

# Draft Capital Strategy (2020/21)

## Introduction

1. The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare 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 2020/21**

10. The Council's Capital programme amounts to some £26.1m (£16.9m net of grants and contributions) in 2020/21. The major areas of expenditure include:-

#### **(i) Buckshole Reservoir (£837,000 of which £160,000 is expected to be spent in 2020/21)**

The January 2020 Cabinet approved works to improve the spillway design and to change the drawdown operation.

#### **(ii) Energy Initiatives – Ground Mounted Solar**

The potential ground mounted solar project consists of a number of feasibility reports (£84,000) and power connection costs (£200,000). If feasibility studies are positive then an investment of some may result in 2021/22 providing cost savings and an income stream to the Council (£1.9m identified in the capital programme). There remains a sum of £1.638m in 2021/22 earmarked currently for solar panels and a further £2.116m remains unallocated. Any plans for spending these monies will need business cases and Cabinet/Council approval.

#### **(iii) Commercial Property (£10m of which £8.65m is expected to be spent in 2020/21)**

In line with the strategic priority of economic and physical regeneration this funding will look to invest in commercial property within the borough. The intention is to provide new jobs or secure 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 (£5.76m of which £2.575m is expected to be spent in 2020/21)**

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 (£450,000 of which £50,000 is expected to be spent in 2020/21)**

The Council owns 10% of the Priory Meadow shopping centre. The money represents its share of the estimated capital investment costs for 2020/21. 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 (£846,000 of which £164,000 is expected to be spent in 2020/21)**

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 (£771,000 of which £463,000 is expected to be spent in 2020/21)**

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 (£50,000)**

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) Lower Bexhill Road – Housing Development (£7.04m of which £6.035m is expected to be spent in 2020/21)**

The Council has received funding of some £6.9m to progress this site (grant claimed in arrears). The Council will need to determine whether and how to proceed with the scheme at a future date. This may be with a joint venture partner and may involve the Council financing some or all of the development – subject to Cabinet /Council determination.

**(x) Pelham Crescent – Building Works and Road (£144,000)**

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 (£140,000)**

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 see lighting replaced, rewiring and automated gate controls.

**(xii) Sea Defences (£35,000 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.

**(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 (£1.8m (Est) – all grant funding)**

Property related grants for adapting homes. In 2019/20 the Council will receive funding approaching £1.812m. The figure for 2020/21 is as yet unknown.

**(xv) Empty Homes (£50,000)**

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

**(xvi) Cornwallis Street Development (£6.5m of which £500,000 is expected to be spent in 2020/21)**

The redevelopment of Cornwallis street car park for a hotel. This is expected to help regenerate the town centre, provide much needed overnight accommodation, as well as securing new jobs.

**(xvii) Castleham Car Park resurfacing (£100,000)**

**(xviii) Electric Vehicles (£172,000)**

A number of vehicles have been identified as requiring replacement. The Council will seek to replace with electric vehicles. The costs above include some £8,000 for associated infrastructure – charging points. The replacement programme will be reviewed and updated on a regular basis (currently includes 2020/21 and 2021/22 requirements).

## Capital Expenditure 2021/22

11. The main areas of expenditure in 2021/22 are Priory Meadow – contribution to Capital costs (£400,000), Cornwallis Street Hotel development (£6.5m), energy (£1.9m potentially for ground mounted solar, £1.638m potentially for solar panels, £2.116m unallocated), potential loans to Hastings Housing Company (£3.9m), Disabled Facility Grants (£1.8m), Buckshole Reservoir (£627,000), Groyne refurbishment (£35,000), Empty Homes (£50,000), Electric Vehicles (£86,000)

## Capital Expenditure 2022/23

12. The main areas of expenditure are currently, Public Realm (£50,000), Groyne Refurbishment (£35,000), Disabled Facility Grants (£1.8m).

## Summarised Capital Expenditure and Funding (2019-20 (Revised) to 2022-23)

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

	<b>Revised 2019/20 £'000s</b>	<b>2020/21 £'000s</b>	<b>2021/22 £'000s</b>	<b>2022/23 £'000s</b>
<b>Gross Capital Expenditure</b>	18,461	26,100	19,122	1,882
<b>Net Capital Expenditure</b>	15,580	16,936	17,310	70
<b>Financing from own resources</b>	185	185	208	70
<b>Borrowing Requirement</b>	15,395	16,567	17,102	0

## 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 £65m which will have been borrowed by 31 March 2020.
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)**

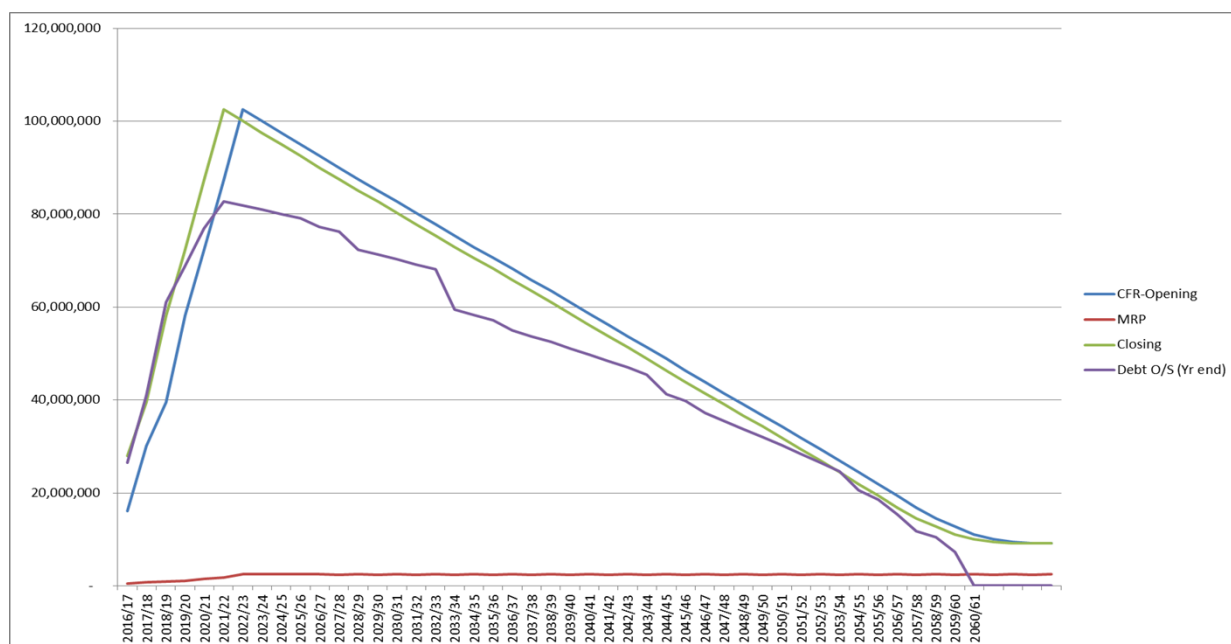
CFR	2019/20 (Rev Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)	2023/24 (Est)
	£	£	£	£	£
CFR-Opening	59,370,380	73,641,380	88,471,380	103,737,380	101,267,380
Less MRP	(1,176,038)	(1,623,844)	(1,883,773)	(2,424,943)	(2,434,520)
Plus, New Borrowing	15,395,000	16,567,000	17,102,000	0	0
CFR Closing	73,589,342	88,584,536	103,689,607	101,312,437	98,832,860

18. The table above highlights that by 2021/22 the level of debt will have increased to some £104m (subject to viability and the approval of schemes within the Capital programme)

### **Revenue Consequences of the Capital Programme on the General Fund**

19. Not all projects provide savings or generate income but, in 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. A number of the larger schemes listed in the Capital programme will generate income for the General Fund (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 £158.774m at 31 March 2019 (£141.89m as at 31 March 2018).

**Table: Borrowing and Repayment Projections (to 2060/61)**

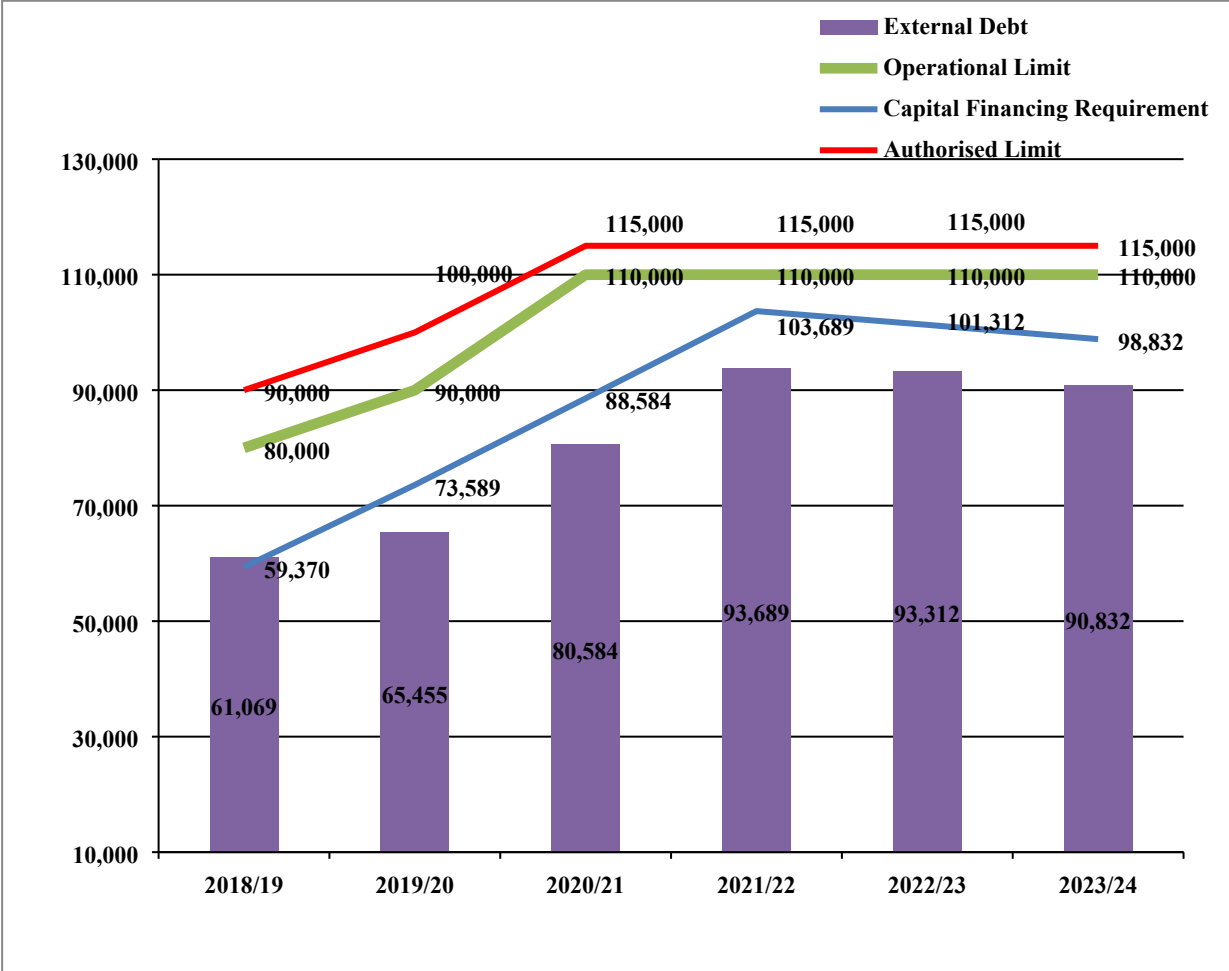


## Financial Risk Management

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 2022/23 annual interest on debt will amount to some £3.1m p.a. with capital repayments approaching £2.4m, offset by investment income. This represents some 35% 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 has invested a further £3m tranche of monies in a diversified investment fund in 2020/21.

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.

### 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 Outstanding £	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	£185,915	Annuity
The Source	2.43%	17/12/2015	16/12/2024	£15,718	Annuity
			<b>Total</b>	<b>£1,989,868</b>	

33. 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.
34. The Housing Service provides loans and guarantees to individuals for rent in advance and rental deposits and the Council also provides a limited loan facility to staff for car loans, season tickets, and bicycle loans.
35. 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

36. 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.
37. The Council's General and earmarked reserves are set to fall further over the forthcoming 12 months. The balance at 1 April 2019 was some £18.4m. At the 31 March 2020 the projected balance is some £15.3m with the balance at the end of 2020/21 amounting to some £12.9m. If Clinical Commissioning Group and Disabled Facility Grant monies are excluded the balance at the end of 2020/21 reduces to an estimated £10.5m.
38. 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.

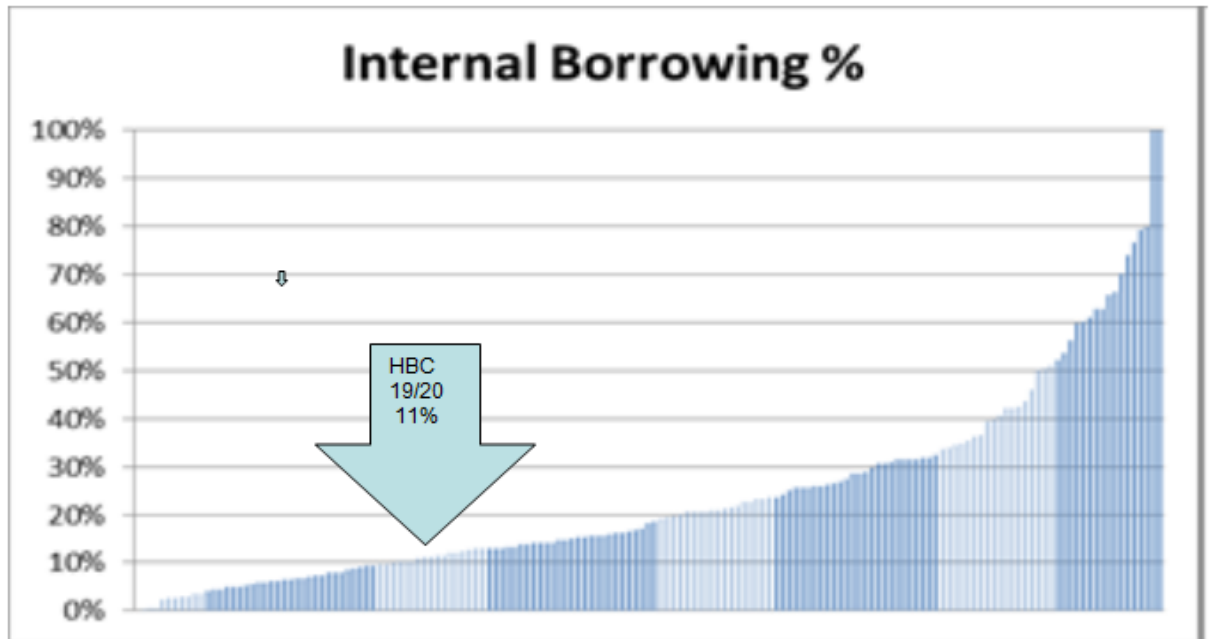
## **Risk Appetite & Prudential Indicators**

### **Internal Borrowing**

39. 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.
40. 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)



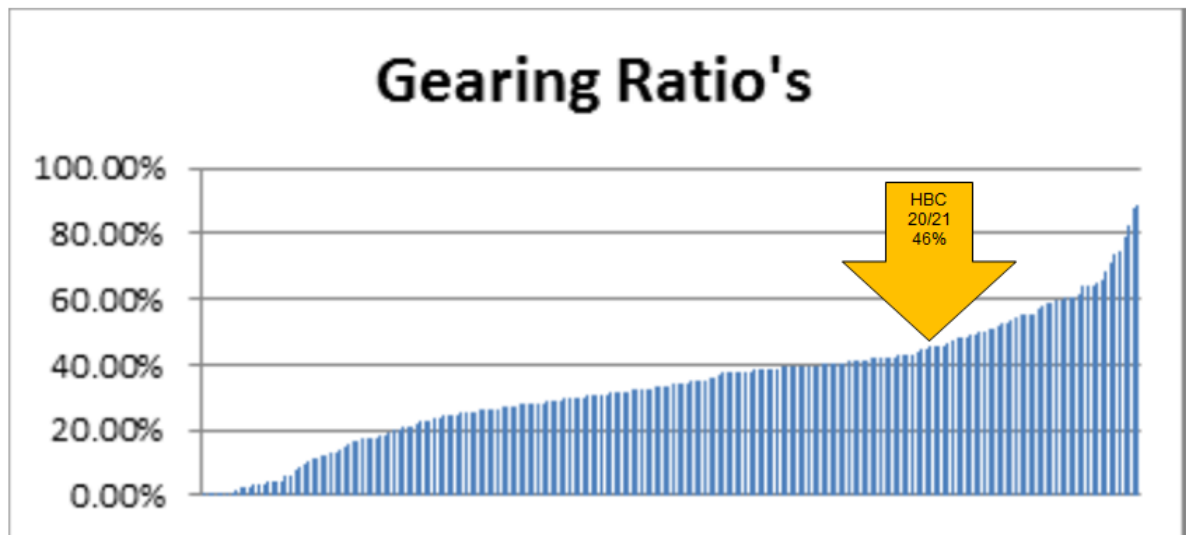
41. The Council's Treasury advisers have undertaken a review of client's balance sheets and the average level of internal borrowing is, from the above graph, just under 20%. The level will vary depending upon when an authority finances expenditure and when debt is refinanced.
42. For Hastings BC the 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.
43. For 2019/20 the level of internal borrowing by year end is some £8.1m out of a total borrowing requirement of some £73.6m (11%)

## Gearing

44. 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.
45. 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**.

46. 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)**



47. Gearing provides an early indication of where debt levels are rising, relative to long-term assets held.
48. 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%.
49. For Hastings, the gearing ratio of debt (CFR) to long term assets is set to increase from 37% in 2018/19 to 46% in 2020/21 (assuming no changes to asset valuations and Capital programme). When compared against the net assets of the authority the ratio increases to some 120% in 2020/21.
50. 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 of the Council's position.
51. **Table showing Future Projections of Gearing Ratios – based on Capital programme**

Gearing Calculations	Actual	Estimates					Operational Boundary
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Expenditure (net)		15,580	16,936	17,310	-	-	
New borrowing		15,395	16,567	17,102	-	-	
Net Assets	73,497	73,682	74,051	74,259	74,259	74,259	74,259
Long Term Assets	158,774	174,354	191,290	208,600	208,600	208,600	219,768
Capital Financing Requirement	59,370	73,589	88,584	103,689	101,312	98,832	110,000
<b>RATIOS:</b>							
<b>Debt: Net Assets</b>	<b>81%</b>	<b>100%</b>	<b>120%</b>	<b>140%</b>	<b>136%</b>	<b>133%</b>	<b>148%</b>
<b>Debt: Long Term Assets</b>	<b>37%</b>	<b>42%</b>	<b>46%</b>	<b>50%</b>	<b>49%</b>	<b>47%</b>	<b>50%</b>

52. 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 (£110m), then debt to long term assets ratio could rise to 51%.
53. 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.
54. 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 released in autumn 2019. The government have also advised that they are keeping lending to local authorities under review – resulting from the activities of a few.
55. Any new limitations on accessing PWLB monies could have significant implications for the Council.

### Ratio of Financing Costs to Net Revenue Stream

56. 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.
57. In Hasting's case the ratio of financing costs in 2020/21 represents, 24%, of the Net Revenue Stream (Appendix 1), which only leaves 76% of the revenue stream for all the other services to be provided. The higher the percentage, therefore, the less is left for running services.
58. 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 (Increases to 36% by 2022/23).

59. 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.
60. 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**

61. 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.
62. The cabinet also agreed £25,000 be identified from general reserves to fund taxation and legal advice for setting up a joint venture.
63. The Council has received a near £7m grant from Homes England to bring forward the site, undertaking flood protection/ remediation works. A further report is to follow on viability and how to proceed with the scheme e.g. joint venture. 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, as well as providing loan finance.

#### **Industrial Units – Churchfields Estate (Sidney Little Road)**

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

Plot 1 – 29 Starter Units (now included in Capital Programme)

Plot 2 – 35,000 Sq. ft. factory

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

65. The initial estimates identified construction costs for the 3 sites at some £9.3m. External funding has been agreed for Plot 1 which makes this part of the project viable. Given the current rentals chargeable in Hastings, the remaining sites are

not viable without external funding. There is expected to be the opportunity to bid for further development funding or alternatively make use of the Towns Fund.

### **Development Sites – HBC Land**

66. 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

67. 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. Given the Council's need for Capital receipts the budget report has proposed the sale of such sites (unless an alternative viable option is identified that generates similar revenue streams within the same timescales).

### **Bohemia**

68. The Travel lodge site looks likely to progress to redevelopment, along with the construction of a significant number of new properties.

69. 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 £70m.

### **Commercial Property/ Housing/Energy Initiatives**

70. The Capital programme includes new monies for Commercial property acquisitions, energy and housing projects. For such projects to proceed they will be subject to a viable business case being produced, or where the housing company is concerned a revised business plan.

### **Other Expenditure**

71. There are other items of expenditure that the Council needs to be conscious of when considering future budgets.

These include:

- Priory Street multi-Storey Car Park - Major refurbishment (£1.4m 2025/26)

- Playground – Repair and Refurbishment ( £50,000 p.a. 2022/23 onwards)
- Public Realm (no specific projects yet identified in current programme)
- DSO Street cleaning vehicle replacement (£1m -£3m in 2025/26 and every 7 - 10 years thereafter)
- Cliff works – Programmed and reactive repairs (£100,000 p.a. initially financed from the Renewal and Repairs Reserve. Future replacement of catch fencing could result in expenditure of £1m+ within the next 20 years).
- West Marina – Ministry of Defence Site and Ex Stamco site; the potential to acquire the site and develop it will be explored further.

## **Corporate Governance Arrangements – Project Approval Process**

72. 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.
73. 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.
74. 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).
75. 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 2019 the Council's Long term Assets were valued at some £158m whilst debt (CFR) amounted to some £59m.
76. 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**

77. 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 2019/20 the expected spend amounts to £906,000 and in 2020/21 it is estimated at £912,000. As a result of expenditure exceeding income the balance on the reserve is expected to fall to some £797,000 by the end of March 2021.

## **Information Technology Reserve**

78. 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.
79. 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.
80. The Council contributes £214,000 p.a. into the fund. The expenditure is estimated at £243,000 in 2019/20 and £214,000 in 2020/21 (Please see budget).
81. The balance on the fund is expected to be £124,000 by the end of March 2021.

## **Knowledge, Skills and Training**

82. 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.
83. 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.
84. 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.
85. Where specialist knowledge is required the Council will obtain expert advice, particularly around property specialisms, taxation, and legal advice.

## **Summary**

86. 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.
87. 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.
88. 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 the sale of some sites.
89. 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 reserves the level of unallocated General Reserve will only be marginally above the minimum recommended level by the end of 2020/21 (£6m) – and the Council must look to achieve a sustainable and balanced budget in 2021/22.
90. The investments that may be made in Energy, Housing and Commercial Property are expected to make significant contributions to the Council's budget and thus help to preserve services and jobs within the borough.
91. 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**

92. 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.
93. The draft Corporate Plan and draft budget for 2020/21 are subject to public consultation from the 10 January 2020.

## **Equality Impact Assessment**

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

### **Appendix 1**

#### **Financing Costs to Net Revenue Stream**

<b>Prudential Indicator: Financing Cost to Net Revenue Stream</b>	<b>2018/19 Actual</b>	<b>2019/20 Rev.Est</b>	<b>2020/21 Estimate</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>
<b>Financing Costs</b>	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,218	1,914	2,315	2,869	3,152
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	0	0	0	0	0
4. Interest and Investment Income	-303	-544	-818	-787	-771
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. MRP, VRP	795	1,176	1,624	1,884	2,425
6. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
<b>Total</b>	<b>1,710</b>	<b>2,546</b>	<b>3,121</b>	<b>3,966</b>	<b>4,806</b>
<b>Net Revenue Stream</b>					
Amount to be met from government grants and local taxpayers	13,373	13,329	13,063	13,392	13,493
<b>Ratio</b>					
<b>Financing Cost to Net Revenue Stream</b>	<b>13%</b>	<b>19%</b>	<b>24%</b>	<b>30%</b>	<b>36%</b>