

# Title of report: 2025/26 Capital Investment Budget and Capital Strategy Update

<b>Meeting:</b>	<b>Scrutiny Management Board</b>
<b>Meeting date:</b>	<b>Tuesday 14 January 2025</b>
<b>Cabinet Member:</b>	<b>Peter Stoddart, Finance and Corporate Services</b>
<b>Report by:</b>	<b>Director of Finance</b>
<b>Report Author:</b>	<b>Strategic Capital Finance Manager</b>

## **Classification**

Open

## **Decision type**

This is not an executive decision

## **Wards affected**

(All Wards);

## **Purpose**

To seek the views of the Scrutiny Management Board on the draft capital investment budget and capital strategy proposals for 2025/26. This draft budget was proposed at Cabinet at its meeting on 13 January 2025.

## **Recommendation(s)**

**That:**

- a) **having regard to the proposals the committee determines any recommendations it wishes to make to Cabinet in relation to the 2025/26 Capital Investment Budget and Capital Strategy.**

## **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 the committee 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.
4. There was a Full Council meeting on 6 December 2024 and the current capital programme included in this report is the base capital programme including the amendments for the IT projects approved.
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, the Q3 forecast will be reported at the February meeting. The additional grants received are listed at the bottom of appendix B and have all been approved by the chief finance officer in year.
6. The proposed Capital Programme for 2025/26 presents an ambitious programme of capital investment aligned to the priorities of the Council Plan across People, Place, Growth and Transformation.
7. The proposed additions for 2025/26 represent projects which will:
  - a. mitigate key revenue budget pressures;
  - b. improve the use of technology to deliver efficiencies and innovation in services to residents;
  - c. deliver new infrastructure to support growth opportunities for housing and businesses;
  - d. encourage active lifestyles for children and young people through a £1million investment in play areas;
  - e. develop cultural and community spaces for residence and visitors;
  - f. strengthen resilience and reduce the impact of flooding with investment of £2million;
  - g. improve road safety across the county; and
  - h. provide continued investment in the county's road network.
8. 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. Eighteen capital investment budget proposals totalling £58.12million have been identified, to be funded by prudential borrowing, capital receipts reserve and revenue reserves.
9. To ensure we utilise the Levelling Up Funding (LUF) Grant as early as possible and use Council match funding last the Hereford City Centre Transport Package for the Transport Hub build will increase the grant funding by £2.5m and reduce the amount of council borrowing required. This will be offset by a reduction of £2.5m grant funding for LUF North projects and increase of council borrowing.

10. An informal review of all prospective capital funding requests has been completed to ensure the financial impact of the funding requests are taken account of in the medium term financial strategy.
11. 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 2024/25 to extend the freedom for local authorities to use eligible capital receipts up to 2029/30 to help fund the revenue costs of transformation and release savings.
12. 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. Therefore £0.6million in 2024/25 and £0.6million in 2025/26 revenue transformation works will be funded from the use of the capital receipts reserve.
13. 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 to Cabinet where required and compliance with the council's contract procedure rules as applicable.
14. 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.
15. The council is committed to bringing forward the first phase of the Western Bypass, aiming to be on site to deliver the current scheme to the south of the city in 2026. Development work on the southern link road is being taken forward at pace. Once completed, this new bypass connection for the A49, from the south to the north of the city, will deliver the Western Growth Corridor creating over 10,000 new homes and over 300 acres of new employment land. The project previously included as Southern Link Road has been renamed in the Capital Programme to Hereford Western Bypass Phase 1, and the increase in capital budget is proposed to be funded from borrowing although grants will be sought to reduce the amount of borrowing required.
16. Responding to social and affordable housing needs across the county remains a high priority for the council. The [Acquisition Fund for Housing Provision](#) (£5million) added to the capital programme in July 2024 is already being utilised to bring forward schemes to deliver social housing to meet the county's urgent need for provision, provide better homes for those in need and reduce dependency on high-cost temporary accommodation. This includes the acquisition of the Buttercross building in Leominster in November 2024, and we are finalising the acquisition of a building in Hereford. The Acquisition Fund assumes funding through borrowing, repaid through income from housing benefit and the reduced cost of temporary accommodation. Due to the lead in times involved in identifying sites that become available, undertaking due diligence, obtaining planning, vacant possession and procurement, the current £5.0million funding is deemed adequate for 2025/26. However, should other opportunities come forward earlier than anticipated, we will seek Council approval to add additional borrowing to the current capital programme allocation in year.

17. To meet the strategic need for medium to long term affordable housing solutions across the county, the council is exploring options to deliver larger schemes in key locations and work is underway to review best practice options through engagement with developers and registered providers. Over the course of 2025/26 the future route to delivery will be finalised, working with the cross-party Housing Working Group, to inform the capital programme requirements for 2026/27 and beyond.

## **Community impact**

18. 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.
19. 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**

20. 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.
21. 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**

22. The Public Sector Equality Duty requires the Council to consider how it can positively contribute to the advancement of equality and good relations, and demonstrate that it is paying 'due regard' in our decision making in the design of policies and in the delivery of services. An equality impact screening checklist will be completed for each capital project before any capital expenditure is incurred and where necessary a full Equality Impact Assessment will be performed. Equalities will be considered during the delivery of the service to ensure that the Council has regard to any potential effects on those with protected characteristics.

## Resource implications

23. The proposed additions at appendix A total £58.12million over the next four years. This is to be financed from £56.12million prudential borrowing, of which £45.72million is in addition to the amount available through current levels of corporate funded borrowing. £1million is to be funded from the use of the capital receipts reserve and £1million from the revenue reserve specific for the use at the College Road Campus. 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
Play Area Investment	0.0	0.0	0.0	0.0	1,000.0	1,000.0
IT System Upgrades & Server Replacements	0.0	0.0	0.0	0.0	500.0	500.0
Public Realm Services Fleet	0.0	0.0	0.0	0.0	1,540.0	1,540.0
Public Realm Mobilisation	0.0	0.0	0.0	0.0	450.0	450.0
Property Improvements in Care Homes - phase 2	0.0	0.0	0.0	0.0	604.0	604.0
Estates Building Improvement Programme 2025-27	0.0	1,000.0	0.0	0.0	3,304.7	4,304.7
Building works from 2022 Condition Surveys	0.0	0.0	0.0	0.0	1,715.0	1,715.0
Yazor Brook	0.0	0.0	0.0	0.0	260.0	260.0
School Route Planning Software	0.0	0.0	0.0	0.0	50.0	50.0
Resurfacing Herefordshire Highways	0.0	0.0	0.0	0.0	5,000.0	5,000.0
Road Safety Schemes	0.0	0.0	0.0	0.0	3,000.0	3,000.0
Highways Infrastructure Investment	0.0	0.0	0.0	0.0	5,000.0	5,000.0
City and Market Town Public Realm Investment	0.0	0.0	0.0	0.0	1,200.0	1,200.0
CCTV Equipment Upgrades	0.0	0.0	0.0	0.0	89.1	89.1
Shirehall Refurbishment Phase 2	0.0	0.0	0.0	0.0	1,000.0	1,000.0
Council school transport fleet	0.0	0.0	0.0	0.0	350.0	350.0
Herefordshire Flood Risk Mitigation	0.0	0.0	1,000.0	0.0	1,055.0	2,055.0
Hereford Western Bypass Phase 1	0.0	0.0	0.0	0.0	30,000.0	30,000.0
<b>Total</b>	<b>0.0</b>	<b>1,000.0</b>	<b>1,000.0</b>	<b>0.0</b>	<b>56,117.8</b>	<b>58,117.8</b>

24. The corporate revenue implications of securing this new borrowing is included in the current Medium Term Financial Strategy and Treasury Management Strategy which had always allowed for £6.7million new prudential borrowing per annum over the strategy period.

Funding Position	25/26	26/27	27/28	28/29	Total
<b>Total Corporate Borrowing Required</b>	<b>19,845.2</b>	<b>25,378.3</b>	<b>10,676.3</b>	<b>218.0</b>	<b>56,117.8</b>
Annual Funding Limit	6,700.0	6,700.0	6,700.0	6,700.0	26,800.0
Unspent 23/24 borrowing to reallocate	221.0	-	-	-	221.0

Unspent 24/25 borrowing estimated	3,475.0	-	-	-	3,475.0
Allocated Previously	- 6,700.0	- 6,700.0	- 6,700.0	-	- 20,100.0
<b>Total Funding Available</b>	<b>3,696.0</b>	<b>0.0</b>	<b>0.0</b>	<b>6,700.0</b>	<b>10,396.0</b>
<b>Funding Variance</b>	<b>-16,149.2</b>	<b>-25,378.3</b>	<b>-10,676.3</b>	<b>6,482.0</b>	<b>-45,721.8</b>

25. 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 [13 January 2025] with actual borrowing being secured, as cash funding is required at the optimal interest rate available at that time. The above table reflects borrowing above the annual funding each year, this will have an impact on future revenue budgets when the repayments have to be made. These additional costs are reflected in the table below, this is calculated over a 40 year period and therefore £2.29million repayments will continue until fully repaid.

<b>Revenue Repayment Costs</b>	<b>26/27</b>	<b>27/28</b>	<b>28/29</b>	<b>29/30</b>
	£000	£000	£000	£000
Annual amount	807.46	2,076.38	2,610.19	2,286.09

26. 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

27. 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.
28. 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.
29. 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.
30. 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.
31. 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 will have considered the capital investment budget at

appendix A at its meetings on 14 January 2025, to ensure the proposals included in appendix C and D have been developed in accordance with the constitution.

32. 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**

33. 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.
34. 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.
35. 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**

36. 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.
37. An online public consultation is currently open and the results of this will be published for the Council meeting in February 2025. 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 areas to invest in.

## **Appendices**

Appendix A - Proposed capital investment additions from 2025/26

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:

Governance		Date 06/01/2025
Finance		Date 06/01/2025
Legal		Date 06/01/2025
Communications	Click or tap here to enter text.	Date 06/01/2025
Equality Duty		Date 06/01/2025
Procurement	Click or tap here to enter text.	Date 06/01/2025
Risk		Date 06/01/2025

Approved by	Date 06/01/2025
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