

# Draft Capital Strategy (2022/23)

## Introduction

1. The CIPFA revised Prudential and Treasury Management Codes require 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 continuing to evolve 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 – given the impact of the Towns Fund monies and the potential housing schemes north of Bexhill Road. The report does detail the Council's borrowing commitments until 2069/70 that result from past and current capital programmes.

## **Corporate Plan**

9. The Capital Strategy will support Hastings Borough Council's [Corporate Plan](#) and help us meet our vision and priorities.

### **Our Vision**

"Hastings and St Leonards is a happy, welcoming place with a vibrant, unique culture where everyone has their needs met and is supported and encouraged to live their best lives."

### **Our town will:**

- Be a 'green' town with zero carbon footprint
  - Celebrate diversity, individuality and eccentricity
  - Recognise and meet people's needs
  - Have warm affordable homes for all
  - Ensure good standards of healthcare
  - Provide the best possible education
  - Have rewarding jobs with a decent wage
  - Protect our historic built and natural environment
  - Welcome developments that excite and enrich
  - Be a hub of creativity and culture
10. We will continue to work with our partners across all sectors to achieve our vision and promote our town. So that we can work towards our vision, we have priorities which we will be concentrating on:
    - Tackling homelessness, poverty and ensuring quality housing
    - Keeping Hastings clean and safe
    - Minimising our environmental impact
    - Making the best use of our land and buildings
    - Changing how we work to meet the future
    - Delivering responsible regeneration for the town

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

11. 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 2022/23**

12. The Council's Capital programme amounts to some £21.746m (£14.854m net of grants and contributions) in 2022/23. The major areas of expenditure include:-

**(I) Buckshole Reservoir (£666,000 in 2022/23)**

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

**(II) Commercial Property – Lacuna Place (£141,000 2022/23)**

In line with the strategic priority of economic and physical regeneration this funding will look to develop the ground floor of this Council owned property. The ground floor has remained vacant, with no main services and had been boarded up for many years. The works undertaken in 2021/22 have brought the property up to a lettable standard, and have enhanced the area to provide and attract new jobs as well as secure new income and business rates for the Council, this will in turn will help to sustain services within the borough. The remaining budget will assist with the further bespoke works to meet the requirements of incoming tenants.

**(III) Priory Meadow Contribution to capital works (£538,000 of which £250,000 may be spent in 2022/23)**

The Council owns 10% of the Priory Meadow shopping centre. The money represents its share of any capital investment costs for 2022/23. The Council receives 10% of the net income for the centre which provides a significant contribution towards meeting the service costs of the council.

**(IV) Churchfield Business Centre (£3.31m in 2022/23)**

The development of a business incubator hub (27 units) at Sidney Little Road. Original estimates of £3.3m were included in the Capital programme for 2020/21, but since then the projects objectives and build specification have changed. Very significant levels of external funding are required to make the construction of these units viable within Hastings – given the low rental values that areas of high deprivation generally command. Some £1.55m of external funding has been secured.

**(V) Playgrounds Upgrade (£38,000 in 2022/23)**

In line with the strategic objective of an attractive town, this is the continuation of a programme of upgrades, which carries on into 2022/23.

**(VI) MUGA Refurbishments (£80,000 in 2022/23)**

Refurbishment of two Multi-Use Games Areas (MUGA). One at Alexandra Park and one other. External funding is being sought.

**(VII) Lower Bexhill Road – Housing Development (£5.061m of which £3.061m is expected to be spent in 2022/23)**

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 shortly. 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.

**(VIII) Bexhill Road South – Affordable Housing and Car Park (£3.575m of which £1.075 is expected to be spent in 2022/23)**

Affordable housing development of 16 plus units and car park refurbishment. The council has set a target to provide 500 Affordable Rent Homes over the next 5 years through a variety of projects, including direct delivery. This scheme will require a viable business case to proceed and the Council's financial position must be such that it is capable of supporting a further major project over this period

**(IX) Mayfield E – Affordable Housing (£8m of which £1m is expected to be spent in 2022/23)**

Development of 38 affordable housing units . Once again, this scheme will require a viable business case to proceed and the Council's financial position must be such that it is capable of supporting a further major project over the period of build.

**(X) Pelham Crescent – Building/Restoration Works and Road (£594,000 in 2022/23)**

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. A separate report to Cabinet will be required in order to proceed.

**(XI) Sea Defences (£299,000 of works funded by Defra/Environment Agency)**

Preserving sea defences and the town is a key priority. This work is mostly 100% grant funded. The Council funds the groyne refurbishment/ sea defence works and sets aside £35,000 p.a. for this – sometimes packaged together over several years (no expenditure forecast for 2022/23).

**(XII) Disabled Facility Grants (£2.056m (Est) – all grant funding)**

Property related grants for adapting homes. In 2021/22 the Council will receive funding approaching £2.1m. The figure for 2022/23 is not yet known – but is not expected to be less. Unspent grant from previous years can be carried forward to use for future spend.

**(XIII) Harold Place (£1.613m in 2022/23)**

The development of this key Council owned site for a restaurant/café.

**(XIV) Cornwallis Street Development (£6.835m for 2022/23)**

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.

**(XV) Energy – Solar Panels (£1.538m of which £0.538m is expected to be spent in 2022/23)**

The installation of solar panels on non-domestic rooftops within the borough – providing cheaper energy for businesses. An additional £4.3m has been allocated for energy generation projects in future years but remains unallocated.

**(XVI) Empty Homes Strategy – CPO (£50,000 in 2022/23)**

Rolling programme of purchases and disposals.

**(XVII) Castleham Industrial Units (£140,000 in 2022/23)**

This is a major refurbishment project to over-roof units 6,7,8 & 9/10.

13. The financing of capital expenditure in 2022/23 relies on applying a receipt of £5m from the sale of assets. If this amount is not received then further borrowing will need to be undertaken resulting in increased interest and MRP charges in future years.

## **Capital Expenditure 2023/24**

14. The 2023/24 Capital programme amounts to some £13.229m (£9.173m net of grants and contributions).
15. The main areas of expenditure are Priory Meadow contribution to capital costs (£288,000), Energy (£500,000 for Solar Panels, £2.3m unallocated), Disabled Facility Grants (£2.056m), Groyne refurbishment (£35,000), Empty Homes (£50,000), Lower Bexhill Road (£2m), Bexhill Road South (£2.5m), and Mayfield E (£3.5m).

## **Capital Expenditure 2024/25**

16. The Council's current capital expenditure plans for 2024/25 amount to some £8.141m (£6.085m net of grants and contributions).
17. The main areas of expenditure are currently Energy (£500,000 for Solar Panels, £2m unallocated), Disabled Facility Grants (£2.056m fully grant funded), Groyne Refurbishment (£35,000), Empty Homes (£50,000), and Mayfield E (£3.5m).

## Summarised Capital Expenditure and Funding - 2021/22 (Revised) to 2024/25

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

	Revised 2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
<b>Gross Capital Expenditure</b>	7,961	21,746	13,229	8,141
<b>Net Capital Expenditure</b>	3,674	14,854	9,173	6,085
<b>Financing from own resources</b>	50	5,234	73	50
<b>Borrowing Requirement</b>	3,624	9,620	9,100	6,035

### Financing the Capital Programme

19. The Council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.
20. 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).
21. 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 £64.1m which will have been borrowed by 31 March 2022.
22. 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	2020/21 (unaudited) £'000s	2021/22 (Rev Est) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s
CFR-Opening	66,372	72,683	74,689	82,752	89,869
Less MRP	(1,500)	(1,668)	(1,741)	(2,006)	(2,327)
Plus New Borrowing	7,811	3,674	9,804	9,123	6,035
<b>CFR Closing</b>	<b>72,683</b>	<b>74,689</b>	<b>82,752</b>	<b>89,869</b>	<b>93,577</b>

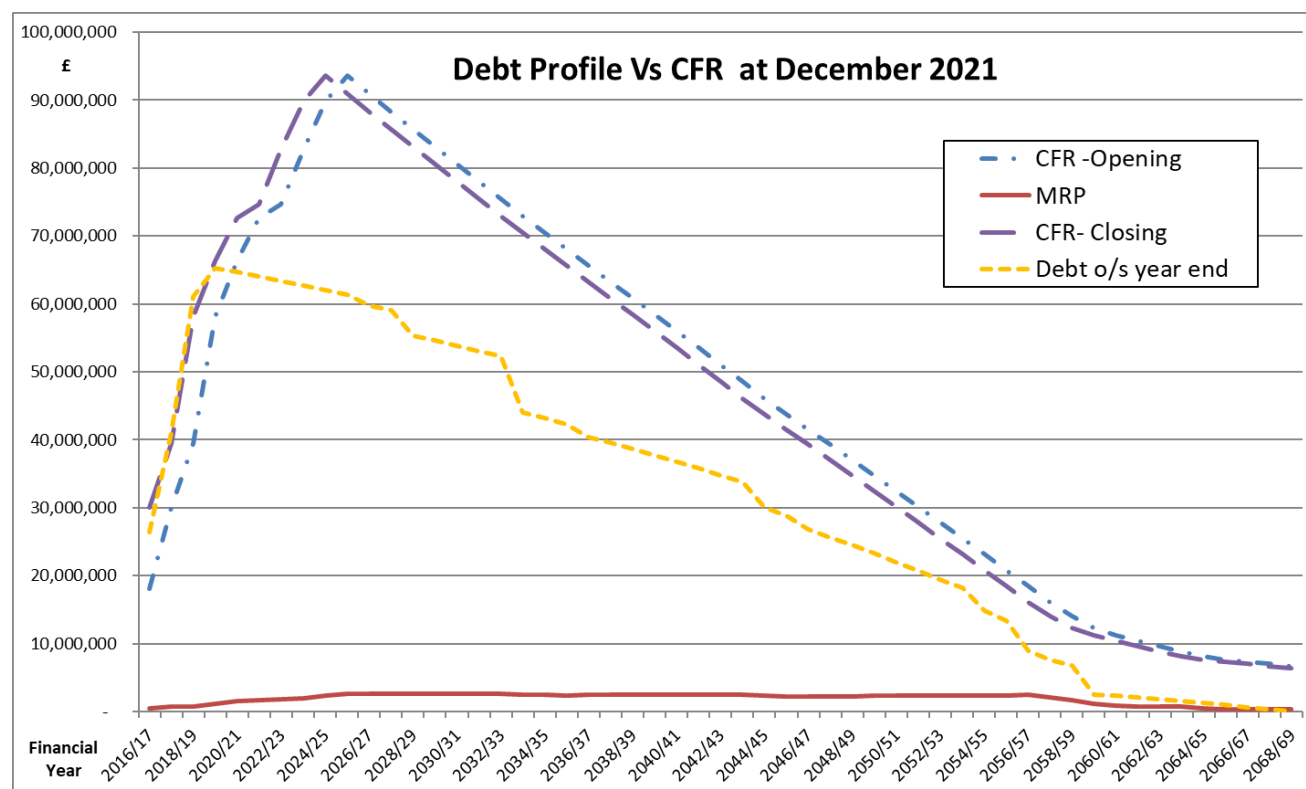
23. The table above highlights that by the end of 2023/24 the level of debt will have increased to some £89.87m (subject to viability and the approval of schemes within the Capital programme).

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

24. Borrowing has long term revenue consequences. The overall indebtedness of the Council 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 £174.885m at 31 March 2021 (unaudited) (£172.457m as at 31 March 2020).

### Debt Profile and CFR

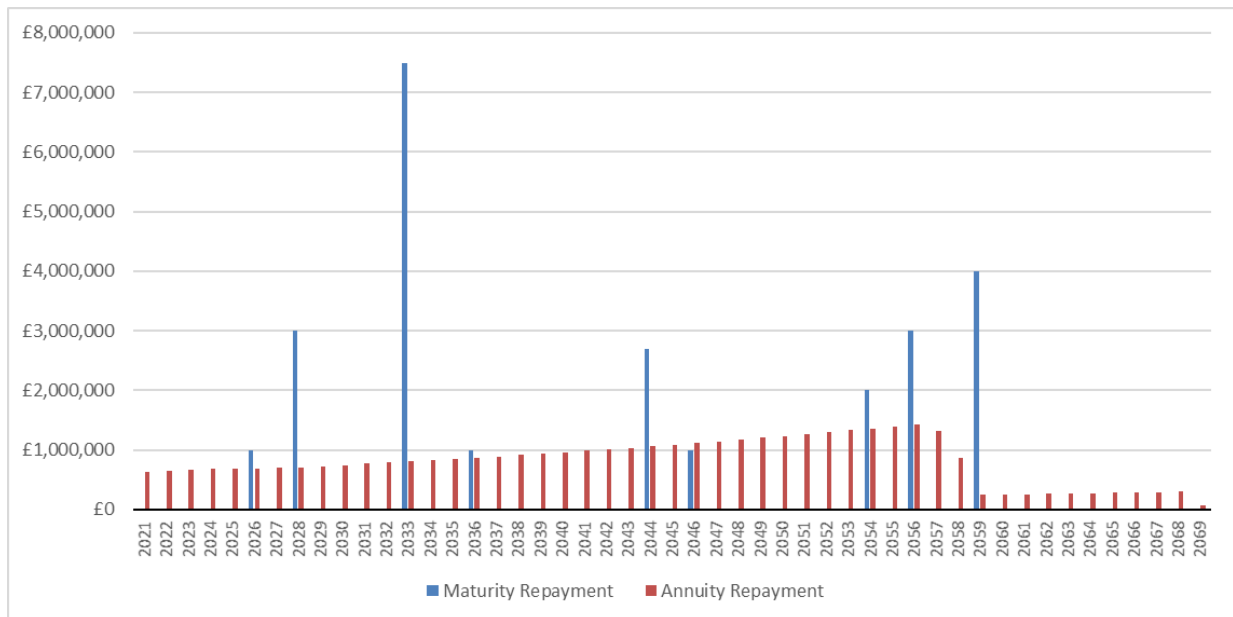
25. The graph below shows how the CFR (blue and purple lines) reduce over time as MRP payments are made. The yellow line shows the level of external debts reducing as principal repayments are made (see debt maturity graph below).



26. The graph above is based on the current known capital programme up to 2024/25. If further capital expenditure is finance by borrowing, which is highly likely, then this will push the trajectory of the graph out into further years and increase future MRP payment..

## Debt Maturity

27. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



28. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

## Financial Risk Management

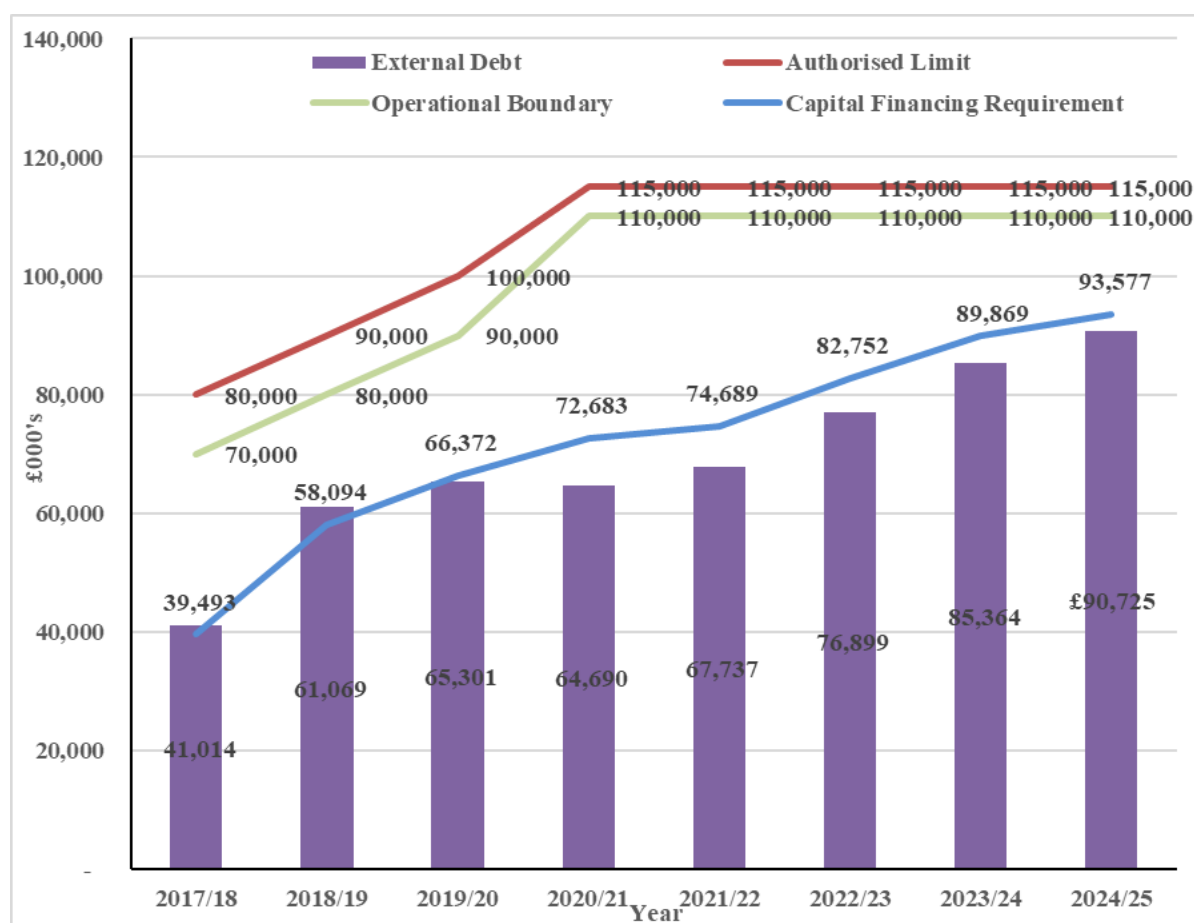
29. The treasury management strategy outlines in some detail the economic environment and the risks that the Council faces in managing its investments and borrowing activities.
30. A significant proportion of the Council's capital programme is likely to be financed by borrowing and this exposes the Council to the risk of changing interest rates and the ability to afford debt repayments.
31. Where borrowing money to finance economic development or regeneration schemes the Council is increasingly dependent upon the income streams to finance the debt repayments. No matter how good the business cases, 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.
32. 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, security and diversity of the existing income streams, and unforeseen events e.g. a pandemic.

33. Based on the existing Capital programme, by 2024/25 interest on debt will amount to some £2.494m p.a. with capital repayments (MRP) of £2.327m; offset by income & interest. This represents some 34% of the net revenue stream (amount met from government grants and local taxpayers). Interest on debt is estimated at £2.137m for 2022/23.
34. The full Council determine the total limits on borrowing.
35. 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**



36. 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 a further £3m tranche of monies in a diversified investment fund in 2020/21.

37. In terms of asset backed investments and projects e.g. involving commercial property and housing, the business cases 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, and their needs to be regular oversight.
38. 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

39. 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 as at 31/03/2022 £	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	£156,196	Annuity
The Source	2.43%	17/12/2015	16/12/2024	£10,730	Annuity
			<b>Total</b>	<b>£1,955,160</b>	

40. The above table excludes a series of loan to the Hastings Housing Company in respect of property purchases. As at 31 December 2021 the Capital loans amount to £5,489,398. The company has access to a revenue loan facility from the Council; the company fully repaid the revenue loan but has outstanding commitments regarding the capital advances.
41. 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.

42. 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**

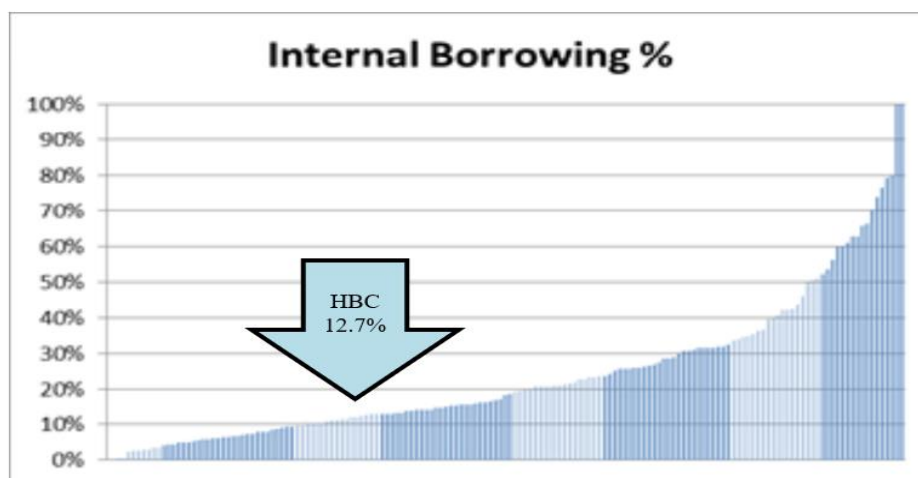
43. The Council maintains reserves for specific purposes (earmarked reserves) and also a general reserve for unavoidable future liabilities. The minimum recommended level of reserves to be maintained has been set at £6m. The adequacy of the reserve levels are reviewed on a regular basis, and particularly when determining the budget.
44. The Council's General and Earmarked reserves are set to fall further over the forthcoming 12 months. The balance at 1 April 2021 was £18,287m (unaudited). At the 31 March 2022 the estimated balance will be £14.367m with the balance at the end of 2022/23 amounting to some £10.447m. If Disabled Facility Grant monies are excluded the balance at the end of 2022/23 reduces to an estimated £8m.
45. 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**

46. 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 from reserves) to temporarily fund the assets.
47. 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)**



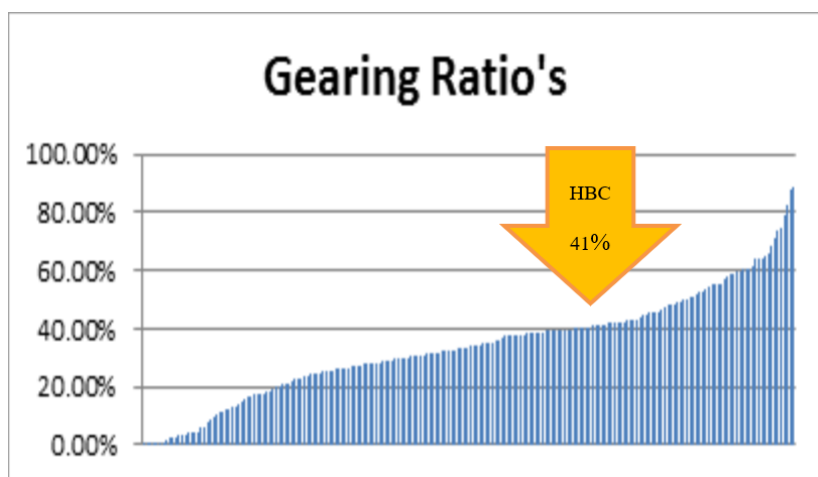
48. The Council's Treasury advisers undertook a review of client's balance sheets and the average level of internal borrowing was, from the above graph, just under 20%. The level will vary depending upon when an authority finances expenditure and when debt is refinanced.
49. For Hastings BC the Council has previously sought to achieve near full financing of the Capital programme over recent 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. For the last year a higher level of internal borrowing was adopted. Currently, with interest rates looking likely to increase (although remaining at historically very low levels) the Council is considering externalising some of the internal debt to lock in rates at low levels.
50. For 2021/22 the level of internal borrowing by year end is expected to be £6.952m out of a total borrowing requirement of some £74.689m (9.3%).

## **Gearing**

51. 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.
52. Based on Link Groups' analysis of balance sheet positions for 2017/18, gearing ratios for over 200 authorities averaged out at around 35% when comparing Capital Financing Requirements (CFR) to total Long-term Assets reported.

53. Due to the nature of assets held, services provided and historical debt decisions, positions will vary across different types of authority, and for many authorities the ratios will have increased since 2017/18. However, it still provides a useful comparator.

**Table: Gearing ratios in Councils (Link Group's Client Base)**



54. Gearing provides an early indication of where debt levels are rising, relative to long-term assets held.
55. 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%.
56. For Hastings, the gearing ratio of debt (CFR) to long term assets is set to increase to 43% in 2022/23 (assuming no changes to asset valuations and Capital programme). When compared against the net assets of the authority the ratio increases to 79% in 2022/23 (the net assets of the authority after taking account of all debts and other liabilities being estimated at some £105m).
57. 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 (all is now at fixed rates).

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

Gearing Calculation	Actual 2018-19 £'000	Actual 2019-20 £'000	Actual 2020-21 £'000	Estimate 2021-22 £'000	Estimate 2022-23 £'000	Estimate 2023-24 £'000	Estimate 2024-25 £'000	Operational Boundary £'000
Capital Expenditure				3,841	12,908	4,708	35	
New Borrowing				3,674	9,804	9,123	6,035	
Net Assets	73,497	84,845	88,460	92,301	105,209	109,917	109,952	109,952
Long Term Assets	158,774	172,457	174,885	178,726	191,634	196,342	196,377	223,625
Capital Financing Requirement	58,094	66,372	72,683	74,689	82,752	89,869	93,577	110,000
<b>RATIOS:</b>								
<b>Debt: Net Assets</b>	<b>79%</b>	<b>78%</b>	<b>82%</b>	<b>81%</b>	<b>79%</b>	<b>82%</b>	<b>85%</b>	<b>100%</b>
<b>Debt: Long Term Assets</b>	<b>37%</b>	<b>38%</b>	<b>42%</b>	<b>42%</b>	<b>43%</b>	<b>46%</b>	<b>48%</b>	<b>49%</b>

Note: Outturn figures for 2019/20 and 2020/21 are unaudited

58. The Council's position will move from 42% to 43% but remains close to the average (35%), especially considering this average is likely to have increased since 2017/18. If the Council borrowed at the limits to its current Operational Boundary (£110m), then debt to long term assets ratio could rise to 49%.
59. 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.
60. 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, and further changes to the Treasury Management codes have been undertaken to produce revised 2021 editions.
61. The government revised their lending criteria for the Public Works Loan Board (PWLb) on the 25 November 2020 which effectively prevents Councils from borrowing for commercial property investments where the primary purpose is to make a return (yield). The Council has no intention of purchasing commercial property primarily for yield and were it to consider doing so it would need to seek full Council approval to do so.

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

62. 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.
63. In Hasting's case the ratio of financing costs in 2022/23 represents, 25%, of the Net Revenue Stream (Appendix 1), which only leaves 75% of the revenue stream

for all the other services to be provided. The higher the percentage, therefore, the less is left for running services.

64. 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 34% by 2024/25).
65. **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.**
66. 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?**

67. The Council’s expenditure plans are evolving and there are numerous potential projects that the Council will be involved in over the next few years.

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

68. The Council has a substantial plot of undeveloped industrial land. There is potential to develop the remainder of the site – subject to obtaining additional grant funding.

Plot 1 – 27 Starter Units (now included in Capital Programme)

Plot 2 – 6 factory units (some 265 sqm each)

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

69. The initial estimates identified construction costs for the 3 sites at some £10m. Some 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 and a bid to the Towns Fund has been made.

### **Development Sites – HBC Land**

70. The Council has a number of sites that are suitable for development and/or disposal. Namely,
- Bexhill Road North (£30m + construction costs)
  - Mayfield E - £7.3m construction costs (38 units)
  - Bexhill Road -Land rear of 419- 447 Bexhill Rd - £2.9m construction costs (16 units)
71. 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 £40m and £50m. Given the Council's need for Capital receipts the council agreed in 2020 to pursue the sale of some sites e.g. harrow lane. The Council's policy remains that surplus land and properties will be disposed of unless an alternative viable option is identified that generates similar revenue streams within the same timescales – no disposal will take place where there is the realistic possibility of a rapid redevelopment opportunity to provide housing..

## **Bohemia**

72. The Travel lodge site looked likely to progress to redevelopment, along with the construction of a significant number of new properties. Covid-19 has impacted on the project and negotiations.
73. The development of the remaining area of Bohemia is currently on hold whilst the Towns Fund bid is developed along with a new Local Plan for the borough.

## **Towns Fund**

74. The Towns Fund, announced in July 2019, is a £3.6bn national initiative focusing on 100 towns of which Hastings is one. The intention of the fund is to help drive sustainable economic regeneration for long term economic and productivity growth.
75. The Council has received an offer of £24.3m for the delivery of the investment proposals put forward. The Towns fund provides the means to carry on the transformation of Hastings when other funding remains unclear e.g. loss of EU grants and what if anything will replace them. Securing the grant has been a significant accomplishment and started a major item of work for the Council and its partners.
76. The Council's bid includes a very wide range of projects that will also draw in external investment. The Council will be involved in a range of these and there are expected to be calls for very significant projects to be included in the Capital programme – to be delivered over the next 6 years. Such projects could include, for example, a new leisure centre.



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

77. The Capital programme includes new monies for 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**

78. 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 onwards)
- Playground – Repair and Refurbishment
- 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).
- Upgrade of vehicles to electric.
- Cliff works – Programmed and reactive repairs (£50,000 - £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.
- Environment Act – wholesale changes to waste and recycling collection.

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

79. 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.
80. 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. Any new Capital proposal requires full Council approval.
81. 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).
82. Property developments and purchases are considered by Cabinet, and are subject to full Council approval, 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 external 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 2021 the Council's Long term Assets were valued at some £175m whilst debt (CFR) amounted to some £72.7m.

83. In terms of Housing, the Council has set up its own housing company (Hastings Housing Company Ltd) which is wholly owned by the Council. It acquired its first property in March 2018 and now has long term assets in excess of £5.4m. 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**

84. 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 £500,000 to a reserve which funds the programme. In 2021/22 the expected spend amounts to £1,233,409 and in 2022/23 it is estimated at £647,700. As a result of expenditure exceeding income the balance on the reserve is expected to fall from £1.629m at 31 March 2021 to some £747,800 by the end of March 2023.

## **Information Technology Reserve**

85. 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.
86. 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.
87. The Council will contribute £189,000 p.a. into the fund in 2022/23. The expenditure is estimated at £233,000 in 2021/22 and £214,000 in 2022/23 (See budget).

## **Knowledge, Skills and Training**

88. 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.

- 89. 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.
- 90. 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.
- 91. Where specialist knowledge is required the Council will obtain expert advice, particularly around property specialisms, taxation, and legal advice.

## **Summary**

- 92. 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.
- 93. The Capital programme is heavily reliant on borrowing and will continue to be so especially given that the Council is looking at some major economic development and regeneration schemes.
- 94. The Council will wish to progress developments rapidly following outline planning permission - particularly of its own land. Given the scale of some of the developments and 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.
- 95. 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 fall close to or below the minimum recommended level by the end of 2021/22 (£6m) – and the Council must look to achieve a sustainable and balanced budget for 2023/24.
- 96. The investments that may be made in Energy and Housing are expected to make significant contributions to the Council's budget and thus help to preserve services and jobs within the borough.
- 97. 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**

98. 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.
99. The draft budget for 2022/23 is subject to public consultation from January 2022.

## **Equality Impact Assessment**

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

## Appendix 1

### Financing Costs to Net Revenue Stream

Prudential Indicator: Financing Cost to Net Revenue Stream	2019/20 Actual	2020/21 Actual	2021/22 Revised Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
<b>Financing Costs</b>	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,817	1,836	1,843	2,137	2,320	2,494
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	-	-	-	-	-	-
4. Interest and Investment Income	-597	-522	-504	-503	-513	-505
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,176	1,500	1,668	1,741	2,006	2,327
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
<b>Total</b>	2,396	2,814	3,007	3,375	3,813	4,316
<b>Net Revenue Stream</b> Amount to be met from government grants and local taxpayers	13,313	16,332	13,745	13,377	12,708	12,581
<b>Ratio</b> <b>Financing Cost to Net Revenue Stream</b>	<b>18%</b>	<b>17%</b>	<b>22%</b>	<b>25%</b>	<b>30%</b>	<b>34%</b>

Note: Outturn figures for 2019/20 and 2020/21 are unaudited