

Corporate Policy & Resources Committee

20 February 2022



Title	Estimated 2023/24 to 2026/27 Capital Programme
Purpose of the report	To make a recommendation to Council that the report is approved.
Report Author	Sam Masters, Interim Treasury Management and Capital Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	Corporate Policy & Resources Committee is asked to recommend that Council approve the proposed Capital Programme for 2023/24 to 2026/27.
Reason for Recommendation	As part of the 2023/24 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 Council's Capital Strategy.
- 1.2 The Council is being asked to approve a multi-year Capital Programme of £446.4m gross and £345.8m net of receipts and grants detailed in Appendix A. Included in the proposed scheme is £70.9m for new projects.
- 1.3 Also included are two estimated multiyear expenditure items for the leasing, and the purchase of, of multiple waste vehicles. These schemes replace prior schemes previously agreed with the exception of an £80k budget for an individual damaged refuse truck with an expected £45k insurance receipt. The new schemes are included to provide a holistic view of the Council's estimated Capital Programme, and to allow officers to plan their medium-term financial strategy. Also included is the River Thames project, which has been preapproved for 2023/24. In total these items amount to £5.0m.
- 1.4 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.

- 1.5 The aggregate estimated Capital Programme attributable to each committee for 2023/24, before funding is applied, is shown in the table below.

	2023/24	2024/25	2025/26	2026/27	Total
	Estimated £000s	Estimated £000s	Estimated £000s	Estimated £000s	Estimated £000s
Community Wellbeing & Housing - DFG	972.8	972.8	972.8	972.8	3,891.2
Environment & Sustainability	3,152.5	855.0	855.0	855.0	5,717.5
Neighbourhood Services	335.0	0.0	0.0	0.0	335.0
Corporate Policy and Resources	51,426.1	146,806.7	162,803.5	73,908.6	434,945.0
Regulatory & Administration	916.5	32.0	521.0	49.0	1,518.5
Total before funding	56,802.9	148,666.5	165,152.3	75,785.4	446,407.2

- 1.6 The largest element of the Capital Programme continues to be the provision of housing for our residents, with a further £69.4m included in the growth bids for 2023/24.
- 1.7 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.
- 1.8 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. Additionally following the February Extraordinary Council Meeting we will be seeking to maximise Homes England grant support for our affordable and key worker housing schemes
- 1.9 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 result in a charge to the General Fund for principal and interest on completion of schemes. However, borrowing which relates to residential schemes will be offset by interest and principal repayments from Knowle Green which will be equal to or larger than the payments that is being made by the Council. Along with Homes England

grant support, 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.

1.10 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.

1.11 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 defined boundaries, which can be seen in Appendix B.

Operational Boundary

2.2 The Operational Boundary for External Debt is not a limit and actual borrowing could vary around this boundary for short times during the year. It acts as an early warning indicator to ensure the authorised limit is not breached.

2.3 The Operational Boundary links directly to the Council's Capital finance Report (CFR) and estimates of other cashflow requirements. The Council intends to keep the Operational Boundary at £1,350m for 2023/24 through to 2026/27, as detailed in the Treasury Management Strategy Report.

Authorised Limit

2.4 Another key indicator is the Authorised Limit which represents the maximum level of borrowing beyond which further 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 2023/24 through to 2026/27, as detailed in the Treasury Management Strategy Report.

2.6 Council will approve the Authorised Limit and Operational Boundary via 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 revenue spending of the Council that is funded by government grants and local taxpayer. It is a measure of affordability of borrowing, and is shown in table 2 of Appendix B.

2.8 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.

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:

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Net Revenue Stream & Investment Portfolio Rent	59.7	62.9	66.0	66.4
Financing costs	39.4	39.5	39.6	39.7
Ratio	(0.7)	(0.6)	(0.6)	(0.6)

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

- 2.9 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 2023/24 proposed Capital Schemes is as follows:

Type of Funding	2023/24 Estimated £000s	2024/25 Estimated £000s	2025/26 Estimated £000s	2026/27 Estimated £000s	Total
Capital Receipts, CIL and S106 funding	3000	3000	3000	41,000	50,000
External Funding - Disabled Facilities Grant	973	973	973	973	3,892
Homes for England Grant	7,031	26,504	4,110	17,300	54,946
Revenue Contributions to capital outlay	750	750	750	750	3,000
Grants & Other Contributions	1051.4	804.3	250	250	2,356
Borrowing	43,997	116,635	156,069	15,512	332,214
Total	56,803	148,667	165,152	75,785	446,407

It can be noted that over the four year period funding from non-borrowing sources will equate to approximately 26% of the planned expenditure.

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 more than £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 2023/24 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 2023/24.

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: N/A

Appendices:

A - 2023/24 to 2026/27 Capital Programme

B – Prudential Indicators.