

Title of report: 2023/24 Capital Investment Budget

Meeting: Scrutiny Management Board

Meeting date: Tuesday 17 January 2023

Report by: Cabinet member finance, corporate and planning

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To seek the views of scrutiny management board on the capital investment budget proposals for 2023/24 onwards.

Recommendation(s)

That:

- a) Having regard to the capital investment proposals in appendix a, the committee notes the Capital Investment Budget, and**
- b) The committee determines any recommendations it wishes to make to Cabinet in relation to the revised capital programme in appendix b.**

Alternative options

1. There are no alternatives to the recommendations; Cabinet is responsible for developing budget proposals for Council consideration and it is a function of this committee to make reports or recommendations to the executive with respect to the discharge of any functions which are the responsibility of the executive. The council's budget and policy framework rules require Cabinet to consult with scrutiny committees on budget proposals in order that the

scrutiny committee members may inform and support the process for making Cabinet proposals to Council.

2. It is open to scrutiny management board to recommend alternative spending proposals or strategic priorities; however given the legal requirement to set a balanced budget, should additional expenditure be proposed compensatory savings proposals must also be identified.

Key considerations

3. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year. 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.
4. Appendix A 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 totalling £63.22m have been identified, to be funded by capital grants (£18.64m), returns on capital investment (£13.54m), use of revenue reserves (£5.80m) and prudential borrowing (£25.24). Appendix C provides business cases for each proposed scheme.
5. Council will be asked to approve the revised capital programme on 10 February 2023. At the same meeting Council will also be asked to approve the updated capital strategy.
6. There are two other changes within the capital programme Appendix B for the current financial year. Firstly the reduction of the Electronic Document Management Storage by the forecast underspend of £0.065m to increase the Key Network Infrastructure capital budget to enable delivery due to the inflationary increases at the point the tenders were received, there is no change to the overall borrowing requirement, just a movement of budget between the two projects.
7. Secondly a decrease in the Leominster Heritage Action Zone (LHAZ) budget of £0.496m, due to a decrease in the grant award from Historic England. Due to Covid related impacts the LHAZ underspent in 2021/22, and the capital programme has been reduced to reflect this. Following the selection of the Heritage Action Zone there were national delays to the launch of the programme due to Covid. These funds were then available for business grants to support the development and/ or restoration of heritage buildings. However, Covid had a significant impact both on businesses being in a position to invest in their buildings (alongside the grant funding), or to access the specialist technical skills required to develop their project. Therefore, unfortunately there was an underspend with 2021/22. In the following years there has been a high take up of the scheme, with all of the remaining funds now committed.

Community impact

8. The budget proposals demonstrate how the council is using its financial resources to deliver the priorities within the County Plan and associated delivery plan.
9. The council is committed to delivering continued improvement, positive change and outcomes in delivering key priorities.
10. In accordance with the principles of the code of corporate governance, the council is committed to promoting a positive working culture that accepts, and encourages constructive challenge, and recognises that a culture and structure for scrutiny are key elements for accountable decision making, policy development, and review.

Environmental Impact

11. 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.
12. Whilst this overarching budget setting document will not detail specific environmental impacts, consideration is always made to minimising waste and resource 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.

Equality duty

13. 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.
14. 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. Service specific equality impact assessments will be completed when the service specific proposals are developed to assess the impact on the protected characteristic as set out in the Equality Act 2010. The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account. When these assessments have been completed, we will consider mitigating against any adverse impact identified.

Resource implications

16. The proposed additions at appendix A total £63.22m over the next four years. Of this £18.64m is proposed to be funded from capital grants, all projects are yet to secure the grant funding and will be dependent on successful outcomes such as the Levelling up Fund for Masters House and the Transport Hub. There is no use of capital receipts reserves, although £5.8m will be used from the waste revenue reserve. This leaves £38.78m requiring financing from prudential borrowing. Of this the cost of financing £13.54m of prudential borrowing repayment costs will be funded from additional revenue streams or savings in the revenue budget. Therefore additional costs of financing £25.24m 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
Schools Accessibility	0.0	0.0	0.0	0.0	1,000.0	1,000.0
Schools Maintenance	0.0	0.0	0.0	0.0	2,713.0	2,713.0
HARC SAN Lifecycle Replacement	0.0	0.0	0.0	0.0	372.0	372.0
Data Centre Equipment Lifecycle Replacement	0.0	0.0	0.0	0.0	329.0	329.0
Windows Server Upgrades	0.0	0.0	0.0	0.0	330.0	330.0
Backup Storage	0.0	0.0	0.0	0.0	82.0	82.0
Device and Ancillary kit replacement programme	0.0	0.0	0.0	0.0	1,593.0	1,593.0
M365 E5 Implementation	0.0	0.0	0.0	0.0	450.0	450.0
Estates Building Improvement Programme 2023-25	180.0	0.0	0.0	1,105.0	2,422.0	3,707.0
Highways Infrastructure Investment	1,580.0	0.0	0.0	0.0	14,460.0	16,040.0
Public Realm Improvements for Ash Die Back	0.0	0.0	0.0	0.0	1,416.0	1,416.0
Moving Traffic Enforcement Phase 2	0.0	0.0	0.0	144.0	0.0	144.0
Masters House	762.0	0.0	0.0	0.0	0.0	762.0
Waste	0.0	5,800.0	0.0	12,290.0	0.0	18,090.0
E-Cargo Bike Share	0.0	0.0	0.0	0.0	73.3	73.3
Home Upgrade Grant	7,744.0	0.0	0.0	0.0	0.0	7,744.0
Herefordshire Retrofit Hub	2,042.2	0.0	0.0	0.0	0.0	2,042.2
Transport Hub	6,328.0	0.0	0.0	0.0	0.0	6,328.0
Total	18,636.2	5,800.0	0.0	13,539.0	25,240.3	63,215.5

17. 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	23/24	24/25	25/26	26/27	Total
Total Corporate Borrowing Required	11,534.3	5,819.0	3,977.0	3,910.0	25,240.3
Annual Funding Limit	6,700.0	6,700.0	6,700.0	6,700.0	26,800.0
Unspent 21/22 borrowing to reallocate	539.3	-	-	-	539.3
Unspent 22/23 borrowing estimated	1,895.0	-	-	-	1,895.0
Allocated Previously	-2,995.0	-564.0	-435.0	-	-3,994.0
Total Funding Available	6,139.3	6,136.0	6,265.0	6,700.0	25,240.3

Funding Variance	-5,395.0	317.0	2,288.0	2,790.0	0.0
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18. The additional borrowing requirement is reflected in an update to the Treasury Management Strategy. 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.
19. Individual capital scheme resourcing implications will be detailed in the approval to precede decision. Appendix C contains the outline business cases for each of the new projects.
20. An informal review of all prospective capital funding requests has been completed; the rebuild of Westfield School was not progressed as it was not affordable within the current borrowing levels and thought external funding could be sought. The Highways Infrastructure budget had sought funding just from corporate supported borrowing but to balance within the borrowing constraints a proportion of this request was amended to be grant funded and they will need to source this grant funding to be able to spend the full allocation in the capital programme.
21. 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 £6.7m in the capital receipts reserve for future investment consideration.

Legal implications

22. 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.
23. 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.
24. 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.
25. The Council's budget and policy framework rules require that the chairmen of the scrutiny management board shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.
26. Section 106 of the Local Government Finance Act 1992 restricting councillors voting on certain matters where they are in arrears of council tax, does not apply to scrutiny function as the views from scrutiny on the budget are not a recommendation for approval, a resolution or any

other type of decision. As a result a s106 check of councillors arrears has not been undertaken.

Risk management

27. 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.
28. 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.
29. 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

30. The council's constitution states that budget consultees should include parish councils, health partners, the schools forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the leader shall determine.
31. An online public consultation was open between 15 December 2022 and 3 January 2023. The consultation has mainly focused on the revenue issue and the responses will be collated and discussed under the revenue budget setting item.
32. During the year Parish Councils have been consulted on S106 income held and discussed what will be delivered to ensure these funds are appropriately spent within the timeframes required.

Appendices

Appendix A: Capital funding requests for approval

Appendix B: Five year capital programme and funding requirements

Appendix C: Business Cases to support 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

John Coleman

Date 05/01/2023

Finance	Louise Devlin	Date 05/01/2023
Legal	Francis Fernandes	Date 23/12/2022
Communications	Luenne Featherstone	Date 04/01/2023
Equality Duty	Harriet Yellin	Date 05/01/2023
Procurement	Lee Robertson	Date 29/12/2022
Risk	Kevin Lloyd	Date 05/01/2023

Approved by	Andrew Lovegrove	Date 09/01/2023
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Please include a glossary of terms, abbreviations and acronyms used in this report