

Title of report: 2024/25 Capital Investment Budget and Capital Strategy Update

Meeting:	Cabinet
Meeting date:	Thursday 25 January 2024
Cabinet Member:	Peter Stoddart, Finance and Corporate Services
Report by:	Director of Resources and Assurance
Report Author:	Strategic Capital Finance Manager

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 and capital strategy for 2024/25 onwards.

Recommendation(s)

That: Cabinet recommends the following to Council

- I. To approve the revised capital programme for 2024/25 attached at appendix C; and**
- II. 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 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. There was a Full Council meeting on 8 December 2023 and the current capital programme included in this report is the base capital programme. There has been one addition since the meeting, with the confirmation letter just received from the Department for Transport of an additional £3.66m grant which will be spent in 24/25 is now included.
5. The approved capital programme is provided at appendix B as at the end of December. The reprofiling of the capital spend was 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, this forecast will be reported at the February meeting.
6. As part of the 2024/25 budget setting process, priority capital investment needs for future years have been identified.
7. All proposals are included in appendix A along with outline strategic business cases at Appendix E. Appendix A provides details of the proposed additions to the existing capital programme that have been identified and the impact of approving these additions. Seven capital investment budget proposals totalling £7.63m have been identified, to be funded by prudential borrowing.
8. Within the previously approved capital programme there are two separate budgets that relate to the Broad St Site that will house the new museum to replace the lift and create the mezzanine floor, as these works will now be completed within the contract for the museum building the £0.4m has been moved to increase the £18m Stronger Towns Fund - Hereford Museum & Art Gallery Redevelopment to £18.4m. The budgets presently sit £0.2m in Hereford Library project (when located at Broad St) and £0.2m in Estates Capital Programme 2019/22.
9. An informal review of all prospective capital funding requests has been completed to ensure all funding requests were manageable within the current borrowing limits in the medium term financial strategy.
10. Inclusion 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 compliance with the council's contract procedure rules as applicable.

11. 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

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 environmental assessment will be developed and scoped for each project when they seek approval to spend through 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

18. The proposed additions at appendix A total £7.63m over the next four years. This is all to be financed from prudential borrowing 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.

No	Scheme	Capital Grant funding £000	Redirected funding £000	Capital receipt funding £000	Funded by ROI £000	Corporate Funded PB £000	Total Request £000
Community:- Build communities to ensure everyone lives well and safely together							
1	Schools Accessibility	0.0	0.0	0.0	0.0	1,500.0	1,500.0
2	Children's residential homes for 11 to 18 year olds	0.0	0.0	0.0	0.0	424.0	424.0
	Total Community	0.0	0.0	0.0	0.0	1,924.0	1,924.0
Economy:- Support an economy which builds on the county's strengths and resources							
3	Planning & Regulatory Services software	0.0	0.0	0.0	0.0	1,396.0	1,396.0
4	Estates Building Improvement Programme 2024-27	0.0	0.0	0.0	0.0	2,765.6	2,765.6
5	Building works from 2022 Condition Surveys	0.0	0.0	0.0	0.0	745.0	745.0
6	VMWare Host Replacement	0.0	0.0	0.0	0.0	247.5	247.5
7	Property Improvements in Care Homes	0.0	0.0	0.0	0.0	550.0	550.0
	Total Economy	0.0	0.0	0.0	0.0	5,704.1	5,704.1
	Total	0.0	0.0	0.0	0.0	7,628.1	7,628.1

19. 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	24/25	25/26	26/27	27/28	Total
Total Corporate Borrowing Required	5,428.4	1,579.7	620.0	-	7,628.1
Annual Funding Limit	6,700.0	6,700.0	6,700.0	6,700.0	26,800.0

Unspent 22/23 borrowing to reallocate	150.7	-	-	-	150.7
Unspent 23/24 borrowing estimated	777.3	-	-	-	777.3
Allocated Previously	- 6,700.0	- 6,700.0	- 6,700.0	-	- 20,100.0
Total Funding Available	928.0	0.0	0.0	6,700.0	7,628.0
Funding Variance	-4,500.3	-1,579.7	-620.0	6,700.0	-0.0

20. 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 [25 January 2024] 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 above the 2024/25 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. The revised capital programme approved at council 8 December 2023 reprofiled £5.3m corporate funded borrowing from earlier years to 2026/27, which more than covers the amount now added for 2024/25.
21. Individual capital scheme resourcing implications will be detailed in the approval to precede decision. Appendix E contains the outline strategic business cases for each of the new projects.

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. 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.
26. 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. The Scrutiny Management Board should include review of the capital investment budget at appendix A prior to submission to full Council. It is anticipated this will be at its meetings on 10 and 16 January 2024, to ensure the proposals included in appendix C and D have been developed in accordance with the constitution.

27. 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

28. 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.
29. 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.
30. 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

31. 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.
32. The draft paper was considered at cabinet on 14 December 2023, with the additions supported by other group leaders. The only change since that meeting is an increase to the property budget of £0.3m which is funded by further underspend in 23/24 of projects delivering under budget and the corporate borrowing to be reallocated.
33. An online public consultation is currently open and the results of this will be published for the Council meeting in February 2024. The main focus of the consultation was on council tax setting and the savings that needed to be identified to enable a balanced revenue budget to be presented due to the current pressures but is also seeking views on the disposal of assets. There was however strong support for investing in pothole repair and the road network which supports the overall capital programme in Appendix C.
34. The proposed capital investment budget additions were presented to scrutiny management board (SMB) at the meetings on 10 & 16 January 2024. There were no capital recommendations in regards to the proposed capital programme additions and therefore there are no changes to the recommendations being proposed by cabinet to council.

Appendices

Appendix A - Proposed capital investment additions from 2024/25

Appendix B - Current status of approved capital programme

Appendix C - Total proposed capital programme

Appendix D - Proposed Capital Strategy

Appendix E – Outline Strategic Business cases for capital investment proposals.

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 12/01/2024
Finance	Judith Tranmer	Date 03/01/2024
Legal	Sean O'Connor	Date 28/12/2023
Communications	Luenne Featherstone	Date 27/12/2023
Equality Duty	Harriet Yelling	Date 07/01/2024
Procurement	Lee Robertson	Date 28/12/2023
Risk	Kevin Lloyd	Date 03/01/2024
Approved by	Andrew Lovegrove	Date 16/01/2024