

Title of report: 2023/24 Capital Investment Budget and Capital Strategy Update

Meeting: Cabinet

Meeting date: Thursday 26 January 2023

Report by: Director of Resources and Assurance

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

To recommend to Council for approval the capital investment budget and capital strategy for 2023/24 onwards.

Recommendation(s)

That: the following be recommended to Council

- a) To approve the proposed capital programme from 2023/24 attached at appendix C; and**
- b) Approve the capital strategy at appendix D.**

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 the statutory guidance issued by 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 2022/23 onwards. Since approval of the programme at February 2022 Council, an additional £46.37m has been added to the capital programme (some are reductions in assumed grant or estimates based on previous annual grant awards), as follows:
 - a. £9.582m 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. £0.269m 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. £1.725m Home Upgrade Grants to part fund energy improvement works
 - e. £0.495m Green Homes Grant – Local Authority Delivery awarded from the Business, Energy and Industrial Strategy (BEIS) for the third phase.
 - f. £3.407m High Needs Grant allocated from the DfE in year, yet to be agreed on how it will be spent.
 - g. £0.119m allocation from West Mercia Police to install additional CCTV cameras.
 - h. £0.423m Rough Sleepers Accommodation Programme to assist with purchasing suitable premises.
 - i. £0.075m Unified Technology Fund to help with digitising social care.
 - j. £9.491m Basic Needs Grant allocated from the DfE to increase school capacity.

- k. £1.274m Natural Flood Management Grant award from the Environment Agency.
 - l. £12.339m has been added to the capital programme to reflect the profile of the spend for income received to date.
 - m. £3.233m DfE grant for the improvement works at Brookfield School.
 - n. £0.776m Income received to purchase the Herefordshire Hoard.
 - o. £0.256m Wye Valley AONB grant for improvement works.
 - p. £2.841m for the capital elements of the UK Shared Prosperity Fund and the Rural Prosperity Fund.
6. The only other changes to the capital programme were approved at council, for projects such as Brookfield switch to grant and reduction in council funding, use of reserves for both the Stronger Towns projects. The approval by the S151 officer was given for the above grant amendments, along with removal of the revenue reserve for technology use and retain it to use on revenue projects, also to remove any council funding requirement to purchase the Herefordshire Hoard.
7. As part of the 2023/24 budget setting process, priority capital investment needs for future years 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. 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 (£25.24m).
9. 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.
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 £6.7m in the capital receipts reserve.
11. Given that the historic spend on the improvements on the Hereford Enterprise Zone are self-funded, i.e. the costs of the improvements are funded from the disposal proceeds of the plots, a formal valuation of the plots have been commissioned to confirm the current market valuation of the plots.
12. 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.
13. 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.

14. 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.
15. 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. The strategy is included at appendix D and in line with the guidelines requires Council approval.

Community impact

16. 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.
17. 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

18. 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.
19. 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

20. 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.

21. 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

22. 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

23. 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

24. The additional borrowing requirement is reflected in an update to the Treasury Management Strategy as shown in the report appearing elsewhere on the Cabinet's agenda today [26 January 2023] 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.

25. 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

26. 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.
27. 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.
28. 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.
29. 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.
30. 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. Scrutiny Management Board considered the capital investment budget at appendix A at its meeting on 17 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.
31. 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

32. 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.

33. 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.
34. 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

35. 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.
36. An online public consultation was open between 15 December 2022 and 3 January 2023. 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.
37. 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.
38. The proposed capital investment budget additions were presented to scrutiny management board (SMB) at the meeting on 17 January 2023. The only recommendation in regards to the proposed capital programme is detailed below and therefore there are no changes to the recommendations being proposed by cabinet to council.
 - *SMB supports the approach to pull more funding forward for capital projects, with the assurances given of the increased capacity to deliver through the PMO, in to 23/24.*

Appendices

Appendix A - Proposed capital investment additions from 2023/24

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

Capital Investment Proposals published at Scrutiny Management Board on 17 January 2023

Glossary of Terms

Capital Grant Funding – External income from another organisation

Redirected Funding – Use of revenue reserves to fund capital

Capital Receipt Funding – Use of the capital receipts reserve that is generated from sale of land, buildings and other assets of the council

Funded by ROI – this is where there is a return on investment to repay the borrowing costs, such as increased income or savings on the current budget by reducing on going costs

Corporate funding by PB – this is where prudential borrowing is repaid from the corporate revenue budget

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 03/01/2023
Communications	Luenne Featherstone	Date 03/01/2023
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 18/01/2023