2 February 2023	ITEM: 7
Corporate Overview and Scrutiny Committee	
Capital Bids and Capital Programme Update	
Wards and communities affected: All	**Key Decision:** Key
Report of: Gareth Moss – Chief Financial Officer	
Accountable Assistant Director: N/A **Accountable Director:** Gareth Moss – Chief Financial Officer	
This report is public	

Executive Summary

This report presents the committee with the recommended additions and approach to the new capital project programme for 2023/24 and subsequent years.

The total cost of the draft Capital Programme in 2023/24 is currently projected to be £62.158m, broken down as £37.043m relating to the General Fund and £25.115m relating to the HRA. The HRA capital programme is part funded by borrowing, grants and reserves and the associated revenue costs are managed from within the HRA budget envelope. The General Fund projects require prudential borrowing of £19.859m and the associated revenue impacts are also budgeted.

This programme has been prepared against a background of significant funding pressures as set out in the Financial Update Report considered by Cabinet on 14 December 2022 and hence the programme has been restricted to essential projects only and remains subject to further reviews. Following the issue of a Section 114 Notice by the Chief Financial Officer on 19 December 2022, only when sums contribute to statutory service provision, or where existing contractual obligations are in place, can new expenditure be incurred. The impact of the attached programme on the revenue budgets, in the form of interest and debt repayment costs, have been included in the Draft Budget and Medium-Term Financial Strategy (MTFS) Report, which also forms part of this agenda. This report sets out the requirements for additional projects proposed to be added to the capital programme and scheduled to commence in 2023/24.

As well as considering the impact of any new projects, the existing programme has been further scaled back as part of a high-level review of capital activities. As part of this exercise, a number of projects have been put ‘on hold’ meaning that the budgets and financing for these have been temporarily removed from the programme pending a decision on whether they can be reinstated. This will be continued, in conjunction with a review of the remaining programme, in greater detail throughout the year as part of the wider review of the Council's finances and impact of proposed government support. A revised position will be reported to Members as early as is practical in the new financial year.

1. Recommendations:

That the Corporate Overview and Scrutiny Committee:

1.1 Note the changes to the capital programme as set out in this report and associated appendices

1.2 Note the impact of new Prudential Borrowing on the debt levels of the Council as set out in Appendix 1

1.3 Note the programme will be subject to a further review as set out in the report and following the issue of a Section 114 Notice

1.4 Note the projected revenue impact of the MRP costs as set out in Section 5.2

1.5 Comment on the proposed delegation to Cabinet to approve additions to the programme based on the criteria set out in section 5.2

2. Introduction and Background

2.1 The capital programme has been prepared within the context of the Council issuing a Section 114 Notice on 19 December 2022, following government intervention on 2 September 2022, with the appointment of commissioners to oversee the financial management of the Council. Both recognise the current financial position of the Council is unsustainable and the urgent need to address ongoing costs. Part of the exceptional financial support to be provided by government is expected to be the permitted use of a Capitalisation Direction, the permission to finance revenue costs with capital resources, usually Prudential Borrowing, which will require the Council to take on additional debt in the short-term.

2.2 In respect of the capital programme, the impact on the revenue budget mainly occurs in respect of projects that are financed from Prudential Borrowing and this is in the form of Interest (the financing cost of the loan) and Minimum Revenue Provision (MRP) (the sum that is required to account for the principal repayment of a loan). Therefore, to the extent that projects are financed in this way, there will be an impact on the Council's revenue budgets. The updated projected revenue impact of the changes to the programme reflected in this report have been built into the Medium-Term Financial Strategy (MTFS) and will be considered by Members as part of the budget setting process.

2.3 As part of the recovery measures agreed with government, the Council is reviewing its asset base to identify any that could be disposed of to generate a capital receipt (the term for the proceeds of an asset sale). These receipts will be used to repay debt, which will, in turn, reduce the interest and MRP costs associated with this debt.

2.4 As part of the budget setting, the Council needs to set its capital programme for the following financial years. The development of the Medium-Term Financial Strategy (MTFS) will need to take account of future capital spending plans over the period of the strategy.

2.5 The following sources of funding can be used to fund capital in the General Fund:

a) Capital Receipts – these are the receipts realised from the disposal of capital assets such as land and buildings;

b) Grants and Contributions - these could be grants awarded from government or other funding agencies or contributions from developers and others;

c) Prudential Borrowing – the Council can increase its borrowing to finance schemes subject to the plans in place being assessed and considered affordable; and

d) Revenue – the Council can charge capital costs directly to the General Fund, but this will create additional pressure on revenue resources.

2.6 Further work is being facilitated on Grants and Contributions, so to develop plans and secure grant funding from external agencies, or, from developers, for in-borough Capital Projects. The funding associated with the two Towns Fund bids are examples and, in the context of the section 114 notice, further work is being undertaken with officials at the Department of Levelling Up, Housing and Communities to ensure assurance is provided over the ongoing deliverability of the schemes.

2.7 Funding from capital receipts will also become available as part of the ongoing asset review. This continues to challenge the rationale for holding property assets. There are three potential outcomes which means assets are either:

- Released (for example to dispose of immediately to generate useable capital receipts)
- Re-used (for example for different services or more intensive or changed use); and
- Retained (to support existing service delivery or wider transformation).

Details on the potential use of these receipts has been included in the Capital and Treasury Management Strategy. Under the requirements of the intervention, it is important the Council considers all opportunities for the reduction of debt, and this will be a primary consideration as assets are considered on a case-by-case basis.

2.8 Annually, all services consider their future capital needs and submit bids for schemes a range of projects that are required to support operational service delivery or provide essential works to address health and safety concerns – such as capital repairs to operational buildings and system upgrades.

2.9 In addition, there are transformational projects that provide service enhancements that will ultimately reduce costs or increase income. These will be subject to individual business cases to support the transformation activity identified.

2.10 The current context has required a wider review of the proposed capital bids and further reductions have been made. Of those that have been included, the further progress of the projects will be considered in conjunction with the requirements of the Section 114 notice.

3. Current Programme

3.1 The report also provides a summary of the existing programme that has been agreed in previous years. These are summarised in Appendix 1 and cover the period 2022/23 through to 2025/26 and have been shown at both Directorate and Portfolio level. Within this programme several projects are financed, at least in part, from Prudential Borrowing and a breakdown of these for the same period is included in Appendix 2.

3.2 The programme has also been subject to an initial review to consider further opportunities to remove projects. The initial focus has been on those projects that have not yet commenced or at an early stage of development and which are funded by prudential borrowing. The current programme has been amended to remove a number of projects in this category which total £22m.

3.3 The Committee should note that the capital programme will continue to be reviewed as part of a wider review of the Council’s finances as part of the response to the intervention and in the context of the section 114 notice. It is expected that a revised capital programme will be presented to Members later in the year, along with any necessary changes to the Capital Strategy, once this has been undertaken.

3.4 It is also noted that debt funding projects in the General Fund and debt funding projects in the HRA should be considered in context. Where the HRA undertakes capital works financed from borrowing, these costs must be met in full within the HRA and are not subsidised by the General Fund (and vice versa). Therefore, when the HRA incurs capital costs financed by borrowing, this fund will be expected to meet the full costs of these, there will be no impact on the General Fund.

4. Draft Capital Proposals

4.1 As set out above the proposed additions to the capital programme have been included at Appendix 3.

4.2 Having reviewed these capital requests, they fall within one of three categories and are summarised in the table below. The amounts have been calculated using the respective bid totals and are shown under the relevant portfolio holder. Once projects are approved by members, funding is only committed in response to a specific need by the relevant service and is subject to further finance approval. These projects have been assessed for the forthcoming year specifically to ensure priority work can be delivered. Subsequent years will be considered in the relevant year and in the context of the financial position at that point.

Portfolio	Total Budget £'000	Total Budget 2023/24 £'000	Total Budget 2024/25 £'000	Total Budget 2025/26 £'000	Total Budget 2026/27 £'000	Total Budget 2027/28 £'000
Expenditure:						
Portfolio for Central Services	**3,846**	2,083	723	355	355	330
Portfolio for Environment	**2,474**	447	471	494	518	544
Portfolio for Children and Education	**1,386**	888	313	185	0	0
Portfolio for Transport and Public Safety	**4,785**	1,285	1,100	1,100	850	450
Total Expenditure	**12,491**	**4,703**	**2,607**	**2,134**	**1,723**	**1,324**

4.3 The table above includes all new bids that have been received for inclusion in the 2023/24 capital programme, with the expenditure budgets being profiled over a number of years as set out in Appendix 3.

4.4 In addition, the General Fund capital programme also includes the Highways and Education. These are largely funded by government grants and will be considered by their respective Overview and Scrutiny Committees and the Cabinet under separate reports. The HRA capital programme is managed from within its own ring-fenced resources, so does not impact the General Fund.

5. Issues, Options and Analysis of Options

5.1 The proposed changes to programme are set out in the section above. The key context remains the financial position of the Council and the need to manage spend appropriately under the requirements of the Section 114 notice. As noted, in this context the capital programme remains under review and further options will be provided to members where opportunities to manage capital expenditure and the associated level of debt is found.

5.2 It is also noted the recommendations to Council include delegations to Cabinet to agree additions to the capital programme under the following criteria:

- If additional third-party resources have been secured, such as government grants and s106 agreements (or potentially the Community Infrastructure Levy – should such an arrangement be introduced in the future), for specific schemes;
- Where a scheme is identified that can be classed as 'spend to save' and can demonstrate this clearly in an associated business case that it will lead to cost reductions or income generation that will, as a minimum, cover the cost of borrowing.

5.3 The capital programme, as set out in this report, will impact the revenue resources of the Council. As well as any interest cost associated with any additional debt undertaken, there will be an additional charge to revenue in the form of MRP. The projected increases in costs to the General Fund revenue budget set out in the following table:

Year	Current Forecast	Increase	Revised Forecast
	£'000	£'000	£'000
2024/25	7,732	290	8,022
2025/26	7,702	436	8,138
2026/27	7,638	549	8,187
2027/28	7,487	652	8,139
2028/29	7,251	756	8,007

It should be noted that MRP is first incurred the year following that in which asset the borrowing relates to is first brought into use. Therefore, in the above table, MRP increases shown in 2024/25 relate to capital costs incurred in 2023/24.

6. Reasons for Recommendation

6.1 The capital programme forms part of the formal budget setting in February and is an integral part of the Council's overall approach to financial planning.

7. Consultation (including Overview and Scrutiny, if applicable)

7.1 The various capital bids put forward have all been considered by the service management teams and by the Directors' Board. Some projects will have also been reported separately to the relevant Overview and Scrutiny Committee.

8. Impact on corporate policies, priorities, performance and community impact

8.1 Capital budgets provide the finance to meet the Corporate Priorities. If a capital project was not to proceed, this may impact, positively or negatively, on the delivery of these priorities and performance with a corresponding impact on the community.

9. Implications

9.1 Finance

Implications verified by: **Jonathan Wilson**

Assistant Director - Finance

The financial implications have been set out throughout the body of the report. The financial impact of the borrowing decisions required to support the programme has been accounted for within the MTFS to date.

9.2 Legal

Implications verified by: **Gina Clarke**

Corporate Governance Lawyer and Deputy Monitoring Officer

In financing capital expenditure local authorities are governed by the framework established by the Local Government Act 2003. Local authorities are free to borrow or invest so long as their capital spending plans are affordable, prudent, and sustainable.

The Council is under a duty to determine and keep under review how much it can afford to borrow. In complying with this duty, the Council must have regard to Prudential Code of Capital Finance in Local Authorities published by CIPFA. The Code requires that in making borrowing and investment decisions, the Council is to take account of affordability, prudence, and sustainability, value for money, stewardship of assets, service objectives, and practicality. The Capital Project Programme is an important part of the overall budget setting process. In considering the report Members must take into account the financial advice available.

The Council must have effective processes and practices in place to control, manage and govern capital investment and borrowing decisions. The Council’s Chief Financial Officer has issued a section 114 Notice; therefore, the Council will need to keep the Capital Project Programme under review to ensure that the Council is proactive in ensuring that its capital spending plans support the financial recovery of the Council.

Full Council is responsible for approving the Capital Programme. As to recommendation 1.5 of this report, 3.17 of the Financial Procedure Rules provides that any proposal to amend an approved Capital Programme by including a new project or deleting an approved project shall require the approval of the Cabinet. This must include all applications for schemes to be funded from Government sources, grants or other external funding. Where additional funding for a scheme is fully funded by external resources and is consistent with the Council's corporate priorities, to the satisfaction of the Corporate Director Resources and Place Delivery, the scheme shall be added to the capital programme with a subsequent report to the Cabinet.

9.3 Implications verified by: **Natalie Smith**

Strategic Lead - Community Development and Equalities Manager

All local authorities are required to have due regard to their duties under the Equality Act 2010. The capital programme is assessed at keys stages to ensure the impact of each scheme is measured in a proportionate and appropriate way to ensure this duty is met and the needs of different protected characteristics are considered.

9.4 **Other implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, Climate Change and Impact on Looked After Children)

None

10 Appendices to this Report:

- Appendix 1 – Current Programme Summary
- Appendix 2 – Current Programme Financed by Prudential Borrowing
- Appendix 3 – New Capital Projects

Report Author:

Mark Terry

Senior Financial Accountant