Council

22 February 2024

Title	Estimated 2024/25 to 2027/28 Capital Programme
Purpose of the report	To approve the above as recommended by Corporate Policy & Resources Committee at their meeting on 19th February
Report Author	Prithiva Janaka Treasury Management and Capital Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	**Council is asked to approve the proposed Capital Programme for 2024/25 to 2027/28**
Reason for Recommendation	As part of the 2024/25 budget setting process and to ensure that the Council has a planned approach to its Capital expenditure and that it is financially sustainable.

Summary of the report

What is the situation	Why we want to do something
Councils have a statutory responsibility to refresh and approve a Capital programme each year before the start of the financial year. In the last few years, it has become more challenging to finance capital expenditure because of the recent rises in interest rates as a result number of Projects has been suspended with immediate effect	have a medium to long term strategy which identifies need to incur capital expenditure and how we will finance on a sustainable basis
This is what we want to do about it	**These are the next Steps**
Carry out the projects with minimum borrowing as possible by using the available capital receipts, capital financing and Grants	Approve the current programme and revisit in few years to review the projects which are suspended.

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 £36m gross and £32m net of receipts and grants detailed in Appendix A. Included in the proposed schemes £7M is for new projects.

1.3 Also included are two estimated multiyear expenditure items for the leasing, and the purchase of, multiple waste vehicles for £400k. 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 approved in 2023/24 at £1.3m.

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 Council 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 2024/25, before funding is applied, is shown in the table below.

	2024/25	**2025/26**	**2026/27**	**2027/28**	**Total**
	Estimated £000s	**Estimated £000s**	**Estimated £000s**	**Estimated £000s**	**Estimated £000s**
Community Wellbeing & Housing - DFG	1,085	1,003	1,003	1,003	4,092
Environment & Sustainability	2,330	1,165	0	0	3495
Neighbourhood Services	335.0	0.0	0.0	0.0	335.0
Corporate Policy and Resources	23,831	1,682	1,579	173	27,265
Regulatory & Administration	783	521	0	0	1,304
Total before funding	**28,363**	**4,371**	**2,582**	**1,176**	**36,492**

1.6 The largest element of the Capital Programme continues to be Spelthorne Leisure centre, which will be completed in the summer of 2024.

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.

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 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. 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 of 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.

1.10 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 £1,067m for 2024/25 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 £1,167m for 2024/25 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:

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Net Revenue Stream & Investment Portfolio Rent	14.0	13.90	13.4	12.00
Financing costs	36.6	36.69	39.9	40.04
Ratio	2.615	2.640	2.98	3.33

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

2.9 The Council's commercial income, as per the table below shows, a strong net income position after allowing for landlord costs, financing costs and net contributions to the reserves (sinking funds) from 24/25 onwards.

	2024/25	2025/26	2027/28	2028/29
	£m	£m	£m	£m
Commercial income	(50.947)	(51.395)	(53.852)	(55.755)
Landlord costs	6.823	9.417	8.281	8.678
Contribution to sinking funds	(2.016)	(4.257)	(0.754)	0.773
Financing costs	36.131	36.224	36.306	36.299
Net income after landlord & financing costs & net contributions to sinking fund	**(10.009)**	**(10.011)**	**(10.019)**	**(10.006)**

3. Financial implications

3.1 The planned financing of the 2024/25 proposed Capital Schemes is as follows in £000s

Type of Funding	2024/25 Estimated £000s	2025/26 Estimated £000s	2026/27 Estimated £000s	2027/28 Estimated £000s	Total
Capital Receipts, CIL and S106 funding	4,312	310	310	233	5,165
Lease Funding of Refuse Vehicles	850	850	850	0	2,550
Borrowing	21,891	2,268	479	0	24,638
Total	**27,053**	**3,428**	**1,639**	**233**	**32,353**

It can be noted that over the four-year period funding from non-borrowing sources will equate to approximately 21% of the planned expenditure.

4. Sustainability/Climate Change Implications

4.1 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 reduce our carbon footprint and fuel consumption up to 65 to 70% for this building.

5. Timetable for implementation

5.1 Schemes included in the Capital Programme are programmed to commence in 2024/25 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.

5.2 Bimonthly reports are also provided to the Development Subcommittee for discussion and review.

5.3 Any schemes incomplete at the end of March 2024 may be incorporated as part of the revised programme for 2024/25.

5.4 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.

Appendices:
A - 2024/25 to 2027/28 Capital Programme.