0.4 |
| 2018/19 | 1.0 | 0.1 |
| 2019/20 | 0.5 | 0.0 |
| | <u>13.4</u> | <u>0.8</u> |

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

Legal Implications

25. 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.
26. 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. 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.
27. Further 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

28. Monthly budget control meetings are chaired by the director of resources and give assurance 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.

Consultees

29. Cabinet considered the proposals on 3 December following a general overview and scrutiny committee review on 17 November. The general overview and scrutiny committee noted the proposals and made a number of comments summarised in the table below.

| General overview and scrutiny committee comment | Response |
|--|--|
| The 'Hereford city centre transport package' brought together the Hereford city link road and the range of complementary transport and public realm measures within one line. A committee member asked for consistency in how schemes were described and | The description in appendix two has been updated to reflect this feedback. |

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| accounted for. | |
| The Chairman suggested that future reports would benefit from expanded explanatory notes. | Future reports will be enhanced. |
| Numerous schemes had been identified as 'invest to save' initiatives and it was suggested that the committee would benefit from visibility of those elements of the capital programme which had been delivered and to be assured that savings and returns on investments were being achieved. The Chairman requested that a briefing note be prepared and circulated on this matter annually. | A briefing note will be shared. |

Appendices

Appendix 1 – Total capital programme

Appendix 2 - Proposed schemes

Background Papers

None identified.