

# Title of report: Capital Programme Review and Update

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|------------------------|---|
| <b>Meeting:</b>        | <b>Cabinet</b>  |
| <b>Meeting date:</b>   | <b>Thursday 5 October 2023</b>                        |
| <b>Cabinet member:</b> | <b>Peter Stoddart, Finance and Corporate Services</b> |
| <b>Report by:</b>      | <b>Director of Resources and Assurance</b>            |
| <b>Report author:</b>  | <b>Strategic Capital Finance Manager</b>              |

## **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 revised capital investment budget for 2023/24 onwards.

## **Recommendation(s)**

**That: the following be recommended to Council**

- a) To approve the revised capital programme for 2023/24 attached at appendix C;**
- b) the chief finance officer be authorised, following consultation with the Cabinet Member Finance and Corporate Services to make in year amendments to the final value included for the investment project from Wye Valley Trust (WVT). Also the investment project from Hereford and Worcester Group Training Association (HWGTA), based on the final approved business case;**

- c) approve the Flexible Use of Capital Receipts of up to £1.6m in 23/24, to support transformation to generate ongoing revenue savings and reduce service delivery costs in future years; and
- d) the chief finance officer be authorised, following consultation with the Cabinet Member Finance and Corporate Services to make in year amendments to the final value included for the relocation of the library to the Shirehall (if this is the chosen option) based on the final approved business case and utilise the grant award from Stronger Towns Board.

### Alternative options

1. It is open to Cabinet to recommend alternative capital investment options to Council. 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, before a decision could be taken in accordance with budget and policy framework rules.

### Key considerations

2. The capital programme reflects capital investment generating benefit to the county for a period in excess of one year.
3. The programme was approved by Council in February 2023 having followed budget and policy framework rules; this report now proposes in year changes to the approved programme.
4. The current approved capital programme and forecast outturn is provided at appendix B. The profiling of the capital spend will be carried out in quarter 2 in line with external audit recommendations and reported separately to cabinet. 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, the position in the appendix was estimated at the mid-September.
5. The 2023/24 approved capital budget of £302.5m has already been revised to £327.3m as detailed in the table below. The revised capital budget includes £18.8m of unspent project budgets brought forward from 2022/23, approved movements of (£14.0m) and £20.0m of additional grants. A summary breakdown is shown in the Table below.

|                                       | <b>2023/24<br/>Budget<br/>£'000</b> | <b>2024/25<br/>Budget<br/>£'000</b> | <b>2025/26<br/>Budget<br/>£'000</b> | <b>2026/27<br/>Budget<br/>£'000</b> | <b>Total</b>   |
|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|----------------|
| February 2023 Council Approved Budget | 140,283                             | 103,771                             | 52,177                              | 6,270                               | 302,501        |
| Other approved movements              | (573)                               | (3,000)                             | (9,000)                             | (1,400)                             | (13,973)       |
| 22/23 Carry Forwards                  | 18,790                              | -                                   | -                                   | -                                   | 18,790         |
| Additional Grants                     | 10,156                              | 9,140                               | 300                                 | 400                                 | 19,996         |
| <b>Revised Capital Budget</b>         | <b>168,656</b>                      | <b>109,911</b>                      | <b>43,477</b>                       | <b>5,270</b>                        | <b>327,314</b> |

6. The additional grants are listed at the bottom of appendix B and have all been approved by the chief finance officer in year. The other two adjustments are the removal of the borrowing for eCargo bikes as a grant was received for more than the original budget. Along with the removal of the care home project that was approved in March at a cabinet briefing, as the project had not progressed as no suitable location has been found and having reflected on priority needs, a new direction for this project is being explored. A business case with funding requirements will be subject to future approval to be added to the capital programme.
7. As part of the 2023/24 capital programme review, priority capital investment needs for future years have been identified along with a number of other changes to remove projects to release

funding or removal as they won't be delivered. The proposed changes for approval are detailed in appendix A and summarised below;

- a) Removal of the Passenger Transport Fleet, Masters House (phase 2) and Herefordshire Retrofit Hub as they were added subject to being funded by grant. No grants are currently available to be bid for and therefore these will be removed but can always be added again if any external grant bids are successful.
- b) The removal of the Super Hubs and Strategic Housing Development from the capital programme as these are not in line with the current cabinet priorities. Only the funding provided from the capital receipts reserve or corporate funded borrowing can be reallocated to other projects. It was the expectation that the housing project would have generated a return to repay all the funding required and therefore cannot be redistributed. If funding becomes available in the future the Super Hubs project will be reassessed.
- c) Development Partnership Activities budget is the balance held that has not be allocated to any projects and most of the potential projects were put on hold. Therefore removing this line in the capital programme, frees up the corporate borrowing and reserves to reallocate to alternative projects. External funding investment will be sought for a number of potential development projects.
- d) My Account budget underspent on the first phase and the budget was held for a phase 2, this is proposed to be removed and reallocate the funding and of course once a phase 2 proposal comes forward it can progress at that time for future funding approval.
- e) Fastershire proposal is to use income from BT clawback that is currently held in a reserve but has to be spent on broadband infrastructure to release £3.0m borrowing and also reduce the overall project budget by £2.0m, to release £5.0m corporate borrowing in total to be allocated to other projects. This is because this project will be coming to an end and replaced by Project Gigabit which is fully funded and run by BDUK.
- f) Inclusion of the £12.3m project budget towards the delivery of the Southern Link Road to enable land negotiations to commence and initial works to start, while a full business case is developed. External grants will be sought that will either increase the project budget or replace some of the corporate borrowing being allocated at this stage. This has been added as a key priority to the current cabinet and budget allocated to ensure work can start as early as possible.
- g) A project budget has been added for the Stronger Towns Library & Learning Centre relocation to Shirehall, this consists of the balance of the grant and use of reserves that is unspent but will be subject to any final approved allocation if this is the project that is approved at cabinet in October. Dependant on that decision the budget for the option that does not progress will be removed from the capital programme at that time.
- h) Shirehall Improvement Works, £3.0m is being set aside to fund the minimum works required to get the building open and operational again. This budget is on top of the approximate £1.2m left to spend within the Estates Capital Programme 2019/22 capital budget. There are a number of other projects within the estates capital budget and as they deliver the work required any underspends can be utilised to further increase the funds available for the Shirehall building works.
- i) A budget of £0.1m has been included to do any works required in the Shirehall annex to create a Care Leavers Base, this hub will help support this group of people and ensure they are provided with the support they need.

- j) Significant investment is required to improve the road network, £10.0m budget has been allocated for Resurfacing Herefordshire Highways. This budget will be allocated to those roads identified as requiring the most urgent work.
  - k) Both the WVT and HWGTA investment project budgets have been added but are subject to a cabinet decision to proceed, these are provisional amounts but can be adjusted by the chief finance officer in line with the recommendations in this report to the final amounts agreed. As these will both require repayment and the repayments will cover any interest costs, these are both added as return on investment with no overall effect on the revenue budget.
  - l) When the Employment Land & Incubation Space in Market Towns project was added to the capital programme it was added on the basis within the business case that the use of reserves would be repaid from capital receipts from sale of units/plots. The proposals require investment and have not progressed as the business cases have not been able to evidence a full return on investment. Therefore it is proposed to alter the requirement from the capital receipts reserve to be funded from existing receipts only and increased to £12.0m, switching some of the borrowing that would have been repaid from rental income. Therefore a total of £12.0m will be funded fully from the current capital receipt reserve balance with no expectation to replenish the reserve with future receipts. This will enable investment in employment land in Herefordshire.
8. A number of informal reviews were carried out to ensure all funding requests were manageable within the current borrowing limits in the medium term financial strategy and the available balance of the capital receipts reserve. These proposals allocate the balance available in the capital receipts reserve and reallocates all the corporate funded borrowing released from the removal of some projects.
  9. As part of the 2016/17 Local Government Finance Settlement, the government announced new flexibilities allowing local authorities to use capital receipts to fund transformation expenditure. This guidance was extended and updated in 2022/23 to extend the freedom for local authorities to use eligible capital receipts up to 2024/25 to help fund the revenue costs of transformation and release savings.
  10. The direction permits authorities to use the proceeds from asset sales to fund the revenue costs of projects that will deliver ongoing savings, reduce costs, increase revenue or support a more efficient provision of services. The council intends to take advantage of this flexibility to support the financing of qualifying expenditure to deliver transformation change programmes across the organisation.
  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 will be presented for approval where required and comply with the council's contract procedure rules as applicable.

## **Community impact**

12. 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.

13. The capital investment proposals support the overall delivery 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**

14. Herefordshire 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.
15. 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**

16. 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.
17. 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**

16. The proposed revisions at appendix A, total a reduction of (£39.7m) over the next four years. Of this (£32.2m) is proposed reduction of capital grants, mainly for the 3 unfunded but the addition of the grant for Stronger Towns will be subject to approval. There is currently just over £14.2m unallocated balance in the capital receipts reserves, which is fully utilised by using

some to fund the revenue transformation costs in line with the recommendation to be approved and the balance in the below proposals. All the corporate funded borrowing has been reallocated and (£20.5m) of prudential borrowing repayment costs will no longer need to be funded from additional revenue streams or savings in the revenue budget.

17. 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 same funding allocations.

| Scheme   | Capital Grant funding<br>£000 | Redirected funding<br>£000 | Capital receipt<br>funding<br>£000 | Funded by ROI<br>£000 | Corporate Funded PB<br>£000 | Total<br>Request<br>£000 |
|--|-------------------------------|----------------------------|------------------------------------|-----------------------|-----------------------------|--------------------------|
| <b>Unfunded Projects</b>   |                               |                            |                                    |                       |                             |                          |
| Passenger Transport Fleet (Electric)   | -35,000.0                     | 0.0                        | 0.0                                | -4,000.0              | 0.0                         | -39,000.0                |
| Masters House  | -762.0                        | 0.0                        | 0.0                                | 0.0                   | 0.0                         | -762.0                   |
| Herefordshire Retrofit Hub   | -2,042.2                      | 0.0                        | 0.0                                | 0.0                   | 0.0                         | -2,042.2                 |
| <b>Total Unfunded Projects</b>   | <b>-37,804.2</b>              | <b>0.0</b>                 | <b>0.0</b>                         | <b>-4,000.0</b>       | <b>0.0</b>                  | <b>-41,804.2</b>         |
| <b>Community:- Build communities to ensure everyone lives well and safely together</b>   |                               |                            |                                    |                       |                             |                          |
| Super Hubs (removal)   | 0.0                           | 0.0                        | -2,000.0                           | 0.0                   | 0.0                         | -2,000.0                 |
| Strategic Housing Development (removal)  | 0.0                           | 0.0                        | 0.0                                | -19,708.4             | 0.0                         | -19,708.4                |
| <b>Total Community</b>   | <b>0.0</b>                    | <b>0.0</b>                 | <b>-2,000.0</b>                    | <b>-19,708.4</b>      | <b>0.0</b>                  | <b>-21,708.4</b>         |
| <b>Economy:- Support an economy which builds on the county's strengths and resources</b> |                               |                            |                                    |                       |                             |                          |
| Development Partnership activities (removal)   | 0.0                           | 0.0                        | -139.6                             | 0.0                   | -10,045.5                   | -10,185.0                |
| My Account (removal)   | 0.0                           | 0.0                        | 0.0                                | 0.0                   | -425.0                      | -425.0                   |
| Fastershire (reduction & use of Clawback)  | 3,014.0                       | 0.0                        | 0.0                                | 0.0                   | -5,014.0                    | -2,000.0                 |
| Resurfacing Herefordshire Highways   | 0.0                           | 0.0                        | 815.5                              | 0.0                   | 9,184.5                     | 10,000.0                 |
| Southern Link Road   | 0.0                           | 0.0                        | 7,000.0                            | 0.0                   | 5,300.0                     | 12,300.0                 |
| Stronger Towns Library & Learning Centre relocation to Shirehall                         | 2,610.7                       | 0.0                        | 394.7                              | 0.0                   | 0.0                         | 3,005.4                  |
| Work to Shirehall Annex (Care Leavers Base)  | 0.0                           | 0.0                        | 100.0                              | 0.0                   | 0.0                         | 100.0                    |
| Shirehall Improvement Works  | 0.0                           | 0.0                        | 2,000.0                            | 0.0                   | 1,000.0                     | 3,000.0                  |
| Wye Valley Trust - Education Centre Investment   | 0.0                           | 0.0                        | 0.0                                | 6,000.0               | 0.0                         | 6,000.0                  |
| HWGTA - Development of Vocational Work Based Skills Investment                           | 0.0                           | 0.0                        | 0.0                                | 2,000.0               | 0.0                         | 2,000.0                  |
| Investment in Employment Land in Herefordshire (adjustment)                              | 0.0                           | 0.0                        | 4,786.0                            | -4,786.0              | 0.0                         | 0.0                      |
| <b>Total Economy</b>   | <b>5,624.7</b>                | <b>0.0</b>                 | <b>14,956.6</b>                    | <b>3,214.0</b>        | <b>0.0</b>                  | <b>23,795.3</b>          |
| <b>Total</b>   | <b>-32,179.5</b>              | <b>0.0</b>                 | <b>12,956.6</b>                    | <b>-20,494.4</b>      | <b>0.0</b>                  | <b>-39,717.2</b>         |

## Legal implications

18. In year changes to the capital programme must be approved by Council unless certain circumstances in the constitution apply, which do not apply in these cases.
19. 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.

## **Risk management**

20. For all capital projects monthly budget control meetings 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 for example through phasing of spend, identifying and securing scheme changes or alternative funding sources.
21. 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. 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.
22. 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**

23. All political groups have been consulted on the Shirehall Improvement Works, Library relocation and both investment projects from WVT and HWGTA, with discussion at previous cabinet meetings and are subject to further cabinet meetings. Therefore no separate consultation has been done for inclusion in this report.
24. Both the Employment Land and Southern Link Road projects will have various consultations with all interested parties as the business cases are developed and spend decisions are progressed.
25. Political Group consultation is not required for budget and policy framework but they can make recommendations on the proposals being recommended to council, to cabinet during the meeting for them to consider.

## **Appendices**

Appendix A - Proposed capital investment revisions from 2023/24

Appendix B - Current status of approved capital programme

Appendix C - Total proposed capital programme

## Background papers

None

## 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 generated from sale of land, buildings and other assets of the council

Funded by Return on Investment – 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 Prudential Borrowing – 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 18/09/2023 |
| Finance   | Rachael Hart        | Date 19/09/2023 |
| Legal   | Emma-Jane Brewerton | Date 18/09/2023 |
| Communications  | Luenne Featherstone | Date 19/09/2023 |
| Equality Duty   | Harriet Yelling     | Date 20/09/2023 |
| Procurement   | Lee Robertson       | Date 18/09/2023 |
| Risk  | Kevin Lloyd         | Date 18/09/2023 |
| Approved by   | Andrew Lovegrove    | Date 26/09/2023 |