

- Underlying issues of how such investments are financed and setting aside a borrowing provision & due diligence.

Details of this Council's 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 Treasury Management report.

Capital Programme

- 3.5 Capital expenditure is essentially expenditure that results in the creation of an asset that has a life expectancy of more than one year and where use of the asset will result in benefits in future years. Capital expenditure may be used to generate assets for the Council's own use or to provide support for third party capital enhancements. The Capital Strategy looks at the longer terms risks associated with capital expenditure and governance arrangements.
- 3.6 Any plans for capital expenditure must be financed through an approved method of funding. The main streams of such financing are summarised in paragraph 3.22:-
- 3.7 The Capital Programme (the Programme) is produced on an annual basis to cover the current year and forecasts for the next three financial years. The Programme supports the Council's Corporate Plan and Medium Term Financial Strategy and ensures that resources are allocated and are used effectively to achieve corporate targets. At the same time, the Programme is an integral element of the financial planning procedures of the Council and forecasts how the Council will deliver key projects affordably and within relevant Prudential Limits. The Programme should therefore be read in conjunction with these documents, alongside the Council's Corporate Asset Management Strategy and Housing Revenue Account Investment Plan.
- 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.
- 3.9 The overall Capital Programme for 2020/2021 – 2023/2024 is contained within Appendix 1 along with supporting schedules showing spend by scheme.

CAPITAL STRATEGY

Capital Expenditure

- 3.10 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 can't be treated as capital expenditure.

3.11 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.”*

3.12 The Capital programme and its funding are summarised below. Details of individual schemes are presented within the Appendix 1 of 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	2020-2021	2021-2022	2022-2023	2023-2024
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
Corporate & Support Services	870	116	619	85	50
Community Services	5,127	1,322	2,179	813	813
Environmental and Planning	11,651	2,201	7,251	1,428	771
Total Capital Expenditure	17,648	3,639	10,049	2,326	1,634
Financing					
Capital Receipts	4,520	536	3,070	451	463
External Contributions	5,901	1,271	2,740	1,161	729
Borrowing GF	5,063	773	3,194	684	412
Contribution from reserves GF	2,164	1,059	1,045	30	30
Total Financing	17,648	3,639	10,049	2,326	1,634

HRA Schemes

	TOTAL	ESTIMATE	ESTIMATE	ESTIMATE	ESTIMATE
	COST	2020-2021	2021-2022	2022-2023	2023-2024
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure					
HRA	20,548	4,962	5,759	5,393	4,434
Service Investment	212	102	50	30	30

Affordable Housing	4,759	4,440	319	0	0
Total Capital Expenditure	25,519	9,504	6,128	5,423	4,464
Financing					
Major Repairs Reserve	12,036	3,009	3,009	3,009	3,009
Regeneration Reserve	9,722	4,345	2,068	1,884	1,425
Earmarked Reserves	120	30	30	30	30
Grants	1,200	900	300	0	0
Capital Receipts	2,441	1,220	721	500	0
Total Financing	25,519	9,504	6,128	5,423	4,464

Capital Project Planning & Approval Framework.

3.13 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 Council's 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.

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

Governance Arrangements

- 3.16 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.
- 3.17 For larger schemes a Project Board and Project Team oversee the scope and delivery of key strategic projects. The Project Board will usually 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

- 3.18 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 cost reductions and or a 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.

- 3.19 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.

	21-22 Budget £000's
Enhancement & Improvement Works	125
Grants	1,125
Parks	36
Property, Plant and Equipment	140
Total	1,426

- 3.20 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.
- 3.21 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

3.22 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 have to be earmarked 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 – the Council is permitted to set within its "Prudential Indicators" a level of borrowing that can be obtained to fund capital expenditure. The Council must be satisfied that this borrowing is used to fund projects that are prudent, sustainable and affordable

Borrowing

3.23 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).

3.24 The Council has long term surplus cash balances and these funds can also be used for fund expenditure. Although this will not attract an interest cost MRP still has to be provided.

3.25 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

3.26 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.

All of the Councils property portfolio except Housing properties are undergoing an “Asset Challenge”. This process looks at each property in turn and assesses its condition, reason for holding the asset and its suitability. Each Asset scores a total and the portfolio is then ranked providing direction on where future investment may be required to improve or maintain existing assets or conversely inform a disposal strategy.”

Commercial Activity & Non Treasury investments

- 3.27 On the Council’s 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:-

Activity	Value £000's	Due Diligence
Leisure Centre Management Fee	£921	This is a fixed Fee based on a design build operate and maintain contract. The fee is payable regardless of the 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	£506	The partners occupy the premises on a Licence agreement. Each agreement has contractual provisions for uplift of rent.
Commercial Estates Income	£863	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	£609	Income is monitored on a monthly basis and changes to the fee base are subject to Council Approval.
Block C	£328	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
Crematorium	£133	Estimated income based on facility being operational by 1 February 2022
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

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

- 1 X Estates & Asset Manager
- 1 X Housing Repairs 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.

CAPITAL PROGRAMME

Proposed Capital Programme - General Fund

3.29 The General Fund Capital Programme is concentrated around achievement of the priority capital projects namely:

- Green Spaces Delivery Plan
- Rural Community assistance through the Parish & Community Initiatives Fund.
- Crematorium Scheme funding has been updated to reflect the change in funding.
- Heritage Action Zone.

3.30 New Schemes

Performance Management System

The current performance and risk management software (TEN System) used by the Council is an old system for which support is no longer available from the provider. Use of a performance and risk management system maximises the council's efficiency. A replacement system is required to replace the existing system to effectively meet these objectives.

	Total	2021/22	2022-23	2023-24	2024-25
	£	£	£	£	£
Total Cost (all HBBC)	24,736	24,736	0	0	0

Office365 Consultancy Support

This project is to enable Office365 to be successfully deployed into HBBC

	Total	2020/21	2021/22
	£	£	£
Total Cost (All HBBC)	56,014	0	56,014

Moat Improvement Scheme

Scheme developed following detailed condition survey of the Argents Mead moat and proposed refurbishment works and based upon the current condition.

	Total	2020/21	2021/22
	£	£	£
Total Cost	153,500	3,045	150,455
Section 106 Contributions	(29,040)	(3,045)	(25,995)
Transfer from Parks – Major Works budget	(20,000)	0	(20,000)
HBBC Element	124,460	0	124,460

ICT Transitional Costs

A proposal for the insourced service model provides enhance service quality whilst being broadly in line with existing levels of service investment.. These costs are one off implementation costs that will be shared by the partners based on their IT usage.

	Total	2020/21	2021/22
	£	£	£
Total Cost	200,000	0	200,000
External Contributions	106,636	0	106,636
HBBC Element	93,364	0	93,364

Electric Charging Points

Increasing capacity for electric charging points. This bid enables the Council to potentially bid for additional OLEV and other funding in year.

	Total	2020/21	2021/22
	£	£	£
Total Cost	300,000	0	300,000
External Contributions	(225,000)	0	225,000
HBBC Element	(75,000)	0	(75,000)

Enterprize Zone

There is a potential of lending the Enterprize Zone an additional £4million to £5million this will enable further regeneration of the zone. Interest will be charged at a commercial rate and repayment will be expected within a 4 to 5 year period. If this lending is to take place a further report will be presented to the Council setting out the likely risks and the payback period of the loan.

Savings

The following savings have been identified and reflected in the programme

	2020/21 £000's	2021/22 £000's	2022/23 £000's	
Renovation Assistance (Major Works)	(137)	(30)	(30)	Reduction in year requirement based on demand.
Disabled Facilities Grants	(200)	0	0	Reduction in year requirement based on demand
Parks – Major works	0	(20)	0	Moved to Moat Improvement Scheme
Minor Works Grants	(15)	(10)	(10)	Reduction in year based on demand
Other Variations	0	4	3	Other Variations
Total	(352)	(64)	(37)	

Schemes Re-phased

The following schemes have been rephrased as set out below:

	2020/21 £000's	2021/22 £000's	2022/23 £000's	
Making Tax Digital	(12)	12	0	Project re-phased due to software changes.
Heritage Action Zone	(130)	(124)	258	Re-phasing of budget
Green Spaces Delivery Plan	(408)	408	0	Rephasing of budget

Electric Charging Points	23	0	0	In year additional costs based on funding application. All 20/21 costs are externally funded through grant or developer contributions.
Countywide Hoarding Project	(165)	165	0	re-phased based on contractual commitments
Server/Network Hardware Improvements	0	44	(25)	Additional Service improvements to ensure current service level can be maintained.
Disabled Facilities Grants	(150)	150	0	re-phased based on contractual commitments
Data Centre Upgrade	0	137	(35)	Additional Service improvements to ensure current service level can be maintained.
Sports Development Fund	(10)	10	0	Re-phasing of budget
Bosworth 1485 Sculpture Trail Project	(186)	622	0	From the £622k, £186 is rephasing of the scheme. The £436k increase due to the Council is being the lead in the element of the project. The £436k will be reimbursed by LLEP so there is no overall change.
CCTV Upgrade	(119)	119	0	Re-phasing of budget
New Crematorium	(3,803)	5,480	196	re-phasing of approved budget
Total	(4,960)	7,023	394	

Existing schemes

3.31 The remainder of the Programme contains ongoing schemes which have been in place for a number of financial years. The following points should be noted when reviewing these schemes:

- Hinckley Area Community Initiatives grant (funded from the Special Expenses Reserves).
- Green Space strategy schemes have been re-profiled based on anticipated developer receipts and grant funding. HAC has reviewed and endorsed these schemes. These schemes are funded by SEA reserves or be external

contributions. There is no General Fund capital funding earmarked for these schemes.

- The Crematorium scheme has been reprofiled to reflect the latest expenditure profile

Proposed Capital Programme - Housing Revenue Account

3.32 The proposed Capital Programme for the Housing Revenue Account (the HRA Programme) is included in Section 4 of Appendix 1. The HRA Programme reflects the main investment priorities included in the Housing Revenue Account Investment Plan which was approved by Council in November 2018 and allow for rephrasing of current expenditure but no additional increases. These were:

- Ongoing investment to existing stock
- Service improvements
- Affordable Housing

Stock Enhancement/Investment

3.33 £20,548,121 of investment has been proposed over the life of the HRA Programme into existing stock. The sequence of these works is based on the outputs from the Asset Management System which is informed by the most recent stock condition survey.

Affordable Housing

3.34 At the date of drafting this report, there are two schemes have been confirmed within the Affordable Housing arm of the Programme. These are:

- Ambion Court - situated in Southfield Way near the centre of the village of Market Bosworth. The old building contained 25 studio flats and four 1 bedroomed flats and a 3 bedroomed warden's flat. The new scheme upgraded scheme will have 24 flats each with their own on-suite facilities.

Financing

3.35 Expenditure in the Capital Programme will be funded by the following key streams:

- Contributions from the Major Repairs Reserve for the cyclical stock programmes
- Use of the HRA "Regeneration Reserve" which has been set up following the introduction of self-financing
- Use of earmarked reserves
- Grant Funding & External Contributions.
- Use of Right to Buy "Capital Receipts" obtained from the sale of HRA properties

Funding Implications

3.36 The main methods of financing the Capital Programme are detailed in section 3.2 of this report. 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.

Capital Receipts Reserve

- 3.37 The estimated impact of the proposed programme on the Capital Receipts reserve is summarised below. It is estimated that £3.235m will be used in 2020/21 to reduce the Council's overall borrowing position. Failure to pay of this debt will result in an additional MRP cost chargeable to the general fund from 2020/21 onwards. These costs have been allowed for within the MTFs. At the end of 2023/24 there will be an estimated £3.85m in the reserve.

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Opening Balance	(9,089)	(6,023)	(3,057)	(2,931)
In Year Receipts	(1,925)	(825)	(825)	(825)
Repayment of Debt Leisure Centre	3,235	0	0	0
In Year Application	1,291	1,796	951	463
In Year Application Crem	465	1,995	0	0
Closing Balance	(6,023)	(3,057)	(2,931)	(3,293)

- 3.38 Receipts assumptions are based on the following:

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Right to Buys	(750)	(750)	(750)	(750)
Misc. Sales	(75)	(75)	(75)	(75)
Former Leisure Centre Site	(1,100)	0	0	0
Total Receipts	(1,925)	(825)	(825)	(825)

Borrowing

- 3.39 As outlined in section 3.2, the Council is permitted to borrow within approved limits to finance capital expenditure. This "authorised limit" is recommended as part of the Treasury Management Policy and Prudential Indicators each year and is based on the level of borrowing that is recommended by the S151 officer as being sustainable, affordable and prudent.
- 3.40 The Council has loans of £67,652,000 within the Housing Revenue Account relating to the self-financing settlement. These started being repaid from March 2020.
- 3.41 In line with relevant accounting standards, the Council is required to budget for the cost of borrowing, to include any interest payable and also a provision for the repayment of debt (the Minimum Revenue Position). Based on the current borrowing need detailed in the Programme, the additional cost of borrowing has been calculated as follows:

	2021/22 £	2022/23 £	2023/24 £
Interest	28,880	35,000	9,000
MRP	17,040	28,338	19,570
Total	45,920	63,338	28,570

- 3.42 Further details of the Council's borrowing limits and indicators will be outlined in the 2021/2022 Treasury Management Policy.

Use of Reserves

- 3.43 The following reserves (excluding special expenses) have been used to finance specific capital schemes outlined in the Programme:

	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
ICT reserve	15	30	15	15
Developing Communities Fund	528	0	0	0
Waste Management Reserve	15	15	15	15
Business Rates (Pilot) HAZ Funding	6	41	55	18
Total General Fund	356	436	81	59

- 3.44 All transfers to/from reserves (i.e. including revenue expenditure and transfers from balances) are detailed in the General Fund budget report contained on this agenda

4. Exemptions in accordance with the Access to Information procedure rules

- 4.1 Report taken in open session.

5. Financial implications [IB]

- 5.1 Contained in the body of the report

6. Legal implications [MR]

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

- 6.2 The Council is legally required to set a balanced 3 year capital programme.

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

- 6.4 In relation to the 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.

- 6.5 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.	<p>A budget strategy is produced to ensure that the objectives of the budget exercise are known throughout the organisation.</p> <p>The budget is scrutinised on an ongoing basis to ensure that assumptions are robust and reflective of financial performance.</p> <p>Sufficient levels of reserves and balances have been maintained to ensure financial resilience</p>	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. Climate implications

- 11.1 There are no direct implications arising from this report

12. Corporate implications

- 12.1 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 Sector
-

Background papers: Capital Submissions, Civica Reports
Contact officer: Ilyas Bham, Accountancy Manager x5924
Executive member: Cllr K Lynch