APPENDIX B

SLOUGH BOROUGH COUNCIL

REPORT TO: Council **DATE:** 7th June 2018

CONTACT OFFICERS: Neil Wilcox, Director of Finance & Resources (Section 151)

Nigel Pallace, Interim Chief Executive

(For all enquiries) (01753) 875358

WARD(S): All

PART I
FOR DECISION

CAPITAL STRATEGY: 2018/19 TO 2023/2024

1 Purpose of Report

Following the Cabinet meeting, on 29 May 2018, where it was agreed to approve the acquisition of the freehold interest of a new office building in Slough Town Centre to serve as the Council's new headquarters, this report seeks Council approval for amendments to be made to the Capital Strategy 2018/19 to 2023/24 and the associated Prudential and Treasury Management Indicators.

This investment in the Town's High Street area is intended to realise the following benefits:

- Providing an immediate positive impact on the Town Centre's daytime/evening economy by increasing footfall;
- Releasing St Martins Place for conversion to a mix of social and affordable residential accommodation;
- Delivering improved services to our customers via smarter, more flexible working and enhanced IT;
- Helping reduce traffic levels, air pollution and greenhouse gas emissions by procuring a more energy efficient headquarters building, incentivising council employees to consider non-car modes of travel to work and expanding the Council's Electric Vehicle fleet;
- Stimulating further external investment in Slough by demonstrating the Council's absolute commitment to regenerating the Town Centre.

2 Recommendation(s)/Proposed Action

The Council is requested to resolve:

(a) That the Interim Chief Executive and Section 151 Officer, following consultation with the Leader of the Council, be authorised to increase the capital programme for 2018/19 to 2023/24 to reflect the purchase of a new Council Headquarters in Slough Town Centre, once final terms are agreed.

(b) That the Prudential and Treasury Management Indicators for 2018 to 2024 be amended as set out in this report.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan

3a. Slough Joint Wellbeing Strategy Priorities

The report indirectly supports all of the strategic priorities and cross cutting themes. The maintenance of good governance within the Council to ensure that it is efficient, effective and economic in everything it does achieve through the improvement of corporate governance and democracy by ensuring effective management practice is in place.

3b. Five Year Plan Outcomes

Relocating the Slough Borough Council Headquarters into the town centre and redeveloping St martins Place as affordable housing will address the following Five Year Plan Outcomes:

- *Outcome 3: Slough will be an attractive place where people choose to live, work and stay*
  Contributing towards a viable and active High Street area will help encourage people to visit, live and work in Slough;

- *Outcome 4:Our residents will live in good quality homes*
  The delivery of a mix of affordable homes through the conversion of St martins Place will directly contribute towards our residents having access to good quality homes; and

- *Outcome 5: Slough will attract, retain and grow businesses and investment to provide opportunities for our residents*
  Contributing towards a viable and active high Street will help attract and retain businesses that provide opportunities for our residents.

4 Other Implications

(a)Financial: As detailed within the report.

(b) Risk Management

Risk	Mitigating action	Opportunities
Legal	None	None
Property	None	None
Human Rights	None	None
Health and Safety	None	None
Employment Issues	None	None
Equalities Issues	None	None
Community Support	None	None
Communications	None	None
Community Safety	None	None
Financial	Detailed within the report	Detailed within the report

Timetable for delivery – capital programme delivered under the 80% mark	Bi-monthly review at Strategic Finance Group and quarterly monitoring at Cabinet and Overview and Scrutiny Committee	Ability to increase the delivery of capital schemes
Project Capacity	None	None
Other	None	None

(c) Human Rights Act and Other Legal Implications

No specific legal implications arising from this report.

(d) Equalities Impact Assessment

Equalities Impact Assessments will be conducted, if required, for projects contained within the Capital Strategy.

5 Supporting Information

5.1 Purpose

5.1.1 The capital strategy is one of three key strategic financial documents that the Council utilises in order to deliver its corporate objectives. The Council has a wide ranging number of capital commitments and purposes. The capital strategy, as with all other corporate documents, needs to underpin the delivery of the 5 year plan for the Council.

5.1.2 The capital strategy is guided by a variety of core principles:

- That the capital strategy is affordable within the overall financial envelope for the Council
- That the capital strategy supports the outcomes expressed in the five year plan
- Any additional capital funding in excess of the current borrowing requirement should have a neutral impact on the revenue budget over the life of the strategy excluding delivering statutory capital schemes e.g. ICT compliance
- That the Council maximises its assets to generate revenue savings or capital receipts in line with the asset management strategy and the objectives of the corporate plan
- To deliver value for money through 'Invest to Save projects' to generate on-going revenue savings and to ensure that whole life costs are captured
- That where borrowing is required, it is undertaken in line with CIPFA's prudential code
- To take into account the asset management strategy, including highways & transport plans
- That there is a ten year payback on general fund secured capital schemes

5.1.3 In addition, with regard to the proposal to purchase the new office building, the Cabinet has confirmed it expects the purchase to be revenue neutral over the course of the capital programme and to also generate commercial rents from floor space within the building that the Council does not require.

5.2 Revised Capital Programme Position

5.2.1 The summarised capital programme has been updated as below in table 1.1. This table highlights the key expenditure areas and the financing requirement for the capital programme over the period of the strategy.

Table 1.1 Summarised Capital Programme

Capital Expenditure and Financing (Estimate)	18-19	19-20	20-21	21-22	22-23	23-24	2018-2024 Total
	£m	£m	£m	£m	£m	£m	£m
General Fund	181.8	50.2	41.6	22.5	5.9	5.7	307.7
HRA	17.5	23.4	4.8	4.8	4.8	20.0	75.3
Total Expenditure	**199.3**	**73.6**	**46.4**	**27.3**	**10.7**	**25.7**	**383.0**
Grant Funded	21.1	3.8	2.6	1.9	0.6	2.5	32.5
Section 106	3.5	0.5	2.0	2.0	2.0	2.0	12.0
Capital Receipts	3.6	6.6	2.5	2.5	2.5	3.3	21.0
Major Repairs Reserve	5.9	8.8	4.8	4.8	4.8	8.0	37.1
RCCO	8.0	8.0	0.0	0.0	0.0	8.6	24.6
Borrowing	157.2	45.9	34.5	16.1	0.8	1.3	255.8
Total Financing	**199.3**	**73.6**	**46.4**	**27.3**	**10.7**	**25.7**	**383.0**

5.2.2 Following the proposed revisions the estimated total capital expenditure, over the six-year period (2018/19 to 2023/24) is £383 million. With total financing of £127.2million expected there will be an associated maximum borrowing requirement of £255.8million. This total expenditure and borrowing will be used to deliver all programmes in the current capital strategy.

5.3 Financing the capital programme & prudential code

5.3.1 The Council has a variety of sources of funding for the capital strategy including balances and reserves, capital receipts and third-party contributions. Where resources are not available this creates a capital financing requirement (CFR) which is met by borrowing.

5.3.2 The Councils forecast CFR has been revised as follows:

CFR	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
General Fund	**431**	462	491
HRA	159	159	159
Total CFR	**590**	**621**	**650**

5.4 Borrowing – Authorised Limit and Operational Boundary for External Debt

5.4.1 The Council approved and monitors a number of Prudential Indicators as part of the annual budget setting process. Following Council's agreement at tonight's meeting these Prudential Indicators will be updated as follows:

5.4.2 **Gross Debt and the Capital Financing Requirement**:
To ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

This is a key indicator of prudence and the revised position for the Council is as follows:

Debt	31.03.19 Estimate £m	31.03.20 Estimate £m	31.03.21 Estimate £m
Borrowing	481	527	566
Other Long-Term Liabilities	44	44	44
Total Debt	**525**	**571**	**610**

5.4.3 **Authorised Limit for External Debt:**
The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe.

The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	538	594	631
Other long-term liabilities	44	£44	44
Total Debt	582	638	675

5.4.4 **Operational Boundary for External Debt:**
The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	528	584	621
Other long-term liabilities	44	44	44
Total Debt	572	628	665

6 Treasury Management Implications

6.1 The Councils approved Treasury Management Strategy for 2018/19 contains the following in terms of the approved borrowing strategy.

6.2 **Objectives**: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

6.3 **Strategy**: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

6.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2018/19 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

6.5 Alternatively, the Council may arrange forward starting loans during 2018/19, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

6.6 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

6.7 The Cabinet also agreed, on 29 May 2018, to consider a review of all Council assets at its meeting in October 2018 and consider the disposal of any assets deemed to be under-performing to partially offset any increased borrowing requirements as a result of this proposed increase in the capital programme.

6.8 **Sources**: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body

- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Councils approved pension fund))
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

6.9 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

6.10 The Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

6.11 **Municipal Bond Agency**: The UK Municipal Bonds Agency was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for three reasons: borrowing authorities are required to provide lenders with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; there will be a lead time between committing to borrow and knowing the precise interest rate payable; this will always be lower than the PWLB certainty rate. Any decision to borrow from the Agency will therefore be the subject of a separate report to Cabinet and the Capital Strategy Board.

6.12 **LOBOs**: The Council holds £9m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. None of these LOBOS have options during 2018/19, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

6.13 **Short-term and Variable Rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators.

LIMITS ON INTEREST RATE EXPOSURE			
	2018/19 **£m**	**2019/20** **£m**	**2021/22** **£m**
Upper limit on fixed interest rate exposure	350	350	350
Upper limit on variable interest rate exposure	300	300	300

6.14 The increased borrowing requirement set out in this report does not change the approved borrowing strategy as outlined above.

6.15 The increased borrowing requirement is linked to an increase in strategic investment acquisitions. A policy on strategic acquisition is included in the approved Treasury Management Strategy and can be defined as the acquisition of land or properties that will allow the Council to expedite key outcomes contained within the 5 Year Plan. To be considered strategic, it is suggested that acquisition must make a significant contribution towards regeneration objectives and/or provide a commercial return on investment that will improve the financial resilience of the Council.

7 **Conclusion**

7.1 Council is requested to approve the revisions to the capital strategy.