

Capital Strategy (2019-20)

Introduction

1. The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which seeks to provide the following:
 - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability
2. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
3. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the capital Strategy and the budget report. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.
4. The capital strategy seeks to identify:
 - The corporate governance arrangements for these types of activities;
 - Service objectives relating to the Capital expenditure;
 - The expected income, costs and resulting contribution;
 - The debt related to the activity and the associated interest costs;
 - The payback period (MRP policy);
 - For non-loan type investments, the cost against the current market value;
 - The risks associated with each activity.
5. Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
6. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are identified.
7. The Capital strategy, and in particular the capital programme supports the Council's Corporate plan and is closely tied to the Medium Term Financial Strategy and the budget. The Capital Strategy is required to be compiled for a longer timeframe – generally 10 to 20 years although not specified.

8. The Council's future spending plans are evolving and as such the Capital Strategy and other strategies will need to be re-determined by full Council when the future plans are sufficiently robust. The report does detail the Council's borrowing commitments until 2061/62 that result from past and current capital programmes.

High Level Overview of how Capital Expenditure, Capital Financing and Treasury Management Activity Contribute to the Provision of Services

9. As detailed in the Council's Medium Term Financial Strategy (MTFS), the Council continues to face major reductions in government grants (see budget report elsewhere on the agenda). The Council seeks to use capital investment in the borough to not only achieve key corporate objectives but also to generate additional income in order to continue to provide services to its residents. The expenditure plans for the next three years are detailed below along with the expected outcomes.

Capital Expenditure 2019/20

10. The Council's Capital programme amounts to some £18.96m (£16m net of grants and contributions) in 2019/20.

The major areas of expenditure include

(i) Loans to the Council's housing company (£5m).

The outcomes being to assist in the provision of overall housing supply, whilst generating a surplus for the Council after borrowing and management costs of some 2% (net) i.e. some £20,000 per £1m borrowed. The surplus being used to support service provision to the residents of the borough.

(ii) Energy Initiatives – Solar Panels (£1.66m) & Ground Mounted Solar

In line with the strategic priority of a greener town the Council is installing roof mounted solar panels in order to supply the Council with its own energy, supplying energy to Council owned assets including commercial tenants and thus providing tenants with the option of a cheaper and greener energy supply. The potential ground mounted solar project in 2019/20 consists of a number of feasibility reports (£84,000). If positive then an investment of some £2.1m may result in 2020/21 providing cost savings and an income stream to the Council.

(iii) Commercial Property (311-323 Bexhill Road) (£4.7m)

In line with the strategic priority of economic and physical regeneration this is the Council's final instalment for the site, which is expected to be completed in the autumn of 2019. The completed units are expected to provide some 50 new jobs as well as secure new income and business rates for the Council, which in turn will help to sustain services within the borough.

(iv) Housing – Temporary Accommodation (£1.86m)

In line with the strategic priority of providing decent homes, the Council is seeking to acquire temporary accommodation, not only to secure accommodation in Hastings, but also to make savings on leasing costs.

(v) Priory Meadow Contribution to capital works (£126,000)

The Council owns 10% of the priory Meadow shopping centre. The money represents its share of the estimated capital investment costs for 2019/20. The Council receives 10% of the net income for the centre which provides a significant contribution towards meeting the service costs of the council.

(vi) Conversion of 12-13 York Buildings (£602,000)

In line with the strategic priority of providing decent homes, the Council is seeking to create 6 flats above the existing shop premises in this grade 2 listed property. The space has been unused for many years, there is a clear housing need, businesses face difficult trading conditions, and the Council can only contemplate such a regeneration project given its access to low borrowing rates. The costs of borrowing are expected to be covered by the future rental streams – but with no additional income stream for the Council.

(vii) Country Park Interpretive Centre (£662,000)

In line with the strategic priorities of a greener town, protecting and enhancing biodiversity, as well as a more attractive town, this new straw build project attracts 60% European funding. A new centre will benefit residents and visitors.

(viii) Playgrounds Upgrade (£92,000)

In line with the strategic objective of an attractive town, this is the continuation of a programme of upgrades, which carries on into 2020/21.

(ix) Direct Service Organisation (DSO) – (£1,036,000)

In line with the strategic objective of an attractive town the Council is providing the Street Cleaning service itself from July 2019. The Capital programme includes conversion building works as well as vehicle acquisition costs.

(x) Pelham Crescent – Building Works and Road (£296,000)

In line with the strategic priority of an attractive town, the council is working with property owners to restore the crescent and roadway. Much of the work is conditional on receipt of external grants and contributions, and works to the road may not be completed until 2021.

(xi) Priory St Multi Storey Car Park (£120,000)

In line with the strategic priorities of an attractive town and economic and physical regeneration, the Council needs to maintain the multi storey car park. This relatively small project will extend the useful life of the car park by some five years.

(xii) Sea Defences (£488,000 & £75,000 groyne refurbishment)

Preserving sea defences and the town is a key priority. This work is mostly 100% grant funded. The Council funds the groyne refurbishment works and sets aside £35,000 p.a. for this. In 2019/20 there is an additional carry forward of funds from prior years.

(xiii) Public Realm (£50,000)

In line with the strategic priorities of an attractive town, the Council sets aside £50,000 annually to seek to maintain the fabric of the town e.g. signposting, benches, seats, planters, highway and lighting improvements.

(xiv) Disabled Facility Grants (£1.5m (est) – all grant funding)

Property related grants for adapting homes. In 2018/19 the Council will receive funding approaching £1.9m. The figure for 2019/20 is as yet unknown.

(xv) Empty Homes (£100,000)

In line with the strategic priorities of creating decent homes and intervention where it is needed, the Council seeks to compulsorily purchase properties that are long term empty, in order to bring much needed homes back into use.

Capital Expenditure 2020/21

11. The main areas of expenditure in 2020/21 are energy (£2.1m potentially for ground mounted solar), loans to Hastings Housing Company (£3.5m), Disabled Facility Grants (£1.5m), Playgrounds (£50,000), Public Realm (£50,000), Groyne refurbishment (£35,000), Empty Homes (£50,000)

Capital Expenditure 2021/22

12. The main areas of expenditure are currently energy generation (£2.116m), Public Realm (£50,000), Groyne Refurbishment (£35,000), Disabled Facility Grants (£1.5m).

Summarised Capital Expenditure and Funding (2018-19 (Revised) to 2021-22)

13. The table below shows a summary of the expenditure for the current and next three years, along with the projected borrowing requirements.

Table : Summarised Expenditure	Revised 2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Gross Capital Expenditure	26,261	18,961	7,347	3,736
Net Capital Expenditure	22,405	16,066	5,808	2,236
Financing from own resources	953	799	208	120
Borrowing Requirement	21,452	15,267	5,600	2,116

Financing the Capital Programme

14. The Council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.
15. The main sources of finance for capital projects are as follows:
- Capital receipts (from asset sales)
 - Capital grants (e.g. Disabled Facilities Grant)
 - External contributions (e.g. Section 106 developers’ contributions)
 - Earmarked Reserves
 - Revenue contributions
 - Borrowing including internal (Capital Financing Requirement).
16. Borrowing (or Capital Financing Requirement) makes up the most significant element. While the Council has sufficient cash and investment balances in the near term it is able to internally borrow but in the future will need to borrow externally in addition to the estimated £60m which will have been borrowed by 31 March 2019.
17. The Capital Financing Requirement is reduced over the life of individual assets by an annual contribution from revenue (Minimum Revenue Provision). Further information including borrowing forecasts, the provision for the repayment of debt, and borrowing limits are set out in the Treasury Management Strategy. The table below shows the projected indebtedness of the Council based on the current Capital programme and expected levels of capital receipts, grants and contributions.

Table: Capital Financing Requirement (CFR) less Minimum Revenue Provision (MRP)

CFR	2018/19 (Adj. Est)	2019/20 (Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)
	£	£	£	£	£
CFR-Opening	39,493,000	60,150,000	74,234,000	78,215,000	78,565,000
Less MRP	-795,000	-1,183,000	-1,619,000	-1,766,000	-1,866,000
Plus, New Borrowing	21,452,000	15,267,000	5,600,000	2,116,000	0
CFR Closing	60,150,000	74,234,000	78,215,000	78,565,000	76,699,000

18. The table highlights that by 2020/21 the level of debt will have increased to some £78.5m. This figure could be up to £4m higher if commercial property purchases, as per approvals granted in December 2018 complete.

Revenue Consequences of the Capital Programme on the General Fund

19. Not all projects provide savings or generate income but, aggregate, the capital programme is forecast to have a positive net benefit to the General Fund.
20. The majority of the Capital programme has a positive impact on the ongoing resources for the Council. The Schemes listed (i) to (v) in the Capital programme for 2019/20 all contribute a surplus to the General Fund. The income generation strategy projections are included in the main budget report.
21. Borrowing has long term revenue consequences. The table below shows the projected levels of debt up to 2061/62 as a result of the Council's current and past programmes. The debt is reduced by the MRP each year. The overall level of debt needs to be viewed against the overall Long Term Assets of the authority which stood at £141.89m as at 31 March 2018.

Table: Total Borrowing and Repayment Projections (2017-18 to 2061/62)

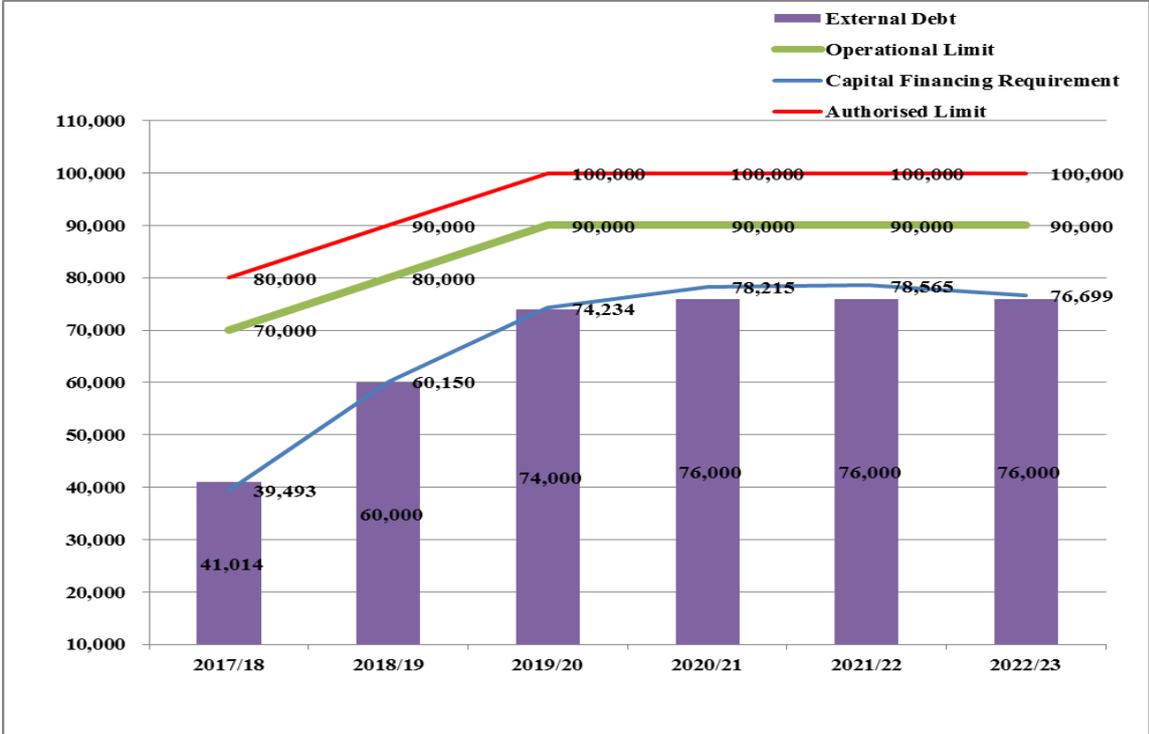


Financial Risk Management

- 22. The treasury management strategy outlines in some detail the economic environment and the risks that the Council faces in managing its investments and borrowing activities
- 23. A significant proportion of the Council’s capital programme is likely to be financed by borrowing and this exposes the Council to the risk of changing interest rates and the ability to afford debt repayments.
- 24. Where borrowing finances commercial property the Council is increasingly dependent upon the income streams to finance the debt repayments. No matter how good the tenants, and how much of the debt is at fixed rates, there is a limit to the exposure that is acceptable without putting the Council at complete risk of being unable to provide key services in the event of a significant recession.
- 25. To arrive at an overall borrowing level (Authorised and Operational borrowing limits), the Council needs to take a considered view of its other potential liabilities, future borrowing requirements, guarantees and loans given, bad debts, claims against the Council , future funding, and security and diversity of the existing income streams.

- 26. Based on the existing Capital programme, by 2020/21 annual interest on debt will amount to some £2.4m p.a. with capital repayments approaching £1.8m, offset by investment income of just over £1m. This represents 23% of the net revenue stream (amount met from government grants and local taxpayers).
- 27. The full Council determine the total limits on borrowing.
- 28. The graph below demonstrates the relationship between the various boundaries and limits and the actual borrowing undertaken to date or planned. The gap between the external debt and CFR also helps to illustrate the level of internal borrowing and potential interest rate exposure. The gap between the CFR and Operational Boundary/Authorised Limit highlights the potential scope/flexibility to borrow further, if the cashflow and treasury management position dictates.

Table: External Debt, Authorised limits and CFR Projections



- 29. In terms of cash backed investments, the Investment Policy provides strict guidance on the counterparties the Council is prepared to invest with and for what periods. The Council invested £2m in a property fund (CCLA) in April 2017 and may look to invest a further tranche of monies in a diversified investment fund in 2019/20.
- 30. In terms of asset backed investments and projects e.g. involving commercial property and housing, the business cases will look to identify the alternative options and uses of the premises should they become vacant. The Council increased the minimum level of reserves held in recognition of the fact that there will inevitably be void periods, and expenditure will be incurred in updating

properties from time to time in order to re-let them. Where the Housing Company is concerned it will need to retain sufficient working balances to re-let and refurbish properties. It is important that void periods are minimised and that properties acquired are not inherently defective.

31. Some projects such as the solar panel installations have some asset backed values, but the ability to meet the debt repayments from energy savings and sale of the surplus energy will remain a risk unless long term forward sale agreements are made. However such long term agreements come at the cost of not necessarily obtaining the maximum income. A balance of risk and reward needs to be achieved. Given the predicted trends in energy prices for the long term the business cases for energy generation look positive.

Loans and Guarantees

32. The Council is required to maintain a schedule of loans and guarantees to other organisations.

Table – Loans to Other Organisations

3rd Party Organisations	Rate/Return (%)	Start Date	End Date	Principal O/S @ 30.9.2018 £	Term
Amicus /Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Fixed
The Foreshore Trust	1.66	21/03/2016	20/03/2026	229,583	Annuity
The Source	2.43	17/12/2015	17/12/2025	19,304	Annuity
			Total	2,037,122	

33. In addition to these loans the Council is in the process of arranging a loan to Freedom Leisure who manage the Council's Summerfields Leisure centre in respect of a new climbing wall (some £134,000) as agreed by cabinet in April 2018.
34. The above table excludes the loans to Hastings Housing Company, which are of both a Capital nature (as per the capital programme) and of a revenue nature. The latter loans are made on a daily interest basis and reflect the net indebtedness of the company on any one day.

35. The Housing Service provides loans to individuals for rental deposits and the Council also provides a limited loan facility to staff for car loans, season tickets, and bicycle loans.
36. The Council has other liabilities that need to be considered when assessing the overall financial position of the Council e.g. potential legal claims, pension liabilities.

Reserves

37. The Council maintains reserves for specific purposes (earmarked reserves) and also a general reserve for unavoidable future liabilities. An absolute minimum level of reserves to be maintained has been set at £6m. The adequacy of the reserve levels are reviewed on a regular basis, and particularly when determining the budget.
38. The Council's General and earmarked reserves are set to fall further over the forthcoming 18 months. The balance at 1 April 2018 was some £18m. At the 31 March 2019 the projected balance is some £16.1m with the balance at the end of 2019/20 amounting to some £12.1m (excluding Clinical Commissioning Group and disabled facility grant monies).
39. The reduction in balances will result in less interest being earned on investments, greater short term borrowing to match cash flow requirements, along with the need to match future renewal and repair commitments to available resources. If general reserves are used to a significant level to finance emergency or non avoidable expenditure then future budget cuts (potentially in-year) will be required to restore reserves to minimum levels.

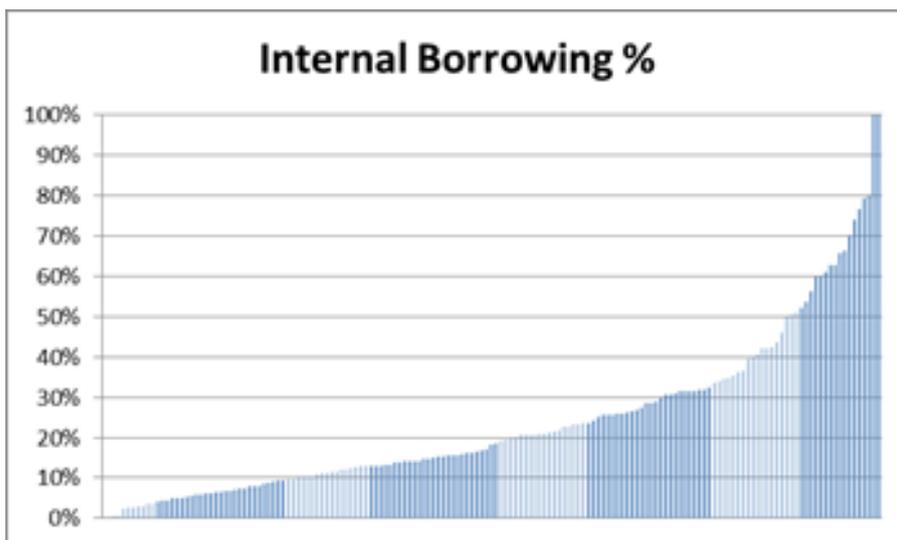
Risk Appetite & Prudential Indicators

Internal Borrowing

40. When undertaking Capital projects or purchasing new assets, the Council has a number of options as to when and how to finance these. If there are no grants or revenue resources and no capital receipts the Council will finance by borrowing. If it delays the borrowing then it will be using its own monies (Internal borrowing - generally reserves) to temporarily to fund the assets.
41. If an authority has a large internal borrowing position, this will mean that reserves and balances have temporarily been used to support borrowing positions and therefore the reserves will not be backed by cash in the bank. This position

continues to work for many, but as reserves and balances are utilised in the years ahead and balances fall, this will reduce any ability to internally borrow and may bring forward the need to borrow externally (potentially at a time of high interest rates, or when there is limited ability to borrow externally).

Table showing levels of Internal borrowing in Councils (Link Asset Service's Client Base)

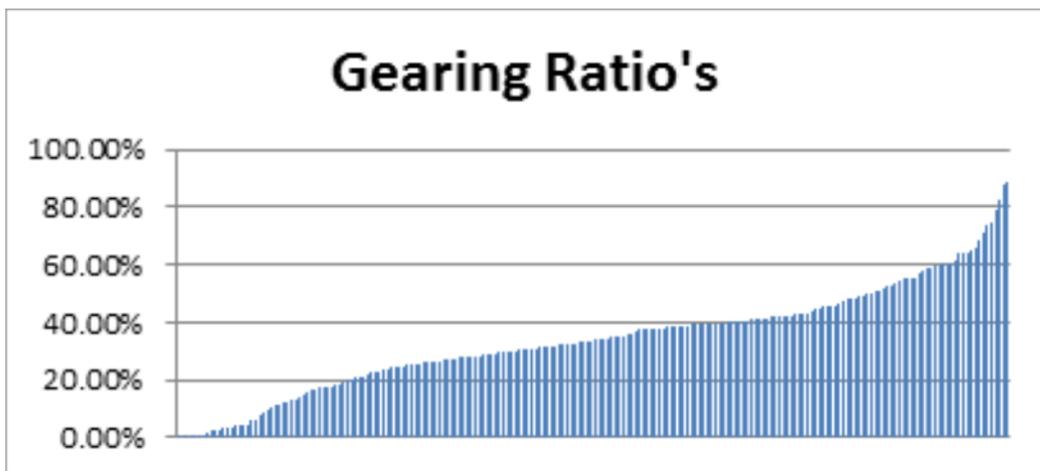


42. The Council's Treasury advisers have undertaken a review of client's balance sheets and the average level of internal borrowing is, from the above graph, just under 20%. The level will vary depending upon when an authority finances expenditure and when debt is refinanced.
43. For Hastings BC the Council has sought to achieve near full financing of the Capital programme over the last two years in order to take advantage of the historically low borrowing rates and avoid the risk of having to lock into high interest rates when it has no option but to borrow.
44. For 2019/20 the Council will seek to ensure the minimum cash balance is 60% of the year end reserve level with a minimum of £6m retained in cash i.e.40% maximum used for internal borrowing until such time as external borrowing is arranged.

Gearing

45. Gearing has predominantly been a debt metric used by the private sector more than the public sector, but recent moves towards commercialism opportunities and investments means that borrowing is a much greater risk and gearing is an appropriate prudential indicator.
46. Based on Link Asset Services' analysis of balance sheet positions for 2017/18, gearing ratios for over 200 authorities averages out at around 35% when comparing **Capital Financing Requirements (CFR) to total Long-term Assets reported**.
47. Due to the nature of assets held, services provided and historical debt decisions, positions will vary across different types of authority.

Table showing Gearing ratios in Councils (Link Asset Service's Client Base)



48. Gearing provides an early indication of where debt levels are rising, relative to long-term assets held.
49. Despite some of the adverse publicity around local authority finances, it can be argued that gearing of 35%, on average, is not a bad position for the sector to be in, as in simple terms 65% of the costs of long-term assets have been paid for, with debt outstanding on the remaining 35%.
50. For Hastings, the gearing ratio of debt (CFR) to long term assets is set to increase from 28% in 2017/28 to 42% in 2020/21 (assuming no changes to asset valuations and Capital programme completed). When compared against the net assets of the authority the ratio increases to some 93%.
51. In the private sector gearing is generally calculated on net assets and a generally accepted norm is a ratio between 25% and 50%. The risk exposures are

generally deemed to be greater where a company has much of its borrowing at variable rates – which is the opposite to the Council's position.

52. Table showing Future Projections of Gearing Ratios – based on Capital programme

Gearing Calculations	Actual	Estimates					Operational Boundary
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Expenditure (net)		22,405	16,012	5,773	2,201	-	
New borrowing		21,452	15,267	5,600	2,116	-	
Net Assets	82,285	83,238	83,983	84,156	84,241	84,241	84,241
Long Term Assets	141,890	164,295	180,307	186,080	188,281	188,281	201,582
Capital Financing Requirement	39,493	60,150	74,234	78,215	78,565	76,699	90,000
RATIOS:							
Debt: Net Assets	48%	72%	88%	93%	93%	91%	107%
Debt: Long Term Assets	28%	37%	41%	42%	42%	41%	45%

53. The Council's position will move from being just below the average to just above it. If the Council borrowed at the limits to its current Operational boundary (£90m), then debt to long term assets ratio would rise to 45%.
54. At the end of the day, any outstanding debt comes back to affordability, prudence and sustainability principles which are at the heart of the Prudential Code and have been since its inception in 2004.
55. The Chartered Institute of Public Finance and Accountancy have issued a clear statement on the levels of debt that Councils in general are accumulating following the purchase of commercial assets in particular. Such borrowing must be proportionate to the size of the authority. Further detailed guidance was expected to be released before the end of 2018, and is awaited. The government have also advised that they are in discussions with the Treasury on lending to local authorities – resulting from the activities of a few.
56. Any new limitations on accessing PWLB monies could have significant implications for the Council.

Ratio of Financing Costs to Net Revenue Stream

57. Financing costs are the element of the budget which an authority is committed to, even before they have run a single service or incurred any other costs as they reflect the current costs of previous/planned capital financing decisions.
58. In Hasting's case the ratio of financing costs represents, 23%, of the Net Revenue Stream, which only leaves 77% of the revenue stream for all the other services to be provided. The higher the percentage, therefore, the less is left for running services.

59. If the Net Revenue Stream is reducing, as funding sources are reduced over time, then even though financing costs may be fixed through fixed-term loans and interest rate certainty, the ratio will potentially continue to climb leaving less available for front-line services and placing further pressures on budget positions.
60. However, the income the Council receives from rents and fees and charges decreases the net expenditure of the Council. The calculation of debt charges to “the amount to be met from Grant and Collection Fund” as a proxy for the “Net Revenue Stream” therefore has to be treated with considerable caution.
61. This leads back then to local decision making and the need/objectives behind capital investment. Business cases must identify ongoing revenue implications and hence affordability. The Treasury Management Strategy includes a prudential indicator that identifies the ratio of financing costs to Net Revenue Stream. This is a further way of ensuring that affordability, prudence and sustainability considerations are kept to the fore in treasury reporting.

Future Capital Expenditure – What is not yet included in the Capital Programme or within the Borrowing limits?

The Council’s expenditure plans are evolving

Bexhill Road – lower tier site

62. The site having the potential for some 170 new homes. In October 2018 cabinet approved the progression of this project. Namely that the council enter into an agreement with Homes England to access the Local Authority Accelerated Construction fund to enable plans for flood remediation and other infrastructure measures to be undertaken.
63. The cabinet also agreed £25,000 be identified from general reserves to fund taxation and legal advice for setting up a joint venture.
64. A further report on funding requirements is to follow. The Council’s contribution would, as a minimum, be the value of the remediated land but there may well be a call for development funding beyond this.

Industrial Units – Churchfields Estate (Sidney Little Road)

65. The Council has a substantial plot of undeveloped industrial land. There is potential to develop the site

Plot 1 – 28 Starter Units

Plot 2 – 35 Square foot factory

Plot 3 – 3 to 8 factory units (flexible sizes)

66. The initial estimates identified construction costs for the 3 sites at some £9.3m. Given the current rentals chargeable in Hastings, the sites are not viable without external funding. Funding has been applied for in respect of the 28 starter unit site and a report will be presented to cabinet shortly. The outcome of the funding application should be known by April. There will be the opportunity to bid for further development funding thereafter.

Development Sites – HBC Land

67. The Council has a number of sites that are suitable for development and/or disposal. Namely,
- Harrow Lane - £27m construction costs (140 units)
 - Mayfield E - £7.3m construction costs (38 units)
 - Bexhill Road -Land rear of 419- 447 Bexhill Rd - £2.9m construction costs (16 units)
 - Sandrock - (£2.2m (10 units) to £15.6m (81units) construction & site acquisition costs
68. If the Council sought to develop all these sites at the same time and did not phase the developments the borrowing requirement would be between £39.4m and £52.8m.

Bohemia

69. The Travel lodge site looks likely to progress to redevelopment, along with the construction of a significant number of new properties.
70. Whilst feasibility studies are ongoing, the major attraction for developing this area would be a new sports and leisure complex. Whilst it is not known whether this is financially viable the Council would have the option of funding this itself, in which case it could be looking for financing (borrowing) of up to an estimated £20m.

Commercial Property/ Housing/Energy Initiatives

71. The income generation strategy identified a £50m programme over a three period. £29m earmarked for commercial property, £15m for housing and £6m for energy initiatives (£2.116m of which is not earmarked). These figures are all included in the capital programme.
72. The income generation strategy approved in September 2017 is subject to review, with a report to Cabinet in early 2019/20.

Corporate Governance Arrangements – Project Approval Process

73. The Council has an ambitious Corporate Plan, and it remains important that the capital programme remains realistic in terms of resources and timescales to achieve the desired outcomes.
74. The Council has a number of project management procedures and tools in place for managing individual projects. Key is the project initiation stage, the approval process and thereafter effective performance monitoring and reporting. A business case is required in most instances, and/or a detailed report to cabinet/Council.
75. Major projects are likely to have impacts on other key services such as Legal, Finance and Estates teams depending upon the nature of the projects. External support is commissioned where there is insufficient capacity, knowledge, or expertise within the Council. Cabinet and the Overview and Scrutiny Committee receive quarterly updates on financial performance (including the capital programme).
76. The Council established an Income Generation Board to oversee Income generation activities and provide advice to Cabinet. The Board reviews strategy and progress and receives details of new proposals, such as:-
 - (i) any proposed commercial property purchases where there is potential income generation.
 - (ii) Energy Projects
 - (iii) Housing
 - (iv) Other e.g. lottery project
77. Commercial Property purchases are approved by Cabinet, with delegated authority normally provided thereafter to the Chief Finance Officer in consultation with the leader to negotiate the final terms. The Council's legal team, surveyors and Corporate Property Officer are all closely involved. The Council will normally employ the services of an agent to advise on the price and conduct negotiations. Necessary due diligence is conducted and externally specialist surveyors and advisors employed as necessary. The Council has had a large property portfolio for many years. More recently it has acquired a number of commercial sites within the borough as well as developing its own. As at 31 March 2018 the Council's Long term Assets were valued at some £140m whilst debt (CFR) amounted to some £39m.
78. In terms of Housing, the Council has set up its own housing company (Hastings housing company) which is wholly owned by the Council. It acquired its first property in March 2018. The company has its own set of procedures, which generally mirror the due diligence requirements of the Council. The Council lends money to the company at the EU prescribed market rates. The housing company produces annual accounts.

Repair and Renewal Programme

79. The Council has a comprehensive repair and renewal programme. There are elements of a reactive and recurring nature and a separate costed schedule for planned maintenance items (See budget). The Council contributes an annual sum of £508,000 to a reserve which funds the programme. In 2018/19 the expected spend amounts to £806,000 and in 2019/20 is estimated at £874,000. As a result of expenditure exceeding income the balance on the reserve is expected to fall to some £963,000 by the end of March 2020.

Information Technology Reserve

80. Like most Councils and businesses the Council is totally reliant on effective IT in order to deliver services. The Council is continuously improving systems and looks to streamline service provision wherever possible. Business continuity planning remains vital against the continuing systems attacks that are experienced, and it remains critical that systems and virus protection software remain updated.
81. Like the Repair and Renewal programme the costs of acquiring and the updating of systems does not fall uniformly in any one year and hence an annual contribution is made into an IT Reserve.
82. The Council contributes £214,000 p.a. into the fund. In 2018/19 the expenditure is estimated at £311,000 and in 2019/20 at £239,000 (Please see budget)
83. As a result of costs exceeding income the balance on the fund is expected to fall to £31,000 by the end of March 2020.

Knowledge, Skills and Training

84. In order to deliver the Capital Programme it is essential that the Council has access to the right knowledge and skills. The Council employs fully qualified and experienced staff such as solicitors, estate managers, surveyors and accountants.
85. The Council maintains a training budget, recognising that it remains critical to the organisation to have a well trained and motivated workforce. The Council provides on-line training courses, internal and external training, to enable staff to complete their Continuing Professional Development (CPD) requirements.
86. The Council seeks to ensure members have access to training opportunities in order for them to adequately undertake their governance role. Workshops and training events are held on a regular basis.
87. Where specialist knowledge is required the Council will obtain expert advice, particularly around property specialisms, taxation, and legal advice.

Summary

88. The Council, which has significant deprivation levels, understandably has an ambitious Corporate Plan. This is set against a background of severe funding reductions, and the need to provide good services to the many visitors, residents and businesses.
89. The Capital programme is heavily reliant on borrowing, and will continue to be so especially given that the Council is looking to develop its own land. The benefit of doing so is to ensure new homes are built and the profit generated remains within the borough.
90. The Council may well wish to progress the development of its own land rapidly following outline planning permission. Given the scale of the developments, the current risks to the economy the Council will need to determine a strategy for the development of these sites that takes accounts of the risks, the timing of other developments in the borough and whether or not some sites should be phased.
91. The Council's existing borrowing levels are not considered excessive. However a downturn in the economy with resultant loss of income would require the Council to make greater service cuts to balance the budget. With some £14m of income from fees and charges (including rents) a small reduction has significant implications if prolonged. Whilst the Council still has significant reserves these are predicted to fall rapidly as the Council is using these to fund the budget deficit.
92. The investments being made in Energy, Housing and Commercial Property are currently making, and will increasingly make, very significant contributions to the Council's budget and thus help to preserve services and jobs within the borough.
93. This Capital Strategy and the Treasury Management Strategy is likely to be reviewed and updated during the year, and put before full Council, as and when the Council's spending plans are developed further.

Consultation and Communication

94. The detailed Capital Programme is included within the Council's budget which is on the Budget Cabinet agenda. The programme supports the Council's Corporate Plan which is likewise on the same Budget Cabinet agenda.
95. The draft Corporate Plan and draft budget for 2019/20 are subject to public consultation from the 11 January 2019.

Equality Impact Assessment

96. Equality Impact assessments are considered as part of the business case when considering individual capital proposals.