SLOUGH BOROUGH COUNCIL

REPORT TO:	Overview & Scrutiny Committee
DATE:	18th February 2021
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PART I
FOR COMMENT & CONSIDERATION

CAPITAL STRATEGY AND CAPITAL PROGRAMME: 2021/22 TO 2023/24

1 Purpose of Report

1.1 To provide the Overview & Scrutiny Committee with an opportunity to scrutinise the Capital Strategy and Capital Programme 2021/22 to 2023/24 The Cabinet will be requested to recommend approval to Full Council of the capital strategy and capital programme for 2021/22 to 2023/24. Before individual schemes under this programme are commenced sign-off of robust business cases by the S151 Officer and approval from Cabinet will be required.

1.2 The Cabinet will be asked to consider this report and, subject to any proposed changes it wishes to make, submit the Capital Strategy and Capital Programme 2021/22 to 2023/24 to Full Council for approval at its Budget Setting meeting on 8th March 2021.

2 Recommendation(s)/Proposed Action

The Committee is requested to scrutinise and comment on the Capital Strategy and Capital Programme 2021/22 to 2023/24 and make any references to Cabinet prior to it being recommended to Council on 8th March 2021:

Cabinet will be asked to recommend to Full Council:

(a) The General Fund capital programme 2021/22 to 2023/24 of £147.557m and the associated Minimum Revenue Provision.

(b) The Housing Revenue Account (HRA) capital programme 2021/22 to 2023/24 of £161.743m, including £147.248m for Affordable Housing schemes.

(c) The principles underpinning the capital programme in paragraph 5.1.2 and the Minimum Revenue Provision principles in Section 7.

(d) The notional funding allocations for individual schemes as highlighted in Appendix A (General Fund), Appendices B and C (HRA and Affordable Housing) for the period 2020-2024.

(e) The Prudential Indicators, as set out in Section 6 of the report, and the Operational Boundary and Authorised Limit as set out in Tables 1.7 and 1.8. in order to provide increased flexibility to fund the Council's Capital Expenditure plans.

Members are asked to note:

(f) The estimated interest costs of borrowing £119.4m to fund the entire capital programme, assuming an interest cost of 1%, excluding the Minimum Revenue Provision, is £1.194m pa. These costs have been included within the Medium Term Financial Strategy.

(g) The Council will withdraw from its reliance on using capital receipts to fund the Minimum Revenue Provision over the lifetime of this capital programme. The revenue impact of this decision results in a £6.573m pressure by 2023/24. These costs have been included within the Medium Term Financial Strategy.

(h) The Capital cashflow forecast in Appendix D

3. <u>The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan</u>

The report helps achieve the Five Year Plan by contributing to the Council's overall financial planning processes.

4 <u>Other Implications</u>

(a) <u>Financial</u>: As detailed within the report.

(b) <u>Risk Management</u>

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
That the Capital Programme of £309.300m and the Minimum Revenue Provision is approved and recommended to Full Council	The Capital programme should be both affordable and Prudent and there are Prudential Indicators in Section 6 that demonstrate these criteria being met. The Capital programme is	The Council will work with its Treasury advisors in order to mitigate interest rate risk and ensure long term borrowing decisions are taken at the most advantageous time. The Prudential	9-	The Council will look to convert some of its Temporary Borrowing which has funded Capital Expenditure in recent years to Longer Term Borrowing. This may be more expensive initially

	supported by £119.400m in borrowing. There are estimates of the revenue implications in terms of Interest costs and Minimum Revenue Provision. If interest rates rise faster than expected interest payable costs could impact on revenue budgets. There is the risk of escalating capital costs and overspends against budget. This could also impact on the Revenue budget going forward.	Indicators are controls. We report an update to Cabinet on the Capital Programme on a quarterly basis and to Council every 6 months.		but will reduce risk in the medium term.

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	None
Timetable for delivery – capital programme delivered under the 80% mark	Monthly review at Strategic Finance Board and quarterly review by Cabinet and Overview & Scrutiny Committee	Ability to increase the deliver of capital schemes
Project Capacity	None	None
Other	None	None

(c) <u>Human Rights Act and Other Legal Implications</u>

No specific legal implications arise 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 Medium Term Financial Strategy and the Treasury Management Strategy are also on this agenda. The capital strategy, as with all other corporate documents, needs to underpin the delivery of the 5 year plan for the Council through to 2024.

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
- 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
- That the Council aims to maintain education and transport capital expenditure within Government grants
- 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

5.2 Current Medium Term Financial Position

5.2.1 As detailed in the Council's Medium Term Financial Strategy 2021/22 – 2023/24 on this agenda the Council is facing a significant reduction in its anticipated financial resources and will face a number of demand and policy led pressures.

5.2.2 For there to be any net growth in the Council financed element of the capital strategy, the Council will need to increase the amount of revenue funding set aside to pay back potential future borrowing or assume greater investment returns. As detailed within the Treasury Management Strategy, the Council will only borrow as a last resort once it has exhausted all other sources of funding. The Council is currently utilising short-term borrowing rates as these are currently at historically low levels and anticipated to remain low for the next 3 years. There is however some interest rate risk in adopting this approach, i.e. a risk to the council if interest rates start to rise. The Council works closely with its Treasury Management advisers to calculate the best time to borrow longer-term through the Public Works Loans Board (or other sources) in order to reduce interest rate risk.

5.2.3 The summarised capital programme can be seen in Table 1.1 below. This table highlights the key expenditure areas and the financing requirement for the capital programme over the period of the strategy. The Council's capital strategy is now over a three-year period, and it is over this period that the Council needs to consider if additional borrowing is required. For example, if the first year showed a net cost of £10m but the subsequent four years showed £2.5m p.a. of net capital receipts, then the Council could take the decision not to borrow the £10m over the longer term, and finance the capital programme through short term borrowing initially that would be reduced by the net receipts coming into the capital programme.

Table 1.1 Summarised Capital Programme

		Capital Programme 2021/22 to 2023/24			
	Forecast	Budget	Budget	Budget	Total
	2020/2021 *£000*	2021/2022 *£000*	2022/2023 *£000*	2023/2024 *£000*	21/22 to 23/4
Total Adults & Communities	4,230	3,863	2,537	3,299	**9,699**
Total Childrens, Learning & Skills Services	3,614	9,004	3,914	280	**13,198**
Total Place & Development	4,861	13,574	7,461	1,261	**22,296**
Total Regeneration	51,923	49,497	13,895	2,371	**65,763**
Total Finance & Resources	12,158	24,501	6,050	6,050	**36,601**
TOTAL GENERAL FUND CAPITAL	76,786	100,439	33,857	13,261	**147,557**
Total RMI Capital Programme	15,585	4,823	4,823	4,849	**4,849**
Total Affordable Homes	47,473	35,849	49,051	62,348	**62,348**
Total Housing Revenue Account CAPITAL BUDGET	**63,058**	**40,672**	**53,874**	**67,197**	**67,197**
GF Financed by					
Borrowing	62,995	46,154	13,354	7,131	**66,639**
Grants	9,299	29,114	8,003	830	**37,947**
S106	90	2,364	0	0	**2,364**
Capital Receipts in Cap Prog	4,402	22,808	12,500	5,300	**40,608**
	76,786	**100,439**	**33,857**	**13,261**	**147,557**
HRA Financed by					
Borrowing	44,468	19,424	31,589	1,748	52,761
Capital Receipts	2,000	7,500	5,000	3,438	15,938
Institutional Funding	-	-	-	49,000	49,000
Revenue Contributions to Capital	1,871	4,783	8,020	8,162	20,965
Major Repairs Reserve	14,719	8,965	9,265	4,849	23,079
	63,058	**40,672**	**53,874**	**67,197**	**161,743**

5.2.4 The total general fund revenue financing required to fund the capital strategy's borrowing requirement of £66.639m by 2023/24 is £1.723m. The revenue required to fund the HRA's borrowing requirement of £52.761m by 2023/24 is

£1.787m this cost is included in the HRA business plan and is expected to be covered by rents from new properties.

5.2.5 There is a strong alignment between the treasury management strategy and the capital strategy, also on this evening's Cabinet agenda. On the latest estimates in the Treasury Management strategy, the actual cash available to fund the capital programme, once reserves and grants received, but not applied, have been taken into account. The Council must set aside revenue funding to finance long term capital commitments during the life of the capital strategy, this is linked to the Minimum Revenue Provision policy detailed below in this report.

5.3 Key elements

5.3.1 As can be seen in Table 1.1 above, of the capital programme funded via general sources, broadly 52% relates to expenditure through the Housing Revenue Account and 48% on other General Fund activity.

5.3.2 The proposed capital programme includes:

General Fund

Capital Scheme	**Proposed Budget 2021/22** £'000	**Proposed Budget 2022/23** £'000	**Proposed Budget 2023/24** £'000	**Total** £'000
Cemetery Extension	2,500	2,315	1,233	**6,048**
Schools Modernisation Programme	996	600	200	**1,796**
Special School Expansion – Primary, Secondary and Post 16	5,323	2,484	0	**7,807**
Secondary Expansion Programme	1,510	500	0	**2,010**
Chalvey Extra Care Housing	6,313	6,000	0	**12,313**
Major Infrastructure Projects	19,537	3,000	0	**22,537**
Environmental Initiatives	3,668	1,206	1,371	**6,245**
Hub Development	8,072	5,000	0	**13,072**
Youth Hub	5,000	0	0	**5,000**
Thames Valley University Site	3,000	0	0	**3,000**
James Elliman Homes	5,000	0	0	**5,000**
Community Investment Fund	840	840	840	**3,150**

HRA

Capital Scheme	**Proposed Budget 2021/22** £'000	**Proposed Budget 2022/23** £'000	**Proposed Budget 2023/24** £'000	**Total** £'000
Boiler Replacement and Heating	500	500	330	**1,330**
Kitchen & Bathroom Replacement	700	700	700	**2,100**
Garage & Environmental Improvements	2,000	2,000	2,000	**6,000**
Windows and Door Replacement	700	700	700	**2,100**
Affordable Homes	35,849	49,051	62,348	**147,248**

5.4 Financing the capital programme & prudential code

5.4.1 The Council has a variety of sources of funding for the capital programme and these are summarised in Charts 1.1 and 1.2 below:

Chart 1.1: General Fund Capital Financing 2021/22 to 2023/24

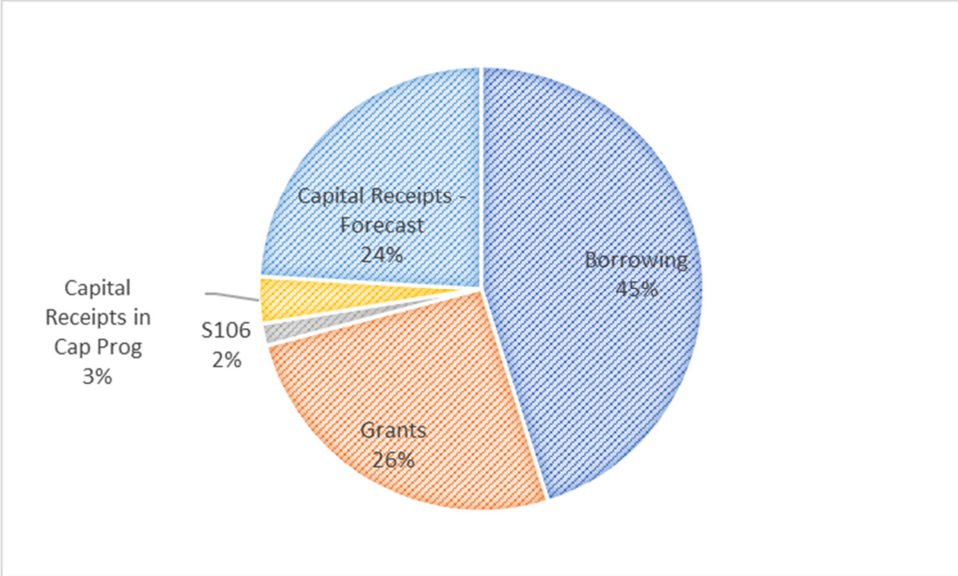
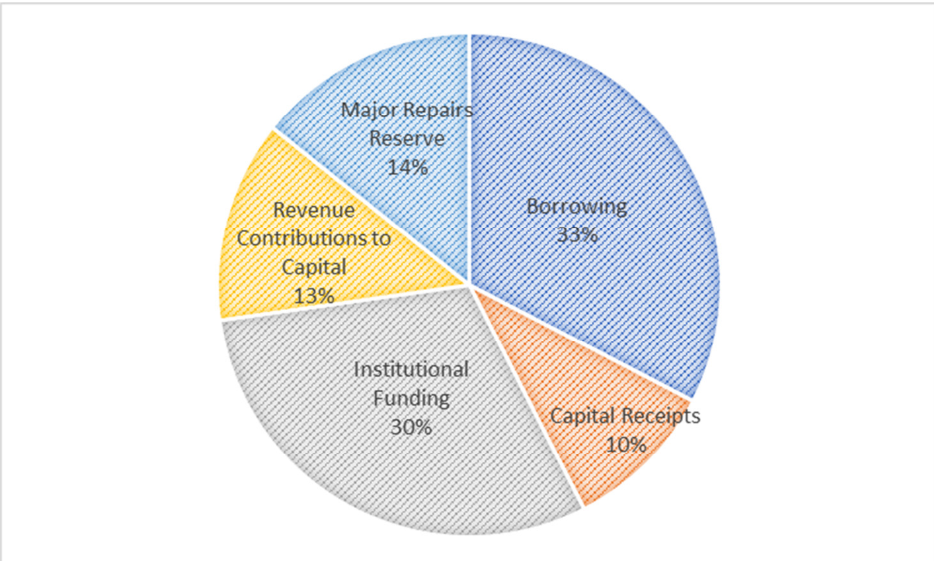


Chart 1.2: HRA Capital Financing 2021/22 to 2023/24



5.4.2 The majority of the Council's General Fund Capital Funding will be derived from grants and capital receipts. The HRA Capital Programme is funded from borrowing, institutional funding, the Major Repairs Reserve, revenue contributions and capital receipts.

5.5 Main sources of income

5.5.1 *Capital Receipts*

The majority of General Fund capital receipts in recent years has come from land receipts received via the Slough Urban Renewal Partnership (SUR). Receipts are derived from the various sites included within the initial Option Agreement with SUR (the Ledgers Road site and Wexham Nursery site respectively). Additional capital receipts will be realised when loans given to the SUR Old Library Site LLP to support the residential element of the scheme are repaid.

5.5.2 The majority of HRA capital receipts arise from the sale of Council homes under the Right to Buy (RTB) regime. Under the changes to the RTB regime, the Council has signed an agreement with the Government allowing it to retain a high proportion of those capital receipts provided they are used to build 'replacement' affordable/social homes.

5.5.3 *Grant Funding*
The Council receives a variety of capital funding grants from various government departments. The Capital strategy is based on the assumption that all transport related expenditure is funded entirely from central government grant funding and the intention going forward is for all school capital costs to be funded via grant as well. The Council will seek every opportunity to maximise its use of grant funding across the organisation as well as utilise any opportunities from HRA funding.

5.5.4 *Section 106 receipts*
The Council partially funds its capital programme from Section 106 receipts. The Council holds approximately £10.453m of S106 receipts, which can be used on various projects over the next 10 years. It is planned to use £0.4m of Section 106 Contributions to fund the 2020/21 Capital Programme, with a further £2.4m to be used to part fund the 2021/22 to 2023/24 Capital Strategy. Additional section 106 Contributions are likely to be received during the period covered by the 2021/22 to 2023/24 Capital strategy and will always be used where possible in order to reduce the need to borrow. A summary of Section 106 Contributions currently available are shown in Table 1.2 below.

Table 1.2 Section 106 Contributions

	Total Deposited	Total Spent	Current Balance	Committed	Uncommitted
	£000	£000	£000	£000	£000
Open Space maintenance	1,358	61	1,297	1,297	0
Open Space Capital	1,684	128	1,557	1,557	0
Public Realm	255	255	0	0	0
Town Centre	40	40	0	0	0
Affordable Housing	5,514	4,281	1,233	1,233	0
Education	8,420	8,206	214	214	0
Highways & Transport	1,274	351	923	573	349
Windsor Road/Conference Centre	232	0	232	232	0
Transport Vision	669	0	669	669	0
RTPI	457	361	96	96	0
Cycleway	615	325	290	271	19
Stoke Road	1,866	0	1,866	1,866	0
Mass Rapid Transport	655	655	0	0	0
Travel Plan	246	30	215	178	38
Bus Service	1,296	0	1,296	1,296	0
Highway Cleansing Maintenance	49	49	0	0	0
Parking	208	43	165	143	23
Air Quality/Electric Vehicle & Car Club	494	114	380	380	0
Employment & Skills	4	0	4	0	4
Monitoring Fee	16	0	16	16	0
Total	**25,353**	**14,899**	**10,453**	**10,020**	**433**

5.5.5 *Capitalisation Direction*

For 2021/22, the Council has sought a 'capitalisation directive' from the Ministry of Housing, Communities and Local Government (MHCLG) to allow it to capitalise £12.2m of revenue expenditure to deal with the exceptional one-off financial pressures arising from a required repayment of Business Rates receipts, backdated to 2010, following a ruling of the Valuations Office Agency (VoA); and the Slough Children's Services Trust's financial deficit. This direction allows the Council to act contrary to the usual principle that revenue costs should be funded entirely out of revenue income. It is likely this dispensation, if approved, will include a number of conditions, including:

(i) the Authority may only capitalise expenditure when it is incurred;

(ii) where expenditure is capitalised, the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with the Department's Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003; and

(iii) where the authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the PWLB (Public Works Loan Board), and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to the Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing.

5.5.6 *Flexible Use of Capital Receipts.*

Revenue expenditure forecast to generate ongoing savings to Slough's net service expenditure and/or transform service delivery can be funded by the flexible use of capital receipts. To date £26.2m of additional capital receipts have been identified for this purpose. This scheme has been extended, by central government at the Final Local Government Settlement, to the end of 2024/25.

5.5.7 *Revenue Contributions*

These will be minimised wherever possible. The most effective way to fund capital expenditure is through spreading the cost of the asset over the lifetime of the asset.

However, in some circumstances, where the Council might receive one-off monies for example, funding a capital scheme from revenue sources might be more beneficial. The majority of revenue contributions are to fund the HRA Capital Programme. Here voluntary revenue contributions are used to increase the value of the Major Repairs Reserve, a Balance Sheet reserve utilised to fund the HRA Capital Programme.

5.5.8 *Borrowing*

Where the Council has capital commitments that exceed its funding sources from the above, the Council is required to borrow in line with the prudential code. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) prudential code governs how the Council borrows funds and ensures that it does so within an affordable framework. The Local Government Act 2003 requires the Council to have regard to the CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's (now Ministry of Housing, Communities & Local Government) Guidance on Minimum Revenue Provision.

5.5.9 The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

5.5.10 Capitalisation of Borrowing Costs

For 2018/19 the Council changed its accounting policy for borrowing costs incurred where items of property, plant and equipment take a substantial period of time to become available for their intended use. The Council has adopted this accounting policy because it believes that the capitalisation of borrowing costs better reflects the costs of property, plant and equipment and helps ensure that those benefiting from the use of the asset meet those costs. Qualifying assets are those assets that necessarily take a substantial period of time to get ready for their intended use.

Taking into account materiality, the Council has determined that qualifying assets are those where the approved capital budget at inception was at least £4m and will take over 12 months to create. Estimates of interest capitalisation for the period of the capital strategy are as follows:

Estimates of Capitalisation of Borrowing Costs 2020-24

2020-21	2021-22	2022-23	2023-24
£000	**£000**	**£000**	**£000**
2,005	260	110	0

5.5.11 Revenue contributions (HRA)

The abolition of the HRA subsidy system, and its replacement by the self-financing regime from April 2012, has enabled the HRA to retain more of its rental income. This additional income is being used to support the building of affordable homes in the capital programme as well as other elements of the capital programme relating to council housing. As a result, new affordable/social homes will be built within the Borough to help replace those sold under the Right to Buy (RTB) regime.

5.5.12 Major Repairs Reserve (HRA)

This reserve is a revenue funded reserve used to maintain the Council's housing stock at a 'Decent Homes' standard and is a major contributor to funding the HRA capital programme.

6 Prudential Indicators

6.1 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

6.2 The Council's planned capital expenditure and financing is summarised in Table 1.3 below:

Table 1.3: Capital Programme

Capital Expenditure and Financing	2020/21 Revised £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	Total £m
General Fund	77	100	34	13	147
HRA	63	41	54	67	162
Total Expenditure	**140**	**141**	**88**	**80**	**309**
Capital Receipts	6	30	18	9	57
Grants & Contributions	9	31	8	50	89
Revenue	2	5	8	8	21
Reserves	15	9	9	5	23
GF Borrowing (incl. internal)	63	46	13	7	66
HRA Borrowing (incl. internal)	44	19	32	2	53
Total Financing	**140**	**141**	**88**	**80**	**309**

6.3 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose and is set out in Table 1.4 below.

Table 1.4 Estimates of Capital Financing Requirement:

Capital Financing Requirement	31.03.21 Revised £m	31.03.22 Estimate £m	31.03.23 Estimate £m	31.03.24 Estimate £m
General Fund	585	685	719	732
HRA	197	238	292	359
Total CFR	**782**	**923**	**1,011**	**1,091**

6.4 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to use useable reserves and working capital to finance capital expenditure where possible to enable external borrowing to be kept below the CFR and reduce investment levels (known as internal borrowing).

As the CFR rises and short term loans mature in 2021 and 2022 the ability to finance the CFR through usable reserves and working capital will reach capacity and there will be a need to borrow externally. The majority of this need will be due to the replacement of short term loans as they mature rather than the expanding capital programme.

6.5 The CFR is forecast to rise by £195m over the next three years. This represents capital expenditure which has no sources of funding (such as Grants, Revenue Contribution, Capital receipts, Section 106 Agreements). This increase will therefore be funded from external and internal borrowing.

6.6 In order 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.

Table 1.5 Estimates of Gross Debt

Debt	**31.03.21 Estimate £m**	**31.03.22 Estimate £m**	**31.03.23 Estimate £m**	**31.03.24 Estimate £m**
Borrowing	780	845	890	899
Leases	5	25	25	25
PFI liabilities	32	31	29	29
Total Debt	**817**	**901**	**944**	**951**

6.7 Total debt is expected to remain below the CFR over the forecast capital strategy period.

6.8 **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 Council's debt.

Table 1.6 Operational Boundary

Operational Boundary	2020/21 Limit £m	2021/22 Limit £m	2022/23 Limit £m	2022/23 Limit £m
Borrowing	780	845	890	899
Other long-term liabilities	59	64	63	62
Total Debt	**839**	**909**	**953**	**961**

6.9 **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 Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 1.7 Authorised Limit

Authorised Limit	2020/21 Limit £m	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m
Borrowing	800	888	921	935
Other long-term liabilities	59	64	63	62
Total Debt	**859**	**952**	**984**	**997**

6.10 **Ratio of Financing Costs to Net Revenue Stream:** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 1.8 Ratio of Financing Costs to Net Revenue Stream

Ratio of Financing Costs to Net Revenue Stream	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Financing costs	1,821	2,896	3,523
Proportion of net revenue stream %	1.48%	2.38%	2.80%

6.11 **Adoption of the CIPFA Treasury Management Code:** The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition. It fully complies with the Code's recommendations

7 Minimum Revenue Provision Statement

7.1 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

7.2 The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

7.3 The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

7.4 CLG has issued guidance on the calculation of MRP, including a number of methods which it considers to be prudent. The guidance is clear that authorities are also free to devise other methods they consider prudent.

7.5 The guidance details:

- **A: Regularity Method: Finance leases and Private Finance Initiative (PFI) :**

MRP on assets acquired through finance leases and Private Finance Initiative (PFI) should be equal to the cash payments that reduce the outstanding liability each year.

- **B: CFR Method: Capital expenditure incurred before 1st April 2008:** MRP on all capital expenditure incurred before 1st April 2008, and on expenditure funded by supported borrowing thereafter, is equal to 4% of the opening CFR with some optional adjustments.

- **C: Asset Life/ Depreciation Method: Unsupported Capital Expenditure ("Prudential" borrowing):** MRP on expenditure incurred from April 2008 onwards that is funded by unsupported "prudential" borrowing should be calculated by reference to the asset's useful life, using either a straight line or an annuity method, starting in the year after the asset becomes operational. This may also be used for supported Non-HRA capital expenditure if the Council chooses. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

  Here, the Council has three broad options:

  - Option 1: the 4% reducing balance method
  - Option 2: the straight line asset life method, and
  - Option 3: the annuity asset life method.

7.6 Up to 2015/16 the Council used Option 1 respect of supported capital expenditure funded from borrowing and Option 2 in respect of unsupported capital expenditure funded from borrowing and Private Finance Initiative schemes. MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice matched the annual principal repayment for the associated deferred liability.

7.7 The Council MRP Policy changed in 2017/18. At a time of increasing pressure on the revenue budget, savings in the annual cost of MRP may reduce the need for savings to be made in front line services. During 2016-17 the Council's Treasury Management advisors were commissioned to conduct a review of MRP, and advisors recommended moving to an annuity basis (Option 3) for both supported and unsupported capital expenditure (including PFI liability) with effect from 1st April 2016. This reduced the MRP charged in this and for future years for the foreseeable future though it is estimated to become a cost to the Council in 2037/38.

7.8 This change to the previous MRP policy resulted in a credit from the overprovision made in previous years (approximately £3.6m). The benefit arising will be applied prospectively, spread over a period of 10 to 15 years to link in with the Medium Term Financial Planning process. This “recovery” method is in line with guidance issued by the National Audit Office (NAO).

7.9 Capital expenditure incurred during 2020/21 would not be subject to a MRP charge until 2021/22.

7.10 Based on the Council’s latest estimate of its Capital Financing Requirement on 31st March 2021, the budget for MRP is shown in Table 1.10 below. The table below differs from Table 1.2 as it includes the charging of MRP on unfinanced capital expenditure incurred prior to the 2021-22 financial year. A summary of the estimate of MRP over the life of the capital strategy and the intended use of capital receipts to fund MRP is shown in the table below. The capital strategy proposes withdrawing from the use of funding MRP via capital receipts over the next three years. The revenue implications of this policy change are included within the Medium Term Financial Strategy.

Table 1.9 MRP Method – Option 3 (Annuity)

	2020-21	2021-22	2022-23	2023-34
	£000	£000	£000	£000
50 year Annuity MRP charge	4,454	5,466	6,579	6,933
Over provision of £3.6m spread over 10 years	(360)	(360)	(360)	(360)
MRP Charge	4,094	5,106	6 ,219	6,573
Funded from Revenue	(40)	(40)	(3,105)	(6,573)
Funded from Capital Receipts	(4,054)	(5,066)	(3,104)	0
Total MRP Funding	**(4,094)**	**(5,106)**	**(6,219)**	**(6,573)**

8 Community Investment Fund

8.1 The Community Investment Fund programme for 2021/22 has an indicative budget of £1.050m with the majority to be spent on neighbourhood enhancements identified by Councillors in each of their wards across the Borough. All elected Councillors will have £20,000 each to spend on Capital projects of their choosing and Cabinet has an additional Community Investment Fund Capital Allocation of £210,000. The only stipulation is that the expenditure must be capital and not revenue expenditure. Allocations are for individual Councillors but two or more Councillors can pool resources in order to fund a larger project. Thus far orders have been raised for Park and Recreation Ground improvements, footway and alleyway resurfacing and improvements to green verges.

9 Comments of Other Committees

9.1 This report will be considered by the Cabinet on 22nd February 2021 and will consider any comments of the Overview & Scrutiny Committee.

10 Conclusion

The Committee is requested to scrutinise this report and make any references to Cabinet which is are requested to approve the capital strategy and recommend it to Council on 8th March 2021.

11 Appendices Attached

‘A’ Detailed schemes in 2021/22 to 2023/24 General Fund Capital Programme
‘B’ Detailed schemes in 2021/22 to 2023/24 HRA Capital Programme
‘C’ Proposed Affordable Housing Schemes 2021/22 to 2023/24

12 Background Papers

- Medium Term Financial Strategy 2021/22 to 2023/24
- Treasury Management and Investment Strategy 2021/22 to 23/24
- Asset Management Strategy
- Other working papers held within the Finance Department