

Title of report: 2022/23 Capital Investment Budget and Capital Strategy Update

Meeting: Council

Meeting date: Friday 11 February 2022

Report by: Leader of the Council

Classification

Open

Decision type

Budget and policy framework

Wards affected

(All Wards);

Purpose

To approve the capital investment budget and capital strategy for 2022/23 onwards.

Appendix A provides details of the proposed additions to the existing capital programme that have been identified and the impact of approving these additions. Twelve capital investment budget proposals totalling £32.08m have been identified, to be funded by capital grants (£13.01m), returns on capital investment (£5.55m), use of capital receipts reserve (£1.5m) and prudential borrowing (£12.02m).

In line with the Chartered Institute of Public Finance and Accountability (CIPFA) requirements a capital strategy has been written to reflect future direction for capital investment, the strategy is included at appendix D and in line with the guidelines requires Council approval.

Recommendation(s)

That Council:

- a) approve the proposed capital programme from 2022/23 attached at appendix C; and**
- b) approve the capital strategy at appendix D.**

Alternative options

1. It is open to Council to propose alternative capital investment options to Council. 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.
2. A capital strategy is required in accordance with the statutory guidance issued by The Chartered Institute of Public Finance and Accountancy (CIPFA), there is 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 B. The profiling of the 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 2021/22 onwards. Since approval of the programme at February 2021 full Council, an additional £52.49m has been added to the capital programme (some are reductions in assumed grant or estimates based on previous annual grant awards), as follows:
 - a. £3.194m increase to the estimated Local Transport Plan (LTP) Grant from the Department for Transport (DfT) to assist towards maintaining the local network.
 - b. £0.066m increase to the estimated schools maintenance grant from the Department for Education (DfE) to help relief the backlog of maintenance required.
 - c. £0.416m increase to the estimated Disabled Facilities Grant (DFG) awarded in 2021/22, this grant contributes towards the costs of adaptations to allow disabled people to remain living in their own homes.
 - d. £0.428m increase to the Marches Business Investment Programme to award grants to local businesses dependent on a successful bid.
 - e. £0.039m Sustainable Energy in Public Buildings adjustment to match the grant award to part fund energy improvement works
 - f. £1.34m Green Homes Grant – Local Authority Delivery awarded from the Business, Energy and Industrial Strategy (BEIS) for the second phase.
 - g. £0.648 High Needs Grant allocated from the DfE in year, yet to be agreed on how it will be spent.
 - h. £0.675m Local Enterprise Partnership (LEP) grant award from the growth fund to help with further infrastructure works in the Hereford Enterprise Zone.
 - i. £36.816m estimated annual LTP grant for the next 3 years based on historical annual awards of £12.272m for each year from 2022/23 onwards.
 - j. £2.390m estimated annual schools maintenance grant for the 2 future years based on historical annual awards.
 - k. £6.0m estimated annual DFG for the next 3 years based on historical annual awards.

- l. (£0.2m) reduction in the final Leominster Heritage Action Zone Grant award from £2m to £1.8m.
 - m. £0.25m initial allocation of the Stronger Towns Grant for the Museum project.
 - n. £0.15m initial allocation of the Stronger Towns Grant for the Maylords project.
 - o. £0.278m allocation was West Mercia Police to install additional CCTV cameras.
6. The only other change to the capital programme was the approval by the S151 officer to utilise £0.56m of revenue reserves towards the urgent works at Halo sites due to flooding.
7. As part of the 2022/23 budget setting process, priority capital investment needs for 2022/23 have been identified.
8. All proposals were submitted based on needs, and are included in appendix A along with a description of what each proposal includes. Due to the change in work requirements over the last couple of years it is also proposed to amend the naming of the Better Ways of Working to Flexible Futures to enable a new look at the way in which the Council should best deliver its services.
9. Cabinet completed an informal review of all prospective capital funding requests and all were progressed and included in this report.
10. The informal review was carried out to ensure all funding requests were manageable within the current borrowing limits in the medium term financial strategy and retains approximately £14m in the capital receipts reserve. Although borrowing in advance for 2022/23 projects, using allocated funding for 2023/24 it is understood that the balance of grants held in advance, S106 balances and other reserves this will offset any borrowing requirements.
11. Approval of provision in the capital programme is not approval to proceed. Each project will be subject to its own governance, a full business case before any spend may be incurred and comply with the council's contract procedure rules as applicable.
12. 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

13. 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 enabling efficient and effective operations.
14. 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 for any new capital scheme commencing and incurring spend.

Environmental Impact

15. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
16. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resources use in line with the council's Environmental Policy. A specific environmental impact assessment for the service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance. An initial environmental assessment has been included in the outline business cases that were reviewed at Scrutiny and these will be developed and scoped for each project when they seek approval to spend and a separate governance decision.

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 A total £32.08m over the next four years. Of this £13.01m is proposed to be funded from capital grants in relation to the Stronger Towns Fund, with £5m being dependent on a successful lottery bid and use of £1.5m from the capital receipts reserve. There is no use redirected revenue funding. This leaves £17.57m requiring financing from prudential borrowing (PB). Of this the cost of financing £5.55m of prudential borrowing repayment costs will be funded from revenue savings on rental fees, additional revenue streams from rental and entrance fees etc at the museum. Therefore additional costs of financing £12.02m prudential borrowing will be funded by the corporate revenue budget. Where projects are in the capital programme but they depend on grant, if the grant request is not successful, the full project including any match funding will be removed unless a revised project is approved within the revised allocations.

Scheme	Capital Grant funding £000	Redirected funding £000	Capital receipt funding £000	Funded by ROI £000	Corporate Funded PB £000	Total Request £000
Residual property works identified in the 2019 condition reports	0.0	0.0	0.0	0.0	1,391.6	1,391.6
Estates Building Improvement Programme 22-25	0.0	0.0	0.0	0.0	3,007.0	3,007.0
Key Network Infrastructure (Core Data Centre Switches & Corporate Wi-Fi)	0.0	0.0	0.0	0.0	490.0	490.0
Primary Data Storage Area Network (Plough Lane)	0.0	0.0	0.0	0.0	335.0	335.0
Public Realm Maintenance - Mitigating Risk on the Network	0.0	0.0	0.0	0.0	4,950.0	4,950.0
Winter Resilience	0.0	0.0	0.0	0.0	1,402.0	1,402.0
My Account	0.0	0.0	0.0	0.0	443.0	443.0
Stronger Towns Fund - Hereford Museum & Art Gallery Redevelopment	9,750.0	0.0	0.0	5,000.0	0.0	14,750.0
Stronger Towns Fund - Greening the City	409.9	0.0	0.0	0.0	0.0	409.9
Stronger Towns Fund - Maylord Orchard Redevelopment and Learning Resource Centre	2,850.0	0.0	0.0	0.0	0.0	2,850.0
Herefordshire Hoard	0.0	0.0	1,500.0	0	0.0	1,500.0
Highways Equipment	0.0	0.0	0.0	548.0	0.0	548.0
Total	13,009.9	0.0	1,500.0	5,548.0	12,018.6	32,076.5

20. The corporate 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.

Funding Position	22/23	23/24	24/25	Future Years	Total
Total Corporate Borrowing Required	8,100.6	2,929.0	554.0	435.0	12,018.6
Annual Funding Limit	6,700.0	6,700.0	6,700.0	-	20,100.0
Unspent 20/21 borrowing to reallocate	503.3	-	-	-	503.3
Unspent 21/22 borrowing estimated	1,500.0	-	-	-	1,500.0
Hereford Transport Package	3,750.0	-	-	-	3,750.0
Allocated Previously	-	-	-	-	-
	6,826.6	66.0	10.0	-	6,902.6

Total Funding Available	5,626.7	6,634.0	6,690.0	0.0	18,950.7
Funding Variance	-2,473.8	3,705.0	6,136.0	-435.0	6,932.2

21. The additional borrowing requirement is reflected in an update to the Treasury Management Strategy as shown in the report appearing elsewhere on the Council's agenda today [11 February 2022] with actual borrowing being secured, as cash funding is required at the optimal interest rate available at that time. Although the above table reflects advance borrowing of the 2023/24 allowance it is believed the additional cash balances held in reserves and slippage of the capital programme each year will ensure the costs of borrowing for these new projects will be offset within the existing budget.
22. Individual capital scheme resourcing implications will be detailed in the approval to precede decision. Appendix E contains the outline business cases for each of the new projects.

Legal implications

23. 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.
24. 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.
25. In accordance with the Council's constitution 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.
26. 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.
27. 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 A at its meeting on 27 January 2022, as referred to in the consultees section of this report. As such, the proposals in appendix C and D have been developed in accordance with the constitution.
28. 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

29. 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 in the council's overall position for example through phasing of spend, identifying and securing scheme changes or alternative funding sources.
30. 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. Furthermore slower delivery than forecast can mean the strategic ambitions are not being met as planned. A review of capital processes has taken place and the recommendations to help mitigate scheme risks are in the process of being put in place once approved. All projects are expected to be managed through the programme management office once resources are in place, so further mitigating the risk of overspend or delays.
31. 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

32. Local consultation with parish and town councils, businesses and organisations was completed in September 2021, 10 events were held with 50 participants. Responses supported:-
 - Over 50% of respondents supported borrowing more to support the wider aims of the council. Although there was caution and more information requested on the cost of repaying this borrowing for future generations if not used for projects that create a positive return to repay this borrowing.
 - Of the split of where this should be spent the top 3 were adult social care eg care homes, roads maintenance and childrens services for respite and children in care. Of these only a care home is likely to have a return on investment so further work would be required to ensure the revenue cost to repay the borrowing is understood.
33. An online public consultation was open between 27 August 2021 and closed on 4 October 2021 in the form of a Residents Survey. There were 134 respondents which is unlikely to be representative of the full population points of view.
34. The main focus of the consultation was on council tax setting and the savings that needed to be identified to enable a balance budget to be presented due to the current pressures.
35. However similar questions to those asked at the events in September 2021 were asked.
 - Similarly 58% of respondents agreed the council should borrow more to achieve its wider aims.
 - Only these 58% were asked to rank where this should be spent, it was again the same top 3 but ordered by weighted score, with childrens services, road maintenance and adult social care in that order.
36. Currently roads maintenance is a high proportion of the capital budget although a significant amount of that is funded by an annual LTP grant and there is currently a budget for the provision of a care home. Childrens services are currently reviewing its services and identifying the costs that would be needed to provide services for both capital investment and ongoing revenue costs, when any business cases progress they will be reviewed to identify where the funding could be sourced or what savings would be required to fund the borrowing repayments and any future running costs.

37. The proposed capital investment budget additions were presented to a general scrutiny workshop in December 2021 however the public meeting needed to be cancelled and so were presented at the re arranged public meeting on the 27 January 2022. There were two recommendations that related to capital budgets at the meeting, detailed with responses in the table below reported as a supplementary paper to Cabinet on 31 January 2022. The response of Cabinet is set out below:

Recommendation g)	The capital investment in highway maintenance in market towns is welcomed.
Executive Response	Noted.
Recommendation h)	Consideration be given to the use of 50% of the capital surplus for highways in 2023/24 and 2024/25
Executive response	<p>Whilst the budget setting process mainly focuses on next year's budget (year 1), we acknowledge that consideration should be given to the use of 50% of the capital surplus for highways in 2023/24 (year 2) and 2024/25 (year 3). We are currently working on the projects for the refurbishment of Shire Hall and HCCTP, city centre transport programme.</p> <p>The council do currently have headroom in the capital programme in future years and we will commit to undertake a value for money (VFM) audit and lessons learned exercise in 2022 on the previous £20m capital injection and the projects it funded. This will inform decisions about how best to improve the condition of our core and non-core road networks.</p> <p>We would welcome scrutiny being involved in that process in the coming year so as to be better placed to understand the options available to us as we enter the budgeting process for the 2023/2024 budget.</p>

38. Cabinet on 31 January 2022, considered the proposed capital programme and approved those proposals as set out in this report.

Appendices

Appendix A - Proposed capital investment additions for 2022/23

Appendix B - Current status of approved capital programme

Appendix C - Total proposed capital programme

Appendix D - Proposed Capital Strategy

Appendix E - Outline Business cases for capital investment proposals.

Background papers

None identified

Report Reviewers Used for appraising this report:

Please note this section must be completed before the report can be published		
Governance	Matthew Evans, Democratic Services Officer	Date 01/02/2022
Finance	Andrew Lovegrove	Date 01/02/2022
Legal	Alice McAlpine	Date 04/01/2022
Communications	Luenne featherstone	Date 31/12/2021
Equality Duty	Carol Trachonitis	Date 04/01/2022
Procurement	Mark Cage	Date 05/01/2022
Risk	Kevin Lloyd	Date 05/01/2022
Approved by	Kate Charlton	Date 02/02/2022