

Corporate Policy & Resources Committee



7 February

Title	Estimated 2022/23 to 2025/26 Capital Programme Please note that this report is subject to the CP&R Committee agreeing the recommendation at their meeting on the 7 February and may require officers to update this report after the meeting.
Purpose of the report	To make a recommendation to Council
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	Committee is asked to recommend the proposed Capital Programme for 2022/23 to 2025/26 to Council.
Reason for Recommendation	As part of the 2022/23 budget setting process and to ensure that the Council has a planned approach to its Capital expenditure and that it is financially sustainable.

1. Key issues

- 1.1 The estimated Capital Programme forms an integral part of the Capital Strategy.
- 1.2 At 31 March 2022 the Council's multi-year Capital Programme is £265.3m and it is estimated that £27.3m will have been spent, leaving a forecast budget balance of £238m to be incurred.
- 1.3 Council is being asked to approve £62.2m of new projects for 2022/23, which have been phased across the four years of the Programme, as shown in Appendix A. Considering these additions, the new estimated Capital Programme for 2022/23 to 2025/26 is £300.2m, as shown in Appendix A,
- 1.4 Also included are two estimated multiyear expenditure items, which have yet to be approved, these include refuse vehicle replacement and wheelie bins, they are included to provide a holistic view of the Council's estimated Capital Programme, and to allow officer to plan their medium-term financial strategy and treasury management planning and they may be subject to change or

refusal, and the River Thames project, which has been preapproved for 2023/24. In total these items amount to £2.37m.

1.5 Due to the delays in developing the Council's projects caused by several factors, including, the moratorium, Brexit, supply chain challenges, construction price inflation and shortages of labour, all the Capital Projects have been reviewed by the Budget Managers and reprofiled to reflect the latest capital monitoring information and expectation of when budgeted expenditure will be incurred, as shown in appendix A.

1.6 The aggregate estimated Capital Programme attributable to each committee for 2022/23, before funding is applied is shown in the table below.

	2022/23	2023/24	2024/25	2025/26
	Actual £000s	Estimated £000s	Estimated £000s	Estimated £000s
Community Wellbeing & Housing - DFG	973	973	973	973
Community Wellbeing & Housing	34,963	86,165	75,338	57,711
Environment & Sustainability	531	1,545	405	270
Corporate Policy & Resources	29,040	13,254	1,850	0
Neighbourhood Services	300	0	0	0
Regulatory & Administration	1,434	0	0	0
Total before funding	67,241	101,937	78,566	58,954

1.7 The largest element of the Capital Programme continues to be the provision of housing for our residents, with a further £55.0m being included in the new bids for 2022/23. Also included in our estimated capital programme is £5.5m to be spent on carbon reduction initiatives at our properties across the Borough.

1.8 Other elements of the Council's Capital Programme include several smaller initiatives to reduce our carbon footprint and utilising the Green Initiatives Fund set aside by Council last year and various Information Technology (IT) projects such as, equipment refresh, upgrades to systems and improvements to ways of working which will help facilitate efficiencies.

1.9 The majority of our Capital Programme is and will continue to be funded by borrowing from the Public Works Loan Board (PWLB), in compliance with the Prudential and Treasury Management Codes and Government guidance and revenue contributions as the Council has very limited capital receipts or capital reserves.

1.10 Under the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code regime, councils have a requirement to set out how the

financing of their Capital Programme is prudent and affordable and to publish prudential indicators. Any new borrowing would of course result in a charge to the General Fund for principal and interest on completion of schemes. However, that relating to residential schemes will be offset by interest and principal repayments from Knowle Green which will be equal to or larger than the payments being made by the Council. It is the rental income streams from the residential schemes delivering housing for the borough's residents which makes the financing affordable and prudent for the Council.

- 1.11 If borrowing is not undertaken the programme would need to be financed from additional capital receipts through the selling of assets or a significant revenue contribution to Capital from the services proposing the capital works.
- 1.12 The Council is not currently looking to dispose of any of its properties, which means that future capital receipts will be limited. There will still be a small amount of receipts from the Council's share of Right to Buy, as we come to the end of the contract to improve the resiliency of the Capital Programme, the Council is maintaining its revenue contribution to capital and over time its repair and renewal funds. Borrowing will be undertaken to fund acquisitions for residential and regeneration purposes and developments where future income streams or cashable savings are generated, for example reducing the office footprint.

2. Prudential Indicators (PI)

- 2.1 There are several key indicators to ensure that the Council operates its activities within well-defined boundaries, which can be seen in Appendix C.

Operational Boundary

- 2.2 The first is the Operational Boundary, which is an indicator based on the maximum expected external debt during the year and focuses on the day-to-day treasury management activity. It is not a limit in the strictest sense in that it may be breached.
- 2.3 The Operational Boundary links directly to the Council's Capital finance Report (CFR) and estimates of other cashflow requirements. The Council intend to keep the Operational Boundary at £1,350m for 2022/23 through to 2025/26, as detailed in the Treasury Management Strategy Report.

Authorised Limit

- 2.4 Another key indicator representing the overall level of borrowing and represents the limit beyond which external debt is prohibited, without Council approval.
- 2.5 This is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and it has been set at £1,450m for 2022/23 through to 2025/26, as detailed in the Treasury Management Strategy Report.
- 2.6 Council will approve the Authorised Limit within the Treasury Management Strategy Report.

Estimates of financing costs to net revenue stream

- 2.7 This indicator compares the total principal and net interest payments on external debt to the overall revenue spending of the Council and is a measure of affordability of borrowing, and is shown in table 2 of Appendix C.

- 2.8 The net revenue stream, as defined by CIPFA consist of Council Tax receipts and all government funding received in the year, it excludes investment income.
- 2.9 In 2022/23 this fell to 2.394, compared to a three-year average to 2025/26 of 2.82, the main reason for this was the higher than anticipated New Homes Bonus and one-off support from government towards the NIC rebate, which significantly increased our net revenue stream and therefore, reduced this ratio. Officers are not expecting this level of funding to be replicated soon, as Council waits to discover how the new government scheme will operate.
- 2.10 As the Council continues to repay its loans, the interest charge will start to reduce, and the capital repayment element will increase, and therefore the ratio will start to fall over the coming years and highlights the importance of the Council continuing with its policy to build its reserves as well as using the net investment income to support its service deliver and regeneration programme.
- 2.11 If our net investment income from our property portfolio were included (which was why Council took out the loans) the ratios would be as follows:

	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Net Revenue Stream,	25,957	25,740	27,247	27,699
Financing costs,	36,213	36,454	36,647	36,920
Ratio	1.39	1.42	1.35	1.33

Commercial income, related costs, and net contributions to future costs

- 2.12 The Council's commercial income, as shown in table 3 of Appendix C shows a strong net income position after allowing for landlord costs, financing costs and net contributions to the reserves (sinking funds).

3. Financial implications

- 3.1 The Planned financing of the 2022/23 proposed Capital Schemes is as follows:

Type of Funding	2022/23 Actual £000s	2023/24 Estimated £000s	2024/25 Estimated £000s	2025/26 Estimated £000s
Capital Receipts, CIL and S106 funding	3,000	3,000	3,000	3,000
External Funding - Disabled Facilities Grant	973	973	973	973

Revenue Contributions to capital outlay	750	750	750	750
Grants & Other Contributions	220	250	250	250
Borrowing	62,298	96,964	73,593	53,981
Total	67,241	101,937	78,566	58,954

4. Equality and Diversity

- 4.1 The provision for new housing within the Borough will assist a substantial number of our 3,500 residents, on our housing waiting lists, many of whom are key workers, the young and most vulnerable residents to benefit from our affordable house schemes.

5. Sustainability/Climate Change Implications

- 5.1 The Council will be investing £40m in the development of the first leisure centre in the United Kingdom to be built to the exacting Passivhaus standards (with £4m of the cost relating to achieving the Passivhaus standards), which will be a reduce our carbon footprint to nil, for this building. Further, at Victory Place keyworker and affordable housing residential scheme, we are investing an additional £1.5m for air source heat pumps to reduce the impact the development will have on the environment.

6. Timetable for implementation

- 6.1 Schemes included in the Capital Programme are programmed to commence in 2022/23 and will be monitored monthly by officers to ensure that any slippage of schemes is identified at an early date and the programme is adjusted accordingly.
- 6.2 Bimonthly reports are also provided to the Development Subcommittee for discussion and review.
- 6.3 Any schemes incomplete at the end of March 2022 may be incorporated as part of the revised programme for 2022/23.
- 6.4 Quarterly reports are prepared by the Finance Team as part of the Capital monitoring process, to show the status of the schemes and presented to Committees and Council the expected variance from the approved budget., along with the appropriate narrative.

Background papers: There are none.

Appendices:

A - 2022/23 to 2025/26 Capital Programme

B - Prudential Indicators.