



Hinckley & Bosworth Borough Council

FORWARD TIMETABLE OF CONSULTATION AND DECISION MAKING

SCRUTINY COMMISSION
COUNCIL

7 FEBRUARY 2018
22 FEBRUARY 2018

WARDS AFFECTED: ALL WARDS

CAPITAL STRATEGY 2018/19 TO 2021/2022

Report of Head of Finance

1. PURPOSE OF REPORT

1.1 To seek approval of the Capital Strategy for the years 2018/2019 – 2021/2022.

2. RECOMMENDATION

2.1 That Council approve the proposed Capital Strategy..

3. BACKGROUND

3.1 CIPFA's updated prudential code & Treasury Management Code of Practice require local authorities to produce capital strategies from 1st April 2019. This requirement has also been confirmed by MHCLG.

3.2 The key drivers for the requirement are summarised below:-

- Understanding risks associated in investing in non financial products with the primary aim of making a return (e.g. local authorities investing in shopping malls and not understanding associated risks)
- Understanding risks and funding involved with third sector entities, wholly owned companies as part of regeneration etc.
- Underlying issues of how such investments are financed and setting aside a borrowing provision & due diligence.

Details of this Councils process with regard to creation, approval and monitoring of schemes are included within section 7 of the financial procedure rules.

3.3 There is a requirement that the strategy is approved by Council.

- 3.4 This report should be read in conjunction with the Capital Programme and the Treasury Management report.

Capital Expenditure

- 3.5 Primary legislation regarding capital finance is included in The Local Government Act 2003. The act refers to the following types of expenditure that fall under the capital financing regime.

- “expenditure of the authority which falls to be capitalised in accordance with proper practices” (i.e. the creation of an asset that has a useful life of more than one year).
- Expenditure under regulation prescribed by the Secretary of State which can or cant be treated as capital expenditure.

- 3.6 The Council’s definitions of the capital programme are included within Section 7 of the financial procedure rules. An extract is provided below:-

Capital expenditure” means the acquisition, construction or enhancement of tangible/intangible fixed assets (land, buildings, vehicles, plant, equipment, hardware and software). Capital assets shape the way services are delivered in the long-term and create financial commitments for the future in the form of financing and revenue running costs.

An enhancement is defined as:

- *Works that lengthen substantially the useful market value life of an asset.*
- *Works that increase substantially the market value of an asset.*
- *Works that increase the extent to which the property can be used for purposes of functions of the council. “*

The Capital Programme

- 3.7 The Capital programme and it’s funding are summarised below. Details of individual schemes are presented within the Capital Programme Report. The future year’s capital programme will continue to be reliant on external funding and rental income for HRA schemes.

General Fund Schemes

	TOTAL	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE
	COST	2018-2019	2019-2020	2020-2021	2021-2022
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
Corporate & Support Services	1,005	363	351	135	156
Community Services	5,172	1,568	1,318	1,143	1,143
Environmental and Planning	9,732	1,999	4,773	2,500	460
Total Capital Expenditure	15,909	3,930	6,442	3,778	1,759
Financing					
Capital Receipts	6,773	800	4,006	1,334	633
External Contributions	3,685	1,078	1,090	765	752

Borrowing GF	3,259	1,030	656	1,214	359
Revenue Contribution to Capital	0	0	0	0	0
Contribution from reserves GF	2,192	1,022	690	465	15
Total Financing	15,909	3,930	6,442	3,778	1,759

HRA Schemes

	TOTAL	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE
	COST	2018-2019	2019-2020	2020-2021	2021-2022
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
HRA	20,968	5,158	6,632	5,272	3,906
Service Investment	169	107	40	22	0
Affordable Housing	5,381	947	4,434	0	0
Total Capital Expenditure	26,518	6,212	11,106	5,294	3,906
Financing					
Major Repairs Reserve	12,036	3,009	3,009	3,009	3,009
Regeneration Reserve	9,708	2,474	5,516	1,542	176
Earmarked Reserves	162	100	40	22	0
Grants	1,320	0	1,320	0	0
Capital Receipts	3,292	629	1,221	721	721
Total Financing	26,518	6,212	11,106	5,294	3,906

Capital Project Planning & Approval Framework.

- 3.8 The Capital Programme is prepared in conjunction with budget holders and Directors. Project officers are invited as part of the budget setting process to submit requests for capital growths which are considered by Directors and the Strategic Leadership Team. Growths are assessed in terms of their contribution to corporate objectives and funding availability. Prior to consideration a capital bid form is submitted which details the following:-

- Brief description of scheme and how the scheme meets the Councils priorities.
- Profiled spending proposals over 4 years.
- Sets out external contributions and grant funding for the scheme.
- Ongoing revenue implications (e.g. IT, Staffing costs).

Officer recommendations are reported to Scrutiny Committee before presentation at Council in February.

- 3.9 Any additional bids that are agreed by SLT during the financial year are approved in accordance with financial procedure rules.
- 3.10 SLT will monitor progress and review the capital programme with the asset management plan in order to ensure that the council's corporate objectives are being met and that there is consistency between the capital programme and the asset management plan.

Governance Arrangements

- 3.11 Scheme budgets are monitored on a monthly basis. Project Officers receive monthly reports and are discussed as part of the monthly meetings with their respective Accountant. A monthly outturn report is presented to SLT with appropriate corrective action. Finance and Performance Committee receive quarterly updates. Additionally,

budget variations are reported and approved in accordance with financial procedure rules.

- 3.12 For larger schemes a Project Board and Project Team oversee the scope and delivery of key strategic projects. The Project Board will include a Member lead and senior manager within the Council. The Project Manager will head the Project Team, supported where necessary with specialist consultants. The Project Team will also draw on in-house expertise of officers and includes, financial, legal and planning representatives. The Project Team will report to the Project Board at agreed intervals and is responsible for delivering targets that the Project Board set against an agreed programme for delivery.

Prior to project approval and sign off of the Project Initiation Document a scoping and feasibility exercise will be carried out to identify the project objectives, project cost and project risks. If the feasibility study findings are supported by the Directors and Chief Executive of the Council the project will be forwarded to Executive or Full Council for sign off dependant on the capital investment required.

Throughout the project both the Project Team and Project Board will monitor progress and the Project Board will receive Highlight Reports and an updated Project Risk Register. Within the Highlight report key issues and budget figures will be reported. Updates may also be reported to Executive and Full Council for major capital projects.

Longer Term Financial Planning

- 3.13 The availability of financing options are becoming restricted over the medium term as asset sales become less frequent and the availability of funding from central government becomes restricted. An innovation and enterprise board has been set up which look at various potential opportunities that may arise. Within the existing capital programme the Crematorium scheme once completed will help to underpin the general fund resources by generating net income.

In the longer term the Council's vehicle fleet will need replacing (5 years for light vehicles and 7 years for Heavy vehicles). A decision will need to be made whether funds are set aside in preparation to fund the scheme. The Council will also have to set aside funds to ensure that parks, play areas, commercial units and corporate assets are maintained at a decent standard. A building maintenance reserve has been set aside to fund such developments.

- 3.14 Currently, the Councils capital activity for the general fund can be split into 2 areas. New one off schemes and recurring schemes are required to maintain the current level of service provision. i.e. this is the minimum value of the ongoing capital programme. The indicative cost for this is presented below.

	19-20 Budget £000's
Enhancement & Improvement Works	155.0
Grants	1,268.6
Parks	30.0
Property, Plant and Equipment	146.6
Total	1,600.2

£1.6m is spent on maintaining Council Assets or providing commercial activities.

- 3.15 Resources are needed to ensure that this level of support can be maintained and new commitments can be funded. In essence if no reserves or external funding is available, the cost of the capital programme is met by borrowing, the costs of which are charged to the revenue account through Minimum Revenue Provision (principal repayment of debt funding) and any interest cost if actual borrowing has taken place.
- 3.16 The HRA Capital Programme is primarily based on the 30 year Business Plan that was approved by Council in November 2018. Apart from the enhancement of current stock, the creation of 24 units at Ambion Court and the purchase of 12 new properties on Middlefield Lane are proposed.

Capital Funding

- 3.17 The following areas of funding are available to fund the programme.
- Government Grants – Typically these are received to enable Councils to focus resources on central government priorities. e.g. disabled facilities grant. The grants have conditions attached so spending has to focus on the area concerned and will normally only be given if a Council can also commit its own resources.
 - Contributions and other grants Government Grants – Typically these are similar to government grants. Expenditure will be limited to those set out in the conditions of the grant or legal contracts and may require a level of match funding by the local authority.
 - Earmarked Reserves – Capital Expenditure can also be funded through the Council's earmarked reserves. Typically these reserves are used to fund specific schemes or used for match funding to support partly funded projects. These reserves are reported as part of the MTFs and the revenue budget reports.
 - Capital Receipts – These balances are the net sales proceeds that the Council can use to fund future capital projects. Part of the proceeds from the sale of Council Dwellings has to earmark for the increase in affordable housing supply.
 - Direct Revenue Financing – This is where the General Fund or HRA Balance is used to fund projects. Due to pressures on the revenue budget this is only used occasionally. Typically this will arise when additional funding is received which can be used to fund either revenue or capital expenditure, or where specific underspends are used to part finance a capital project.

Borrowing

- 3.18 The Council is allowed to borrow funds to finance capital expenditure as long as it is affordable (i.e. future MRP and interest Payments affordable).
- 3.19 The Council has long term surplus cash balances these funds can also be used for fund expenditure. Although this will not attract an interest cost MRP still has to be provided.
- 3.20 The Council's borrowing requirement, risks and affordability are considered as part of the Treasury Management and prudential Indicator report approved by Council in February.

Asset Management Overview

- 3.21 The Council's asset management plan is currently being reviewed. The key strategic objectives of the plan are:

Provide opportunities for increasing the commercial estate and accommodation for "business start ups".

Promoting new affordable Housing for rent and delivering Council House new build & affordable housing schemes.

To complete the Crematorium Project..

Disposal of surplus land & buildings that have no operational uses..

Maximise efficiency through co-location and improved conference facilities.

Capital Receipts.

- 3.22 Estimated income from capital receipt sales are summarised in the table below.

	2018/19	2019/20	2020/21	2020/21
	£'000	£'000	£'000	£'000
Right to Buys	1,050	840	840	840
Depot Site	1,800	0	0	0
Block C	0	4,000	0	0
Misc. Sales	68	75	75	75
Leisure Centre	0	1,800	0	0
Total Receipts	2,918	6,715	915	915

Commercial Activity & Non Treasury investments

- 3.23 On the Councils Balance sheet the Council does not hold any investment properties. Investment properties are assets that are solely held for an investment return or capital appreciation and no other reason. For all of our assets although a future return is one of the aims, there are other aims as well e.g. economic regeneration, employment etc.

Major commercial activity through the use of council assets are listed below:- update

Activity	Value £000's	Due Diligence
Leisure Centre Management Fee	£1,013	This is a fixed Fee based on a design build operate and maintain contract. The fee is payable regardless value of fees collected by the Leisure Provider. Due diligence was undertaken at pre contract stage with detailed financial checks, references and off site meets at centres where the provider has successfully implemented such schemes.
Hinckley Hub	£479	The partners occupy the premises on a Licence agreement. Each agreement has contractual provisions for uplift of rent.

Commercial Estates Income	£1,503	Before award of the lease a financial check is undertaken and trading references are also taken. This may either result in refusal of a lease. Granting of a lease, or granting of the lease with additional guarantees.
Car Parking	£680	Income is monitored on a monthly basis and changes to the fee base are subject to Council Approval.
New projects		At feasibility stage key risks are identified and any potential on going costs, value on ongoing returns. Financial procedure rules.

Knowledge & Skills - Capital Projects

3.24 The Council has the following resources to ensure projects are delivered successfully.

- 1 X Head of Estates & Asset Manager
- 1 X Investment Manager (Housing Schemes)
- 3 X Estates & Building Surveyors

These officers have experience of:-

- Developing capital projects
- Acquiring and selling properties
- Commissioning partners to deliver the capital programme
- Managing properties as a landlord

To support the Council own resources external support is also used for advice, due diligence, property assessments and valuations and project support. Architectural, Quantity Surveying and Engineering support is also used as and when required.

4. EXEMPTIONS IN ACCORDANCE WITH THE ACCESS TO INFORMATION PROCEDURE RULES

4.1 Report will be taken in open session

5. FINANCIAL IMPLICATIONS [IB]

5.1 Contained within the body of the report.

6. LEGAL IMPLICATIONS [FA]

6.1 The Local Government Act 2003 set out a framework for the financing of capital investments in Local Authorities.

6.2 Whilst there are no implications arising directly from the recommendation of this report there are some legal considerations which should be noted:

6.3 In relation to the increased property transactions identified within the report, relevant officers will need to ensure that authority is obtained from Council for any acquisition or disposal of land. This applies in relation to the Affordable Housing purchases detailed within the body of the report.

6.4 Any contracts will need to be dealt with in accordance with the constitution and all relevant authorities for spending secured as necessary.

7. **CORPORATE PLAN IMPLICATIONS**

- 7.1 The report provides a refresh of the Council's rolling Capital Programme. Any item included in the programme has been evaluated to ensure it contributes towards achievement of a Corporate Plan objective.

8. **CONSULTATION**

- 8.1 Major schemes have been subject to individual consultations as part of the viability and design process.

9. **RISK IMPLICATIONS**

- 9.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 9.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 9.3 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
[S.11 - Failure to successfully deliver the Medium Term Financial Strategy.	A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation. The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance. Sufficient levels of reserves and balances have been maintained to ensure financial resilience	A Wilson

10. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

- 10.1 The programme contains schemes which will assist in equality and rural development. Equality and rural issues are considered separately for each project.

11. **CORPORATE IMPLICATIONS**

- 11.1 By submitting this report, the report author has taken the following into account:
- Community Safety implications
 - Environmental implications
 - ICT implications
 - Asset Management implications
 - Procurement implications
 - Human Resources implications

- Planning implications
 - Data Protection implications
 - Voluntary
-

Background papers: None.

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