

**HIGH PEAK BOROUGH COUNCIL**

**CAPITAL STRATEGY  
2020/21**

## **1 Introduction & Background**

- 1.1 The 2017 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities requires local authorities to produce a 'Capital Strategy' from 2019/20. The purpose of the Capital Strategy is to demonstrate that the Council's capital expenditure and investment decisions are taken in line with corporate priorities and properly take account of the following:
- Stewardship;
  - Value for money;
  - Prudence;
  - Sustainability; and
  - Affordability.
- 1.2 The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability. It allows authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.
- 1.3 The Strategy forms part of the Council's integrated revenue, capital financial planning and sets out the long term context in which capital expenditure and investment decisions are made. It is an integral component of the Medium Term Financial Plan (MTFP) and is aligned with the Council's:
- Corporate Plan
  - Asset Management Strategy;
  - Housing Revenue Account Business Plan;
  - Growth Strategy; and
  - Treasury Management Strategy
- 1.4 The strategy will provide for a balanced, sustainable capital programme over the medium term planning period ensuring that limited resources are applied in the most effective, efficient and economical way to contribute to the achievement of the Council's Corporate Plan.
- 1.5 The strategy sets out how the Council will prioritise its capital spending plans within the resources available and indicates the action to be taken to maximise resources for capital spending. The strategy is strategic in nature and will focus upon the process for determining capital investment priorities.
- 1.6 The strategy sets out the strategic approach to the management of debt and borrowing. The detailed implications of this are contained within the Treasury Management Strategy (TMS) which is updated annually. .
- 1.7 The Capital Strategy will be updated annually alongside the Council's MTFP. There will also be a fundamental review of the strategy alongside a revision of the Corporate Plan.

## 2 Corporate Priorities

2.1 The Capital Strategy is driven by local priorities. The Council’s spending strategy is set out in the Corporate Plan formally adopted by the Council.

2.2 Following the elections in May 2019 and new political administration, there has been a fundamental review of the Corporate Plan focussing on the period 2019-2023 (up to the end of the current political administration). The Corporate Plan was agreed by Council on 15<sup>th</sup> October 2019 with 2020/21 representing the first full year of the new Corporate Plan.

2.3 The Council’s 4-year Corporate Plan (2019-2023) establishes the Council’s vision, corporate objectives and key priorities for the medium term. It in effect establishes the Council’s commitment in the delivery of service and community leadership to the residents of the High Peak.

2.4 The Council’s vision is expressed as :

*“Working together to protect and invest in the High Peak with the Council on your side”*

This vision is articulated further by four aims:

- Supporting our communities to create a healthier, safer, cleaner High Peak
- A responsive, smart, financially resilient and forward thinking council
- Protect and create jobs in the High Peak by supporting economic growth, development & regeneration
- Protect and improve the environment including responding to the climate emergency

2.5 These aims are supported by a number of objectives which also provide the framework for the delivery of service plans. The Council’s objectives are summarised below:

	Aim	Objectives
1	Supporting our communities to create a healthier, safer, cleaner High Peak	<ul style="list-style-type: none"> <li>• Effective relationship with strategic partners</li> <li>• Effective provision of high-quality public amenities, clean streets and environmental health</li> <li>• Fit for purpose housing that meets the need of tenants and residents</li> <li>• Practical support of community safety arrangements</li> <li>• Provision of high quality leisure facilities both in formal leisure centres and swimming pools and out in our communities</li> <li>• Work with our partners and the community to address health inequality, food and fuel poverty, mental health and loneliness</li> </ul>
2	A responsive, smart, financially resilient and forward thinking Council	<ul style="list-style-type: none"> <li>• Ensure our future financial resilience can be financially sustainable whilst offering value for money</li> <li>• Ensure our services are readily available to all our residents in the appropriate channels and provided “right first time”</li> <li>• Invest in our staff to ensure we have the internal expertise to deliver our plans by supporting our high performing and well motivated workforce</li> <li>• More effective use of Council assets to benefit our communities</li> <li>• Effective procurement with a focus on local businesses</li> <li>• Use innovation, technology and partnership with others to help improve the efficiency of services, improve customer satisfaction and reduce our impact on the environment</li> </ul>

	<b>Aim</b>	<b>Objectives</b>
3	Protect and create jobs in the High Peak by supporting economic growth, development & regeneration	<ul style="list-style-type: none"> <li>• Encourage business start-ups and enterprises</li> <li>• Work to create flourishing town centres and thriving high streets that support the local economy</li> <li>• Promote tourism to maximise local benefit</li> <li>• High quality development and building control with an “open for business approach”</li> <li>• Car parking arrangements that meet the needs of residents, businesses and visitors</li> <li>• Working to support existing local businesses, both large and small across the High Peak as they respond to future challenges</li> <li>• Supporting the development of innovative green jobs and businesses across the High Peak</li> </ul>
4	Protect and Improve the Environment including responding to the climate emergency	<ul style="list-style-type: none"> <li>• Effective recycling and waste management</li> <li>• Effective provision of quality parks and open spaces</li> <li>• Meeting the challenge of climate change and working with residents and business across the High Peak to implement the climate change action plan</li> </ul>

2.6 The Council is committed to playing the lead role in championing the local area. In so doing the Council recognises its community leadership role. Fulfilling this role effectively means influencing partners in a number of key areas in order to ensure that services are shaped and delivered around the needs and aspirations of citizens. The Council’s influencing role will be focused in the following priority areas:

- Work with Derbyshire County Council and other partners to enable high speed internet across the borough
- Support the development of more cycle routes whilst working with Derbyshire County Council and residents to ensure harmony amongst road users
- Working with regional partners such as Derbyshire County Council, Greater Manchester Combined Authority and the Sheffield City Region to improve public transport links across the borough and extend the GM rail ticketing boundary
- Encouraging local organisations and businesses to reduce their carbon footprint
- Ensure the best use of public assets across the borough by working via the One Public Estate project

2.7 The Council will also continue to seek to influence our partners in the following long term projects:

- Work with the private sector on regeneration schemes including The Crescent and Torr Vale Mill
- Pressing for more regular and faster rail links and public transport links and essential road infrastructure (i.e. A628 / A6 bypasses, Whaley Bridge 2nd Bridge, Gamesley Station)
- Supporting the completion of the off road route for the Trans Pennine Trail and access to the Monsal and Tissington Trails
- Maintaining the provision of accessible health of social care and working with partners to ensure health and well being
- Support the police in dealing with anti social behaviour
- Work with partners to bring additional funding into the borough

2.8 The Plan identifies key priority outcomes, which will be the highest priority in the development of performance targets and key actions. A significant proportion of the Council’s resources will be directed towards achieving them:

Aim	Priority Outcomes
Supporting our communities to create a healthier, safer, cleaner High Peak	<ul style="list-style-type: none"> <li>• Improved housing repairs service</li> <li>• Improved private sector housing conditions</li> <li>• Increased supply of affordable housing</li> <li>• Increased level of community support</li> </ul>
A responsive, smart, financially resilient and forward thinking Council	<ul style="list-style-type: none"> <li>• Increased use of local firms through procurement</li> <li>• Provision of more apprenticeships</li> <li>• Increased levels of customer satisfaction</li> <li>• Better engagement with our local communities</li> </ul>
Protect and create jobs in the High Peak by supporting economic growth, development & regeneration	<ul style="list-style-type: none"> <li>• Increased economic growth</li> <li>• Higher paid employment</li> <li>• New tourism opportunities</li> <li>• Thriving and flourishing town centres and high streets</li> </ul>
Protect and improve the environment including responding to the climate emergency	<ul style="list-style-type: none"> <li>• Reduction in carbon emissions</li> <li>• Reduced levels of environmental crime</li> <li>• Appropriate response to the climate emergency declaration through a deliverable plan</li> </ul>

### 3 Capital Spending Priorities

3.1 The Council’s capital investment priorities are determined by the corporate priorities set out above. The key capital investment priorities for the Council are therefore as follows:

**Corporate Property** – the Council will invest in maintaining the properties that support the delivery of services direct to residents.

**Affordable Housing** –the Council is committed to maintaining a “fit for purpose” housing stock that meets the needs of tenants and in addition will support the additional provision of housing by other registered providers

**Other Corporate Assets** – the Council will invest in other assets that support the delivery of services e.g. transport fleet.

**Private Sector Housing Renewal** – the Council will support the investment in the improvement in housing conditions throughout the district

**Enabling Growth** – the Council will support the growth of business and employment opportunities within the district in addition to housing development in line with the commitments set out in the Local Plan

**Service Transformation** – the Council will invest in projects that improve service performance or reduce service expenditure on an “invest to save” basis the will include investment in ICT

## 4 Asset Management Planning

4.1 The overriding objective of asset management is to ensure that the Council maintains a portfolio of property assets that is appropriate, fit for purpose and affordable.

4.2 The council’s property portfolio consists of the following:

- **Operational property** i.e. assets that support core business and service delivery
- **Investment properties** held to support economic growth and / or to provide a financial return to the Council e.g. industrial units
- **Community assets** e.g. parks, playgrounds and open spaces.

4.3 Asset management is an important part of the council’s management arrangements and is crucial to the delivery of value for money services. The Council through production of its Asset Management Plan (AMP) is committed to:

- Optimise the Council’s land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal;
- A regular review of the condition of retained properties including a long-term (30-year) assessment of the necessary investment to maintain the assets fit for purpose; and
- Realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the market conditions.

## 5 Commercial Activities

5.1 The Council currently undertakes and will continue consider commercial activities. These are in two forms:

**Alternative service delivery arrangements** – where the Council has a stake in a company which is established for the delivery of Council services

**Commercial investments** - investments taken for mainly financial reasons - these may include:

- Investments explicitly taken with the aim of making a financial surplus for the Council.
- Commercial investments also include fixed assets which are held primarily for financial benefit or to support economic growth.

- 5.2 The reasons for commercial investments are:
- Financial returns to fund services to residents;
  - Reductions in service spending;
  - Pursuing the Council's Growth Strategy; and
  - Economic development and regeneration activity in the district
- 5.3 The Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.
- 5.4 Such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported. Before considering any such investments the Council will ensure:
- That it has the appropriate legal powers to undertake such investments; and
  - That any investment is proportionate of all investments in order to avoid an excessive level of risk.
- 5.5 The commercial investments may involve the acquisition of property. The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as property held solely to earn rentals or for capital appreciation or both. Historically, property has provided strong investment returns in terms of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. These risks will continue to be identified and managed through the Council's Risk Management Framework.
- 5.6 The council may fund commercial investments by borrowing. The revenue returns should exceed the cost of repaying the borrowed money each year.

## **6 Loans to Third Parties**

- 6.1 The Council has discretion to grant loans to third parties for a number of reasons. These loans are treated as capital expenditure. In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, will therefore ensure they are prudent and that the risks have been identified and fully considered.
- 6.2 The Council will periodically review its loan portfolio in order to ensure that the cumulative exposure of the Council is proportionate and prudent.
- 6.3 The Council will ensure that a full due diligence exercise is undertaken for each individual loan and will ensure that adequate security is in place. The business case for each loan will consider all of the benefits and the risks.
- 6.4 It will be necessary to assess the level of risk attached to the provision of each individual loan and consequently build in a 'risk premium' into the interest rate charges to account for this. The factors taken into account in determining this premium:

- the level of security;
- financial position and credit rating;
- the overall term of the loan; and
- the value of the loan.

6.8 The step by step process undertaken is outlined below:-

<b>STEP 1 – Assessing State Aid Implications</b>	In assessing state aid implications and due diligence around risk, the starting point used is the EU reference rate: as it stands, this is approximately 1%. Other considerations are then assessed (based on STEP 2 – 4) which potentially increase this rate between 1-10% - resulting in an overall rate chargeable between 2% and 11%.
<b>STEP 2 – Assessing available market rates</b>	In liaison with the Council’s Advisors, the interest rate the third party would be expected to pay if accessing funding from the market (based on amount/loan term etc) is estimated. This is to ensure the rate the Council is offering is competitive and not undercutting the market.
<b>STEP 3 – Assessing credit quality</b>	The next consideration is credit quality – which may then consequently reduce/increase the rate. Factors that are taken into account include:- credit ratings (if applicable), the financial position of the borrower, what security is available etc.
<b>STEP 4 – Assessment of Corporate Plan objectives</b>	Finally, there is an overall assessment of the purpose of the third party loan and linking this to the Council’s Corporate Plan objectives – local factors based on the outcomes of the loan may have an influence on the rate charged.

6.6 All loans are agreed by full Council in line with the Council’s constitution. All loans will also be subject to regular monitoring.

## 7 Capital Expenditure

7.1 Capital spending decisions will appropriately reflect the aspirations and priorities included within the Corporate Plan and its supporting strategies.

7.2 Any scheme / project to be added to the Capital Programme will be subject to a ‘gateway’ process and prioritised according to availability of resources and the longer-term impact on the council’s financial position. The ‘gateway’ process will be undertaken in line with the Council’s agreed project management methodology with a robust business case being developed at the critical stages of project approval and initiation. This process will be overseen by the Council’s Transformation Board.

7.3 The business case will include the following considerations:

- A clear assessment of the cost of financing the capital scheme, net of revenue benefits, profiled over the lifetime of each scheme; and
- Commissioning and procuring for capital schemes will comply with the requirements set out in the Council’s Contract Procedure Rules.

- 7.4 The Capital Strategy and the Capital Programme will be agreed by the Council in February each year as part of the budget setting process. The Medium Term Financial Plan, Asset Management Plan and Treasury Management Strategy will be considered at the same time. In year variations of spend (subject to budget tolerance levels) and the re-profiling of schemes will be considered and approved by the Executive.
- 7.8 The Executive and the Corporate Select Committee receive capital monitoring reports as part of the quarterly performance and financial monitoring reports.
- 7.9 The Executive considers and approves new bids for inclusion in the capital programme. Approval to spend on individual capital schemes will only be given once procedural this approval has been achieved.
- 7.7 Each approved scheme will be included in the Council's Transformation Programme and one of the Council's Alliance Management Team (AMT) will be assigned as Project Executive and will be responsible / accountable for the delivery of the scheme.
- 7.8 Wherever possible the Council will take a long term view of plans in order to assess affordability and the demand on future capital resources. It is essential for example to consider the lifespan and fitness for purpose of assets. This will be considered through asset management planning (condition surveys) and wider service based exercises e.g. leisure centre provision evaluation.
- 7.9 There is a clear demand for long term planning for capital and treasury management purposes. The council's debt portfolio contains loans that mature up to 2058/59. The debt repayment profile needs to be managed alongside the longer term expectations for capital expenditure and funding forecasts.
- 7.10 Long-term forecasts are not easily predicted and the accuracy of all financial estimates will be limited. However, long-term forecasting is valuable in informing strategic plans taking account of the cumulative sustainability and affordability of existing and planned investments which will need to be repaid over future periods. For major projects and investment the funding and financial implications need to be planned well in advance.

## **8 Resourcing Capital Expenditure**

- 8.1 In order to fund its capital investment, the Council will have access to limited sources of funding. The main sources of funding are as follows:

- ***Capital Receipts***

These will be yielded from the disposal of land and property. A programme of disposal will be agreed by the Executive. This will be informed by the asset management planning process. In considering disposals the Council will take account of the following:

- Potential loss of income from investment properties
- Projected saving in running costs, and capital costs of major investment required
- Assessment against fitness of premises for purpose and current patterns of need

The Secretary of State has allowed the flexible use of capital receipts. It is considered that individual local authorities will be best placed to decide which projects will be most effective for their area. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings. If the Council plans to use this funding option a proposal will be prepared setting out the planned use, listing the projects and the expected savings and / or improvements in service outcomes for each project, and the impact on the Council's prudential indicators.

- ***Borrowing***

Capital projects that cannot be funded from any other source can be funded from borrowing. Local Authorities can borrow to fund schemes where it is prudent to do so. They need to consider their ability to pay for the borrowing. The levels of borrowing are determined by using the indicators set out in the Prudential Code. The borrowing repayment and interest charges on the loan need to be met from existing revenue budgets or identify them as new growth in the annual budget setting process and factor them into the MTFP.

The Chief Finance Officer will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested and the impact of the Council's borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The Chief Finance Officer will also determine whether the borrowing should be from internal resources or whether to enter into external borrowing. This decision making will be undertaken in line with the Council's Treasury Strategy and will be reported to the Audit & Regulatory Committee as part of the monitoring of treasury management activity.

- ***Revenue Funding***

The Council may use revenue budgets to fund capital expenditure. This may be via a capital reserve which has been established to finance capital expenditure as an alternative to external borrowing.

The Council will formally review such reserves and their application both as part of the budget setting process and at finalisation of the annual accounts.

- ***S106 contributions***

The principal purpose of S106 agreements is to support individual planning applications in line with the Council's planning policies. Wider contributions are constrained by legislation and have to be negotiated and justified.

The Council will ensure these are where possible focussed towards corporate priorities subject to the legislative constraints.

- **External Grant Funding**

The Council has a history of success in bidding for grants from a number of sources. There is a risk of reacting to funding opportunities informed by external priorities rather than chasing those that match the Council’s priorities / needs.

The Council will seek to ensure that bids are submitted to support investment that is directed to the commitments made in the Corporate Plan.

- **Partnership Funding**

There are a number of examples where the Council has attracted third party funding from partners e.g. leisure centre investment from long-term contractor.

The Council is aware of the need to be innovative and to work closely with the private, public and voluntary Sectors to deliver outcomes in line with the Corporate Plan priorities at a time when there will be reduced levels of capital resources.

Any such investments will be considered only if they are more cost effective than the Council investing directly.

## 9 Forecast Expenditure and Resources

9.1 The forecasted General Fund capital spend over the current financial planning period (2020/21 to 2023/24) is as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£	£	£	£	£	£
Housing	27,000	667,000	374,000	504,000	504,000	2,076,000
Asset Management	1,656,500	2,520,300	2,676,640	588,720	1,555,850	8,998,010
Housing Grants	495,660	550,290	489,110	489,110	489,110	2,513,280
ICT Strategy	135,000	87,050	50,000	50,000	50,000	372,050
Fleet Management	2,467,010	691,500	725,780	172,000	653,430	4,709,720
Other Schemes	547,350	134,610	50,000	-	-	731,960
<b>Total Programme</b>	<b>5,328,520</b>	<b>4,650,750</b>	<b>4,365,530</b>	<b>1,803,830</b>	<b>3,252,390</b>	<b>19,401,020</b>

9.2 The individual projects that are included in the above include:

- Housing - Contribution to third party social housing projects from the Council’s allowable use of right to buy “one for one” housing capital receipts.

- Asset Management Plan (AMP) – the costs identified in ensuring the Council’s property portfolio remain fit for purpose. This includes:-
  - Public Buildings
  - Car Parks
  - Public Conveniences
  - Waterways & Infrastructure
  - Leisure Centres
  - Depots & Parks Buildings
  - Industrial Units
- Housing Grants – the Borough Council is the duty holder for the mandatory Disabled Facilities Grants (DFG’s). All eligible applicants are entitled to receive mandatory funding for certain major adaptations to their properties. Funding for this scheme is provided through the Better Care Fund via the County Council
- ICT Strategy – the key priorities of the ICT Strategy are to provide the technological infrastructure to support joint working, new ways of workings and improve access to services for the Council’s customers
- Fleet Management – the estimated costs of the replacement fleet programme are included within the capital programme. However, options appraisals are undertaken prior to purchase to determine the most cost effective method of financing. Therefore, other funding models, for example, contract hire or leasing may be undertaken for some vehicles categories
- Other schemes – include schemes such as park and play facility improvements, regeneration grants, Buxton Crescent Hotel & Spa, Glossop Cemetery extension, and CCTV equipment

9.3 The resources that are to be used to finance the General Fund Capital Programme are as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
External Contributions	585,460	550,290	489,110	489,110	489,110	2,603,080
Planning Obligations	33,000	-	-	-	-	33,000
Capital Receipts(Land)	1,024,080	725,000	2,525,000	810,720	2,219,280	7,304,080
Capital Receipts( one for one)	27,000	667,000	374,000	504,000	504,000	2,076,000
Capital Receipts (Vehicles)	-	32,500	18,750	-	18,750	70,000
Capital Reserves	500,000	-	-	-	-	500,000
Earmarked Reserves	14,450	50,000	-	-	-	64,450
Borrowing	3,144,530	2,625,960	958,670	-	21,250	6,750,410
<b>Total Financing</b>	<b>5,328,520</b>	<b>4,650,750</b>	<b>4,365,530</b>	<b>1,803,830</b>	<b>3,252,390</b>	<b>19,401,020</b>

9.4 The forecast HRA capital spending over the current financial planning period (2020/21 to 2023/24) is as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£	£	£	£	£	£
Asset Management works	2,351,910	4,639,590	3,800,060	4,341,600	2,370,060	17,503,220
Repairs Team Capital works	249,900	295,000	295,000	295,000	295,000	1,429,900
Asset Purchases	-	242,500	-	420,000	-	662,500
Commissioning Costs	100,000	100,000	100,000	100,000	100,000	500,000
ICT Strategy	-	-	200,000	-	-	200,000
<b>Total Programme</b>	<b>2,701,810</b>	<b>5,277,090</b>	<b>4,395,060</b>	<b>5,156,600</b>	<b>2,765,060</b>	<b>20,295,620</b>

9.5 This is all to be financed directly from the HRA, with no additional borrowing requirement based on current forecasts.

9.6 The commercial investments held by the Council can be summarised as follows:

- Industrial units - commercial units available for small and medium sized organisations to rent for the operation of their business
- Property rentals – rental streams generated from sharing Council properties with partners/external organisations and from garage rents
- Nestle Water – commercial agreement in place between the Council and Nestle to access the Buxton water source. Agreement financially benefits the Council in the form of an annual payment based on sales of bottled water.
- Buxton Crescent – capital contribution to the Buxton Crescent Hotel and Thermal Spa Co. Ltd. and grant and provision of a loan to the Buxton Heritage Trust to support the Crescent development project.
- AES - company established in partnership with ANSA (wholly owned company of Cheshire East Council) to deliver waste, streets, fleet and grounds maintenance.

9.5 The following investments are currently being considered:

- Investment in / disposal of key strategic land to enable housing and business development
- Working with partner organisations on the potential development of combined use facilities/office accommodation
- Alternative service delivery arrangements for the delivery of trading services

## 10 Long-term Considerations

10.1 There a number of functions where there are long term capital spending liabilities have been identified.

### *Asset Management Plan – Non-Housing Portfolio*

10.2 In line with the commitment made in this strategy, asset condition surveys were last completed for the Council's property portfolio in 2016. These ascertain the overall condition of the properties and establish the necessary capital investment required to ensure that they are maintained to an appropriate standard.

10.3 The indicative capital investment required can be summarised as follows:

<b>HPBC - Capital Investment Required</b>	<b>2016-17 - 2019-20 (MTFP)</b>	<b>2020-21 - 2045-46 (26 Years)</b>	<b>TOTAL</b>
	£	£	£
Public Buildings	8,450,983	6,188,951	<b>14,639,934</b>
Car Parks	120,000	3,754,462	<b>3,874,462</b>
Public Conveniences	123,400	949,300	<b>1,072,700</b>
Waterways & Infrastructure Assets	671,360	1,230,000	<b>1,901,360</b>
Leisure Centres	45,000	6,825,129	<b>6,870,129</b>
Depots and Parks Buildings	144,700	1,301,785	<b>1,446,485</b>
<b>TOTAL</b>	<b>9,555,443</b>	<b>20,249,627</b>	<b>29,805,070</b>

*\*The latest update of the 30year plan is presented in the Medium Term Financial Plan report Appendix A*

10.4 The overall outcomes of the surveys can be summarised as follows:

- A number of the Council's operational assets are dated in appearance and require investment;
- The Council's car parks require capital investment;
- There are structural issues associated with a number of the Council's buildings which require resolution;
- There are urgent works related to health and safety requirements that need to be resolved; and
- Investment is required to the electrical and mechanical infrastructure of a number of buildings.

10.5 The results from these surveys have informed the development of the Council's four-year Medium Term Financial Plan (MTFP). Adjustments have been made to exclude any major investment in the Council's leisure centres, operational depots, and office accommodation where it is assumed that investment will be deferred pending the major decisions that linked to changes in the service delivery arrangements which are in progress.

10.6 The indicative investment for 30-years will have a significant impact on the Council's future revenue budgets and the analysis shows that the Council's property portfolio in its current form is unaffordable. The estimated impact of the indicative capital projections is detailed below for the 30-year investment requirements at the point the surveys were completed is detailed below:

<b>HPBC Estimated Revenue Consequences - Cumulative Impact</b>	<b>2016-17 - 2019-20 (MTFP)</b>	<b>2020-21 - 2045-46 (26 Years)</b>	<b>TOTAL</b>
<b>Fit for Purpose Standard works - Cumulative Cost</b>	£ <b>295,619</b>	£ <b>592,838</b>	£ <b>888,457</b>
Current MTFP - Cumulative Cost	(108,810)	-	(108,810)
<b>Additional Budget Requirement</b>	<b>186,809</b>	<b>592,838</b>	<b>779,647</b>

10.7 The above analysis shows that providing the investment in the longer term to maintain the Council's property portfolio in its current form is unaffordable.

10.8 In order to address this, the Council agreed to a number of actions to reduce the impact of the necessary capital spending. It was agreed that the following are considered before investment in each of the assets is made:

- Asset rationalisation
- Shared use of assets
- Reduction in specification and functionality
- Generate additional capital receipts
- Identify grants to support investment
- Generate additional revenue from asset holdings

#### *Review of Strategic Land Holdings*

10.9 In order to address a number of the considerations above the Council agreed to review the Council's strategic land holdings with a view to developing options to either generate additional capital receipts or opportunities to generate ongoing financial returns.

10.10 This outcomes from this review were agreed by the Executive in July 2018 following recommendations by the Corporate Select Committee through the work of its Asset Management Working Group.

10.11 The review identified a number of work streams that formed the foundations of the emerging strategy. There are five areas of focus:

- Routine Land Disposal Work
- Accelerated Housing Delivery Project
- Housing Infrastructure Fund Bids
- Assessment of Other Land Holdings
- Housing Estate Environmental Review

10.12 The programme of land disposals that emerged from the strategy are in three categories:

- Sites identified as surplus and earmarked immediately for disposal
- Medium Term (to be considered in 2 to 4 years timescale)
- Long term (Difficult sites with negative values / HRA Sites / Smaller sites identified from assessment of other land holdings)

10.13 The strategy is estimated to yield approximately £7.4 million over the next 4 financial years. A delivery plan identifying timescales, benefit realisation and cash flow analysis is included in the Medium Term Financial Plan.

#### *Leisure Centres*

10.14 Given the age and condition of the leisure centres, significant capital investment is required over the next 30 years in order that these assets remain fit for purpose.

10.15 The Council commissioned a review of its leisure centre provision in the context of its sports facility needs focusing on sports halls, swimming pools and other indoor provision. The purpose of undertaking this review was to inform the Council on options for future provision of council leisure centres and other sports facility based services from 2018 and beyond.

10.16 The outcome from this review in effect set out a position statement on the suggested facility hierarchy and approach, along with recommendations for the phasing of future facility developments and rationalisation. The aim is to ensure that the Council can develop a more sustainable solution in relation to meeting customer needs, affordability and partner aspirations, whilst supporting the overall vision of the Council's newly adopted Physical Activity & Sports Strategy.

10.17 The effectiveness of the current leisure centre provision was also assessed. This assessment considered current income and expenditure benchmarks. The conclusion of the review was that the Council should consider the following investment requirements:

- Replacement of Glossop LC and Glossop Pool – single wet & dry community facility
- Refurbishment and essential works at New Mills
- Minor refurbishment and essential works at Buxton
- 2x 3G pitch developments
- Investment in marked running / walking routes in towns and investment in equipment banks to support outreach service provision

10.18 The indicative capital cost for the investments would be in the region of £19.25m. At this stage the investment costs are significantly in excess of revenue savings, and consequently it will be necessary for the Council to identify additional sources of capital investment to deliver these improvements.

#### *Operational Depot Provision*

10.19 In 2017 established Alliance Environmental Services (AES) which was created jointly with High Peak Borough Council and ANSA (a company owned by Cheshire East Council) to deliver the Council's waste collection, street cleansing and grounds maintenance services. The Council's waste collection service was transferred to the company in July 2018 with the rest of functions expected to transfer in April 2019.

10.20 Major investments in the operational depot facilities which have been leased / licensed to AES has been deferred until the opportunity has been taken to review the requirements of the new company in light of widening of the base of the services provided.

*HRA Stock Condition*

10.21 In April 2016 the Council's Executive made a commitment to complete a full condition survey on the portfolio of housing properties by March 2019. The surveys commenced in July 2017 and were completed in December 2017. The surveyors gained access to 90.2% of the dwellings.

10.22 The survey work was undertaken in three separate elements:

- An intrusive survey of the non-traditional properties;
- A survey of the garage sites; and
- A survey of the general needs and sheltered stock.

10.23 The 30 year cost projections that emerged from the survey is as follows:

Element	Revised Total
	£
Electric	16,659,719
Kitchen	17,123,100
Heating	18,948,106
Roof	17,845,057
Windows	16,080,979
Bathroom	11,578,966
External Walls	9,207,839
Doors	7,700,340
Internal Finishes	3,641,933
Communal	4,510,086
Outbuilding	1,683,466
Environment Works	1,184,140
Garages	-
Non-Traditional Repairs	986,000
Decent Home Failure Costs	125,105
<b>TOTAL</b>	<b>127,274,836</b>

10.24 The investment required over the 30-year period is £31,898 per property which equates to £1,063 per property per year. The timing of the required investment is summarised in the table below.

Years	Total Required	Spend per Year
	£	£
1 to 5	15,072,263	3,014,453
6 to 10	19,432,065	3,886,413
11 to 15	19,908,503	3,981,701
16 to 20	22,792,467	4,558,493
21 to 25	22,089,898	4,417,980
26 to 30	27,979,642	5,595,928
<b>Total</b>	<b>127,274,836</b>	

- 10.24 The survey revealed that 715 (17.9%) properties failed to meet the Decent Homes Standard (DHS). The DHS failures represent a total cost liability of £1,776,134 the majority of which sits within the planned maintenance profile, as they represent like for like element replacements. The properties that failed the DHS will be given priority in the programming for capital investment.
- 10.25 The survey included energy rating assessments (RdSAP (version 9.92)) to all dwellings where a stock condition survey was completed with the overall average SAP rating for the stock being 62.86 (equivalent of a mid-band D). The costs associated with improving the average SAP score are not included in the overall planned maintenance requirements and will be determined and incorporated into the programme following the consideration of the new HRA Business Plan in February 2019.

#### *Housing Estate Environmental Reviews*

- 10.26 The Council has also separately commissioned and completed environmental reviews of individual estates at Fairfield, Buxton, Gamesley and New Mills. Part of this brief was to look at master planning and assessing various approaches to improving the estates under review. Potential environmental improvements are also identified in the final reports. These will need to be considered in detail alongside the costs identified in the stock condition survey.
- 10.27 The environmental review work has also identified housing development opportunities which potentially can be used to improve the long-term sustainability of the Council's Housing Revenue Account (HRA) or allow offset of affordable housing requirements from other sites. The outcomes from this can be used in conjunction with the garage site survey, which also identifies development opportunities. In both cases there will need to be further work undertaken to confirm that any sites are suitable for redevelopment and a business case considered based on the financial, planning and infrastructure implications

### **11 Debt, Borrowing & Treasury Management**

- 11.1 Effective treasury management is critical to the safeguarding and management of the financial resources at the Council's disposal. Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. The Treasury Management Strategy is presented annually and approved by Full Council.
- 11.2 There are key prudential indicators set in respect of the impact of capital expenditure. The report details the forecast borrowing requirement over a four year period, the consequential borrowing costs and the impact of the Council's capital financing requirement (CFR). The CFR is total outstanding capital expenditure which has not yet been paid for either from revenue or capital resources, essentially the Council's underlying borrowing need.
- 11.3 The table below summarises the impact of the Council's capital expenditure plans on the CFR:-

	2018/19 Actual £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £	2023/24 Estimate £
<b>Capital Financing Requirement</b>						
<i>CFR – non housing services</i>	25,358,000	27,611,000	29,332,000	29,396,000	28,497,000	27,632,000
CFR – Commercial activities/ non-financial investments	140,000	250,000	250,000	200,000	150,000	100,000
<i>CFR – housing</i>	54,399,000	53,399,000	52,399,000	51,399,000	50,399,000	49,399,000
	<b>79,897,000</b>	<b>81,260,000</b>	<b>81,981,000</b>	<b>80,995,000</b>	<b>79,046,000</b>	<b>77,131,000</b>
<b>Movement in CFR</b>	592,000	1,363,000	721,000	(986,000)	(1,949,000)	(1,915,000)

**Represented by:**

Net financing need for the year	2,626,000	3,145,000	2,626,000	959,000	0	21,000
Less Minimum Revenue	(2,034,000)	(1,782,000)	(1,905,000)	(1,945,000)	(1,949,000)	(1,936,000)
<b>Movement in CFR</b>	<b>592,000</b>	<b>1,363,000</b>	<b>721,000</b>	<b>(986,000)</b>	<b>(1,949,000)</b>	<b>(1,915,000)</b>

11.4 Where a borrowing requirement is identified, an assessment takes place on the most cost effective way to fund this. This could result in 'external borrowing' from the Public Works Loan Board (PWLB), other Local Authorities, direct from the market or by utilising lease arrangements.

11.5 Alternatively, 'internal borrowing' – the use of cash balances – could be used temporarily, particularly in the current interest rate climate where investment returns remain low. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

11.6 The Council's forward debt projections are shown in the table below in relation to the CFR:-

	March 19 Actual £	March 20 Estimate £	March 21 Estimate £	March 22 Estimate £	March 23 Estimate £	March 24 Estimate £
External Borrowing	66,825,000	66,825,000	68,138,000	65,349,000	64,004,000	62,014,000
Other long-term liabilities*	0	0	0	0	0	0
<b>Gross Debt at 31st March</b>	<b>66,825,000</b>	<b>66,825,000</b>	<b>68,138,000</b>	<b>65,349,000</b>	<b>64,004,000</b>	<b>62,014,000</b>
<i>Change in Debt position**</i>	(5,286,000)	0	1,313,000	(2,789,000)	(1,345,000)	(1,990,000)
<b>Capital Financing Requirement</b>	<b>79,897,000</b>	<b>81,260,000</b>	<b>81,981,000</b>	<b>80,995,000</b>	<b>79,046,000</b>	<b>77,131,000</b>
<i>(Under) / over borrowing</i>	(13,072,000)	(14,435,000)	(13,483,000)	(15,646,000)	(15,042,000)	(15,117,000)

\* Other long-term liabilities will include Right-of-Use assets under accounting standard IFRS16 to be adopted from 2020/21. These are assets formerly known as operating leases which will be included on the balance sheet and therefore increase the CFR, similar to the former treatment of Finance Leases. The impact is expected to be immaterial therefore is not included at this stage. Should any changes be significant, the CFR limit and forecast will be revised during the year.

\*\* Change in debt position in March 19 relates to maturing debt in 2018/19.

## 12 Risk Management

- 12.1 There are a number of key risks that will impact upon the successful implementation of the Council's Capital Strategy
- 12.2 The Council operates effective risk management through its Risk Management Framework. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the Council caused by undesired events and of ensuring that the element of risk in all activities is properly understood.
- 12.3 In order to manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns.
- 12.4 An assessment of risk should therefore be built into each individual capital project and the major risks that identified should be recorded in the Projects Risk Register which is reported to the Council's Audit & Accounts Committee.
- 12.5 The risks associated with the Capital Strategy are detailed below with the mitigating actions:

<b>Risk</b>	<b>Mitigating Actions</b>
Diminishing Resources	<ul style="list-style-type: none"><li>• The Capital Financing Requirement (CFR) carefully monitored and managed</li><li>• New grant / funding opportunities explored</li><li>• Partnership opportunities explored to share investment</li></ul>
Project Delivery	<ul style="list-style-type: none"><li>• Spending / Funding closely monitored</li><li>• Projects managed through the Council's project management methodology</li><li>• Major projects reported through the council's performance framework</li></ul>
Commercial Investments	<ul style="list-style-type: none"><li>• Exposure to non-repayment carefully managed through the contract management arrangements</li><li>• Disinvestment potential will be regularly considered</li></ul>
VAT Partial Exemption	<ul style="list-style-type: none"><li>• Each capital investment will be closely reviewed to assess its VAT implications.</li></ul>