

Capital Strategy (2021/22)

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. 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 2021/22

10. The Council's Capital programme amounts to some £22.463m (£12.781m net of grants and contributions) in 2021/22. The major areas of expenditure include:-

(i) Buckshole Reservoir (£837,000 of which £160,000 is expected to be spent in 2021/22)

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

(ii) Energy Initiatives – Ground Mounted Solar & Solar Panels (£3.884m of which some £400,000 is expected to be spent in 2021/22)

The ground mounted solar project consists firstly of a number of feasibility reports. If feasibility studies are positive, then an investment of some £1.9m may result in 2022/23 providing cost savings and an income stream to the Council (£284,000 being spent in 2021/22).

There remains a sum of £1.638m earmarked currently for solar panels (£200,000 in 2021/22) and a further £2.116m remains unallocated for energy related projects. Any plans for spending these monies will need business cases along with separate Cabinet and Council approval.

(iii) Commercial Property – Lacuna Place (£347,000 of which £188,000 is expected to be spent in 2021/22)

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 has been boarded up for many years. The works are intended to bring the property up to a lettable standard in order to enhance the area and provide new jobs as well as secure new income and business rates for the Council, which in turn will help to sustain services within the borough.

(iv) Electric Vehicles (£468,000 of which £86,000 is expected to be spent in 2021/22)

A number of vehicles have been identified as requiring replacement. The Council will seek to replace with electric vehicles. The replacement programme will be reviewed and updated on a regular basis (currently does not extend beyond 2021/22 requirements).

(v) Priory Meadow Contribution to capital works (£538,000 of which £250,000 may be spent in 2020/21)

The Council owns 10% of the Priory Meadow shopping centre. The money represents its share of any capital investment costs for 2021/22. 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 (£1,011,000 of which £179,000 is expected to be spent in 2021/22)

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) Churchfield Business Centre (£4.5m of which some £4.369 m is expected to be spent in 2021/22)

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. Currently some £800,000 of external funding is secured with a further £750,000 of monies bid for.

(viii) Playgrounds Upgrade (£86,000 in 2021/22)

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 £5.697m is expected to be spent in 2021/22)

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.

(x) Pelham Crescent – Building Works and Road (£881,000 of which £222,000 is expected to be spent in 2021/22)

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. The works to the road/roof may not be completed until 2022.

(xi) Priory St Multi Storey Car Park (£140,000 of which £25,000 is expected to be spent in 2021/22)

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 (£70,000 groyne refurbishment funded by HBC and £470,000 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.

(xiii) Public Realm (£31,000)

In line with the strategic priorities of an attractive town, the Council is allocating £31,000 to seek to maintain the fabric of the town e.g. signposting, benches, seats, planters, highway and lighting improvements.

(xiv) Disabled Facility Grants (£1.812m (Est) – all grant funding)

Property related grants for adapting homes. In 2020/21 the Council will receive funding approaching £2.056m. The figure for 2021/22 is not yet known – but is not expected to be less.

(xv) Harold Place (£1.2m of which £1.171m is expected to be spent in 2021/22)

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

(xvi) Cornwallis Street Development (£7m of which £6.946m is expected to be spent in 2021/22)

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. The expenditure may well fall into 2022/23 as well – subject to planning and contract requirements.

(xvii) Castleham Industrial Units (£140,000 in 2021/22)

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

Capital Expenditure 2022/23

11. The main areas of expenditure in 2022/23 are Priory Meadow – contribution to capital costs (£288,000), Energy (£1.9m potentially for ground mounted solar, £1.438m potentially for solar panels, £2.116m unallocated), potential loans to Hastings Housing Company (£3.881m), Disabled Facility Grants (£1.8m), Buckshole Reservoir (£467,000), Groyne refurbishment (£35,000), Empty Homes (£50,000), Lower Bexhill Road (£70,000).

Capital Expenditure 2023/24

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

Summarised Capital Expenditure and Funding - 2020-21 (Revised) to 2023-24

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

	Revised 2020/21 £'000s	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s
Gross Capital Expenditure	13,883	22,463	12,145	1,959
Net Capital Expenditure	9,272	12,781	10,306	120
Financing from own resources	4	125	216	120
Borrowing Requirement	9,268	12,656	10,090	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 2021.
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 (Actual)	2020/21 (Rev Est)	2021/22 (Est)	2022/23 (Est)	2023/24 (Est)
	£'000s	£'000s	£'000s	£'000s	£'000s
CFR-Opening	58,094	66,373	74,142	85,075	93,292
Less MRP	(£1,176)	(£1,499)	(£1,723)	(£1,873)	(£2,533)
Plus, New Borrowing	9,455	9,268	12,656	10,090	0
CFR Closing	66,373	74,142	85,075	93,292	90,759

18. The table above highlights that by 2022/23 the level of debt will have increased to some £93.3m (subject to viability and the approval of schemes within the Capital programme).

Revenue Consequences of the Capital Programme on the General Fund

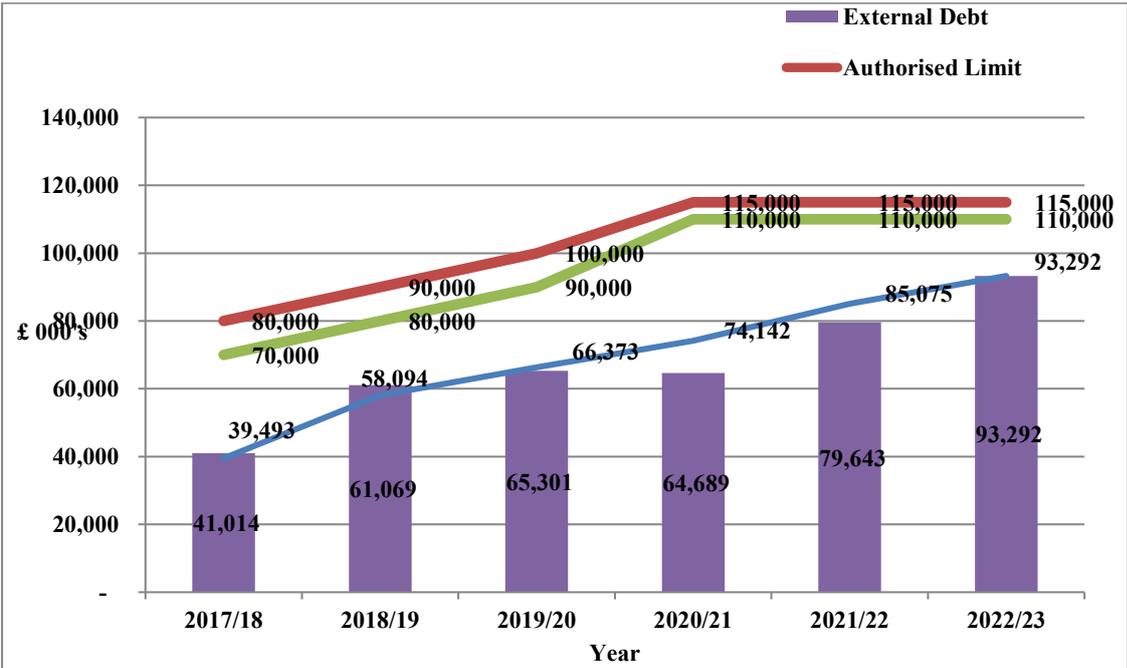
19. Borrowing has long term revenue consequences. The debt, currently £64.69m is reduced by the MRP each year. The overall level of debt needs to be viewed against the overall Long Term Assets of the authority which stood at £172.457m at 31 March 2020 (£158.774m as at 31 March 2019).

Financial Risk Management

20. 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
21. 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.

- 22. 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.
- 23. 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, and unforeseen events e.g. a pandemic.
- 24. Based on the existing Capital programme, by 2023/24 interest on debt will amount to some £2.41m p.a. with capital repayments (MRP) of £2.53m; offset by income & interest. This represents some 32% of the net revenue stream (amount met from government grants and local taxpayers). Interest on debt is estimated at £2.115m for 2021/22.
- 25. The full Council determine the total limits on borrowing.
- 26. 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



27. 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.
28. 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.
29. 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

30. 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	£156,196	Annuity
The Source	2.43%	17/12/2015	16/12/2024	£13,254	Annuity
			Total	£1,957,685	

31. The above table excludes a series of loan to the Hastings Housing Company in respect of property purchases. As at 31 December 2020 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.

32. 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.
33. 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

34. 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.
35. The Council's General and Earmarked reserves are set to fall further over the forthcoming 12 months. The balance at 1 April 2020 was £17.877m (unaudited). At the 31 March 2021 the estimated balance will be £15.801m with the balance at the end of 2021/22 amounting to some £13.12m. If Disabled Facility Grant monies are excluded the balance at the end of 2021/22 reduces to an estimated £11.05m.
36. 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.

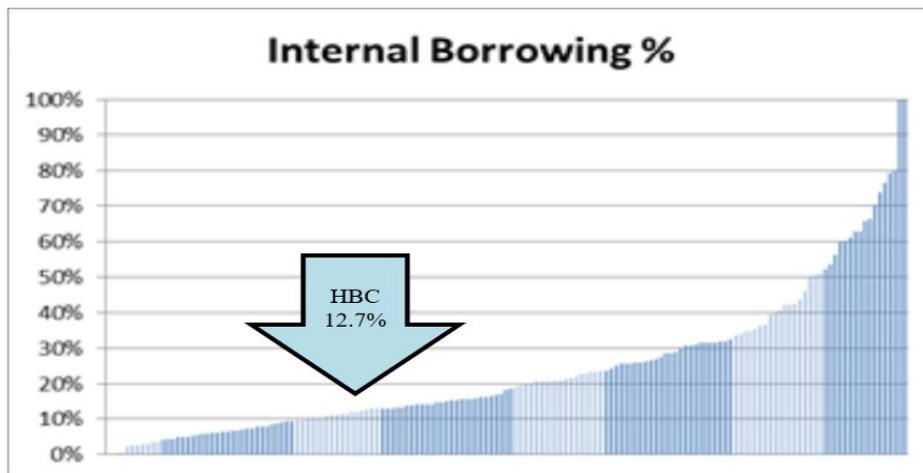
Risk Appetite & Prudential Indicators

Internal Borrowing

37. 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.
38. 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)



39. 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.
40. For Hastings BC the Council has previously 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. Currently, with interest rates looking set to continue at very low levels for the near future, a higher level of internal borrowing has temporarily been adopted.
41. For 2020/21 the level of internal borrowing by year end is expected to be £9.453m out of a total borrowing requirement of some £74.142m (12.7%)

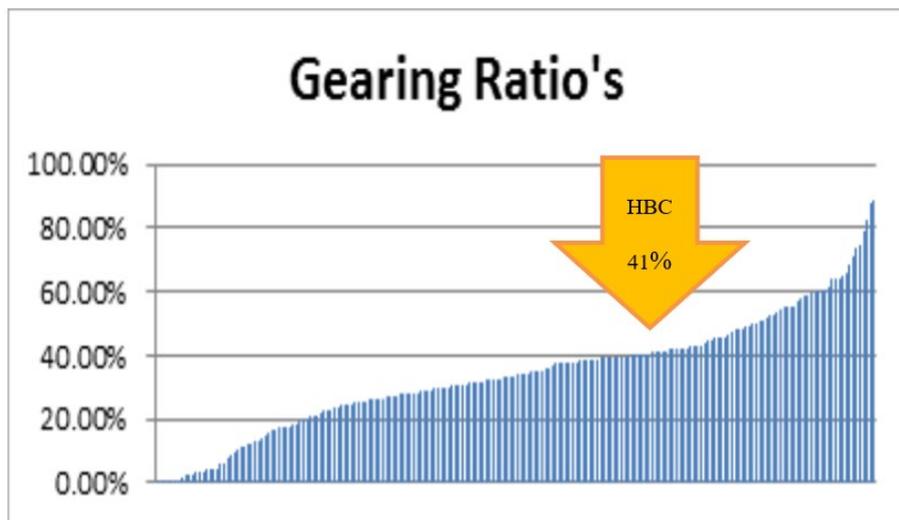
Gearing

42. 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.
43. Based on Link Asset Services' 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.

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

Table: Gearing ratios in Councils (Link Treasury Service's Client Base)



45. Gearing provides an early indication of where debt levels are rising, relative to long-term assets held.
46. 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%.
47. For Hastings, the gearing ratio of debt (CFR) to long term assets is set to increase to 44% in 2021/22 (assuming no changes to asset valuations and Capital programme). When compared against the net assets of the authority the ratio increases to 100% in 2021/22 (the net assets of the authority after taking account of all debts and other liabilities being estimated at some £85m).
48. 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 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)			9,272	12,781	10,306	120	
New borrowing			9,268	12,656	10,090	-	
Net Assets	73,497	84,981	84,985	85,110	85,326	85,446	85,446
Long Term Assets	158,774	172,457	181,729	194,510	204,816	204,936	219,435
Capital Financing Requirement	58,094	66,373	74,142	85,075	93,292	90,759	110,000
RATIOS:							
Debt: Net Assets	79%	78%	87%	100%	109%	106%	129%
Debt: Long Term Assets	37%	38%	41%	44%	46%	44%	50%

49. 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 50%.
50. 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.
51. 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 are anticipated.
52. 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

53. 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.
54. In Hasting's case the ratio of financing costs in 2021/22 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.

55. 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 32% by 2023/24).
56. **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.**
57. 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?

58. 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.

Bexhill Road – lower tier site

59. 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.
60. The cabinet also agreed £25,000 be identified from general reserves to fund taxation and legal advice for setting up a joint venture.
61. 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 shortly on viability and how to proceed with the scheme e.g. joint venture, sale of land. 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)

62. 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)

63. 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

64. 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
65. 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 council agreed last year to pursue the sale of such sites (unless an alternative viable option is identified that generates similar revenue streams within the same timescales).

Bohemia

66. 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.
67. 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

68. The Council is in the process of finalising its Town Investment plan to take advantage of the £3.6bn Towns Fund announced by the Prime Minister in July 2019. The intention of the fund is to help drive sustainable economic

regeneration for long term economic and productivity growth.

69. The Council's bid will be submitted in 2021, and it is understood to include 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

70. 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

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 (£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.

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 2020 the Council's Long term Assets were valued at some £172m whilst debt (CFR) amounted to some £65m.
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 2020/21 the expected spend amounts to £697,300 and in 2021/22 it is estimated at £850,500. As a result of expenditure exceeding income the balance on the reserve is expected to fall from £1.556m at 31 March 2020 to some £1.07m by the end of March 2022.

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 £147,000 in 2020/21 and £248,000 in 2021/22(Please see budget).

Knowledge, Skills and Training

81. 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.
82. 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.
83. 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.
84. Where specialist knowledge is required the Council will obtain expert advice, particularly around property specialisms, taxation, and legal advice.

Summary

85. 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.
86. 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.
87. 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.
88. 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 for 2022/23.
89. The investments that may be made in Energy, Housing are expected to make significant contributions to the Council's budget and thus help to preserve services and jobs within the borough.

90. 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

91. 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.
92. The draft Corporate Plan, and draft budget for 2021/22 are subject to public consultation from January 2021.

Equality Impact Assessment

93. 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 Original.Est	2020/21 Rev.Est	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,810	2,315	1,914	2,115	2,326	2,414
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	0
4. Interest and Investment Income	-580	-667	-551	-608	-671	-660
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. MRP, VRP	1,176	1,499	1,499	1,723	1,873	2,533
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
Total	2,406	3,147	2,862	3,230	3,528	4,287
Net Revenue Stream						
Amount to be met from government grants and local taxpayers	13,329	13,063	14,845	14,018	13,156	13,372
Ratio						
Financing Cost to Net Revenue Stream	18%	24%	19%	23%	27%	32%