PUBLIC QUESTIONS TO GENERAL OVERVIEW AND SCRUTINY COMMITTEE

14 November 2016

Questions from Mrs E Morawiecka, Breinton

Q1. The report on the 2017-18 Capital Costs states at para 18 that the cost of borrowing of the additional Capital borrowing is £0.1m p.a. giving a total cost over the 3 years of £0.3m. However, this calculation does not reflect the cumulative capital costs of the increasing level of extra prudential borrowing. For example in 2019/20 the capital cost is still shown as £0.1m, when in fact the additional debt will be £9.7m and at the current weighted average cost of capital of 3.42% gives an annual cost of £331,740. Please explain how the cost of total cost over the 3 years is just £0.3M?

Answer from the interim director of resources

The annual cost of capital is accumulated over the period of the medium term financial strategy (MTFS) hence while the added cost each year is £0.1m, the accumulated impact is £0.3m, in line with your calculation.

Q2. When cuts in public transport and other services are being considered, please explain why additional finance costs are proposed that will reduce the revenue funding available for service delivery?

Answer from the interim director of resources

Local government finance regulations require councils to properly reflect the cost of investment in the revenue budget. As the council continues to invest in the county's infrastructure, the capital costs associated with this investment must be reflected in the revenue budget.

Q3. 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%.

(a) What is the justification for increasing the Council's debt levels further, when these additional borrowing costs will continue for approximately 25 years?

(b) when the Council has agreed to accept a 4 year funding settlement that will see a significant cut in revenue grant over the next 4 years what savings will this additional capital spending deliver to service this additional debt of £9.7million

(c) what is the discounted net present value of the additional capital programme, which would enable Councillors to determine that the proposed capital additions provide value for money for the local taxpayer?

Answer from the interim director of resources

(a) Local government finance regulations require councils to properly reflect the cost of investment in the revenue budget. As the council continues to invest in the county's infrastructure, the capital costs associated with this investment must be reflected in the revenue budget. The Council has approved plans to dispose of its rural estate the proceeds of which will be used to reduce debt to a level more in line with other unitary councils.

(b) The projects contained in the capital programme are designed to add value to the community served by the council. In some cases the project will deliver financial benefits from reduced costs or improved services, others maintain or enhance the county's infrastructure to directly support the community, while some projects may add value to the economy by creating new jobs, housing or businesses.

(c) As set out in (b) above, not all investment projects can be evaluated on a purely financial basis. Capital projects are required to be supported by a detailed business case which will include an assessment of both financial and non-financial benefits. The discounted net present value of the incremental capital programme is one way that value for money can be assessed but the decision to invest will be dependent upon the wider benefits generated. This paper requests consideration of the proposed additions to the existing capital budget, the detailed financial assessment of each scheme, if approved, will follow when the scheme details are confirmed. .

Q4. One of the largest liabilities the Council currently has to finance is the pension scheme. What is the updated position regarding the additional financing required for the Council's pension scheme, and what further service cuts will be required to finance this existing debt ahead of any increase in capital borrowings?

Answer from the interim director of resources

The Pension fund is currently the subject of a triennial valuation by the scheme's Actuary. The result of this exercise will be known towards the end of the year but initial results indicate that the council will not be required to provide additional financial support to that already included in the medium term financial strategy. As such no service cuts are planned to mitigate the cost of providing pensions for staff. For a fuller understanding of how the pension liability is treated, can I refer you to the Council's Statement of Accounts which sets out in detail the relationship between the pension liability and debt.

Questions from Mrs Wegg-Prosser, Breinton

1. Approved Capital Programme

It is not clear from the 10th line item, **South Wye Transport Package**, whether the £8M referred to as being 'funded by LTP' is included in the figures provided in the adjacent 5 columns, or whether the £8M is included in the figures provided against the 3rd line item, **Local Transport Plan**.

Which of the two line items' figures contain this £8M allocation?

Answer from the interim director of resources

The £8m allocation is contained in the 3rd line, Local Transport Plan, and is profiled for the later years of the scheme.

2. Capital Projects Additions

Reference 'Subject to additional funding confirmation' 3rd line item '**Highway asset management & major infrastructure investment** (including Hereford by-pass)', no explanation is given as to the split between highway asset management and major infrastructure investment. Furthermore, there is no explanation of the source or application of the £25.523M described as 'Total Funding' and no indication of the origins for the estimates of 'Total Cost' of £29.278. These types of figures require more detail.

By way of example, Cabinet on 16 June 2016 approved an application for £2.65M from DfT 'large local majors fund' to develop the business case for the proposed 'Hereford bypass' and committed to add 'local funding' of £0.6M, making the total £3.25M. The £3.25M appears in the Marches LEP Hereford Transport Package (HTP) bid document (160531) but this figure has now been replaced in the later Marches LEP HTP bid document (160811) by the figure of £3.778M, with £1.9M deriving from 'local funding' rather than £0.6M as stated in the bid submitted some ten weeks earlier and approved by Cabinet on 16 June 2016.

Have Cabinet and Council been informed of this £1.3M increase in local funding, and if so, when?

Answer from the interim director of resources

The Cabinet paper on 16 June 2016 refers to revenue spend as opposed to the additional capital proposals in this paper. The changes you refer to (local funding increase of £1.3m) in the resubmitted large local majors bid are a result of the opportunity to capture historic spend incurred in completing associated studies in developing the core strategy report. This is not an increase in local funding. The capital proposal for highway asset management and major infrastructure investment represents the potential funding and the detail of how this would be deployed would be subject to detailed funding applications and appropriate decisions by Cabinet.