SLOUGH BOROUGH COUNCIL

REPORT TO:	Council
DATE:	10th March 2022
SUBJECT:	Capital Programme 2022/23 to 2026/27
PORTFOLIO:	Cllr Anderson – Financial Oversight, Council Assets and Performance
CHIEF OFFICER:	Steven Mair, Director of Finance (S151 officer)
CONTACT OFFICER:	Peter Worth, Financial Advisor
WARD(S):	All
EXEMPT:	No
APPENDICES:	Appendix A Detailed Capital Programme 2022/23 to 2026/27

1 Summary and Recommendations

The report sets out the Council's capital strategy from 2022/23 to 2026/27

Recommendations:

Subject to approval of the recommendations by Cabinet on 9th March 2022:

Council is recommended to:

1.1 Approve the Capital Programme as set out in Appendix A for 2022/23 to 2026/27.

Reason: The Council should have an approved capital programme over the medium-term as part of its overall Financial Framework. This will comply with the requirements of the Capital Strategy as set out in the Treasury Management Strategy which is set out in a separate report. Capital expenditure is defined as expenditure that is predominantly incurred on buying, constructing or improving physical assets such as land, buildings, infrastructure and equipment.

Commissioner Review

"On 1st December 2021, the Secretary of State issued Directions to Slough Borough Council under Section15(5) and (6) of the Local Government Act 1999. Annex B of the Directions provides that Commissioners shall exercise…

The requirement from Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authorities financial affairs, and all functions associated with the strategic financial management of the Authority. This Direction included as d) the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty.

The set of budget reports presented to this cycle of meetings exposes the recklessness in the way the Authority has managed its affairs over the past few years and the scale of both central government support required and the challenge in re-establishing financial stability.

Commissioners consider that the proposals contained in this set of budget reports meet the requirements of the Directions. It should be made clear however, that no variation from either the general or specific proposals identified can be agreed or acted upon without the prior approval of Commissioners who reserve their right to amend budgets if required. This will require commitment and determination from all Councillors and every budget holding officer who will need to recognise their personal accountability in these matters.

At this stage it is not proposed to extend any additional funding, whether by cashflow or longer term finance to any of the Council's subsidiary companies and the Council's shareholder representatives should be required to make this clear.

It will be essential for a full appraisal of the Council's let estate, both GF and HRA but excluding HRA housing, to be undertaken and reported. In the first instance it should be explicit that all renewals and new leases or licenses will be based on the principles of normal commercial terms and a fully repairing and insuring basis.

This budget specifies a level of capital receipts required to balance the budget overall. This figure needs to be regarded as a minimum goal in cash terms to be achieved by year end and a disposal strategy will need to be brought forward to identify a significant increase in receipts banked in the early years of the MTFS.

Commissioners do not underestimate the scale of the challenge, both financial and operational, facing the Council. We will continue to provide advice and challenge to assist the Authority on its journey back to mainstream local government."

Executive summary

Introduction

1.2 The capital programme set out in the Capital Strategy forms a key part of the Council's budget setting process.

1.3 Previous year's capital programmes have been ambitious involving several major projects in any one year and were heavily dependent on borrowing. There was insufficient capacity to deliver the capital programme, resulting in slippage of 40% in delivering the programme. The heavy dependency on borrowing to fund capital expenditure in past years has seen overall borrowing rise four-fold from £170m at 31 March 2016 to £760m at 31 March 2021.

1.4 The cost of servicing this level of debt was significantly under-reported in previous budgets.

1.5 The previous capital programme approved 8 March 2021 envisaged spending £309m over three years 2021/22 to 2023/24 of which £119m was to be funded from borrowing and a further £49m from institutional funding. Both incur capital financing charges. This would have resulted in total Council borrowing exceeding £900m.

Changes to the previous capital programme

1.6 The capital programme has been reviewed to:

- reduce capital expenditure to focus on contractual commitments and health and safety requirement in line with the s.114 Notice – this has reduced the total capital programme by £73m to £219m;
- reduce reliance on borrowing from £119m to £37m;
- extend the capital programme from three years to a five year forward look in line with best practice.

1.7 There were a number of errors in last year's capital programme as follows:

- table 1.1, the summarised capital programme did not cross cast – all tables in this year's Capital Strategy cross-cast;
- the capitalisation direction of £12.2m approved in March 2021, had incorrectly been treated as capital expenditure. It should have been treated as a source of capital finance and has been corrected in this year's programme
- the total borrowing requirement set out in the summarised capital programme did not flow through into the projections of the Capital Financing Requirement (CFR) in the Treasury Management Statement, with the result that the projections were misstated. The capital programme and the TMS have been integrated to ensure both report the same figures.

1.8 Key changes made in the current Capital Strategy include:

- moving the MRP Statement to the TMS;
- deleting the policy to capitalise borrowing costs as this is a redundant policy given that Council is seeking to capitalise revenue costs
- deleting the Community Investment Fund from the capital programme, as the expenditure being incurred did not create capital assets and was in many cases below the threshold for recognition.

Summary of the capital programme

1.9 The total capital programme over the 6 years 2021/22 to 2026/27 is £219m largely funded by capital grant and the major repairs reserve – see summary below:

	General Fund £m	HRA £m	Total £m
Spend	**114**	**105**	**219**
Funded by:			
Capital grants	(65)	0	(65)
Capital receipts	0	(9)	(9)
Developer contributions	(2)	0	(2)
Major Repairs Reserve	0	(68)	(68)
Direct funding from revenue	0	(8)	(8)
Capitalisation Direction	(30)	0	(30)
Total external funding	**(97)**	**(85)**	**(182)**
Total borrowing requirement	**(17)**	**(20)**	**(37)**
Total Funding including borrowing	**(114)**	**(105)**	**(219)**

1.10 The detailed capital programme for both is set out in Appendix A.

1.11 The capital programme has been prepared in the light of the s.114 Notice issued in July 2021, the extremely challenging financial position of the Council the CIPFA Financial Review and the appointment of commissioners, and is designed to be one of the many workstreams to bring the Council's financial situation onto a more sustainable footing.

1.12 In addition to the capital budgets and revenue implications, the report sets out:

- the Council's asset base;
- delivery strategies;
- governance;
- capital funding; and
- risk management.

2 Report

The Council's assets

2.1 The Council has total long-term assets of £1.3 billion comprising property, plant, equipment, investment property, heritage and other assets summarised in table 1 below:

Table 1 Asset portfolio

Asset type	£m
Council dwellings	551
Other land and buildings	305
Investment property	215
Infrastructure assets	118
Assets under Construction	29
Community Assets	10
Vehicles, plant and equipment	58
Surplus assets	18
Intangible assets	1
Total	**1,305**

2.2 The majority of capital expenditure set out in this strategy will be spent on land and buildings and council dwellings.

2.3 The Council carries out regular maintenance on its properties and infrastructure assets. The capital programme ensure that the Council's highways, operational properties and council dwellings are continuously maintained to a good standard.

Overview of delivery strategies

2.4 The Council's capital programme has been split over three key areas in previous years:

- development to regenerate areas of key sites within Slough
- strategic acquisitions to acquire property for investment return to make a contribution to the Council's revenue position; and
- operational to meet service delivery objectives, reduce carbon footprint and meet statutory requirements.

Development

2.5 The Council has engaged in a substantial regeneration and acquisition programme over the past six years principally in partnership with Slough Urban Renewal LLP, its joint venture with Morgan Sindall Investments Ltd. and through its subsidiary company James Elliman Homes Ltd.

2.6 However, both avenues for development are capital intensive and partly as a consequence the Council's overall borrowing has quadrupled from £170m in 2015/6 to £760m at 31 March 2021. This is financially unsustainable for an authority the size of Slough with a below average taxbase. Consequently, the Council has embarked on a process to reduce its activities with SUR and has stopped the James Elliman Homes housing acquisition strategy.

2.7 A key financial risk from development projects is the need to have accurate and reliable financial estimates and profiling of expenditure in line with project milestones.

Whilst this has been provided for SUR, this has not been clearly understood within the Council which has impacted upon the Council's financial planning and accounting treatment. In addition, the Council has experienced a high turnover of directors and representatives on the Boards of its subsidiary companies and joint venture which has weakened the Council's oversight and performance management.

2.8 Consequently:

- there will be no more loan advances to James Elliman Homes through the capital programme.
- loans to SUR will be limited to providing cashflow pending the sale of housing units at the Old Library Site.
- there will be no further capital investment by the Council into the sites that are optioned to SUR.
- improvements have been made to strengthen governance arrangements, including new directors and a Corporate Oversight Board as the Council shifts to a reduced capital programme.

Strategic Acquisitions

2.9 The Council has invested substantially in investment property under the oversight of the Strategic Acquisition Board 2016-2020. However, no strategic consideration was given to target rates of return, investment benchmarks, net yields, investment lot size etc. Instead the Board appears to have been purely focused on generating an income stream of £6m. Furthermore the aims of the Board were confused in that it was both to pursue investment property for return and acquire property for regeneration – these are very different aims requiring different decision-making, performance measurement and length of holding.

2.10 Consequently, the investment portfolio includes assets over £10m as well as smaller assets valued at less than £0.5m, property acquired both within and outside of the council area, a portfolio currently yielding a negative rate of return of 0.60%.

2.11 In view of the need to reduce the high level of borrowing and the negative rate of return from the investment property portfolio, the Council will be disposing of the investment property portfolio as part of the asset disposal strategy approved in September 2021.

Operational

2.12 As a result of stopping all Development and Strategic Acquisitions, the capital programme is focussed solely on improvement works to the Council's operational asset portfolio.

3 Governance

3.1 Once the capital programme is approved by full Council, any changes must be approved in accordance with the Council's financial procedure rules. These are currently being reviewed, but the current rules require the following:

3.1.1 Specific approval by Cabinet for all capital or grant aided scheme. The report to Cabinet must include a full scheme appraisal, including a financial and technical appraisal in a formal prescribed by the Director of Finance. The appraisal should include alternatives to the proposed bid, resources required for delivery, delivery mechanism and timetable.

3.1.2 Approval of the cabinet programme confers authority on Cabinet and officers to incur capital expenditure, subject to compliance with the virement rules for capital.

3.1.3 Directorates should provide progress information to allow a quarterly capital monitoring report to be presented to Cabinet. This report should include level of committed budget, and any areas of underspend or re-profiling required.

3.1.4 Capital schemes may last for more than one financial year, so variations need to be considered in terms of both the impact on the scheme as a whole and on the agreed annual programme. The Director of Finance, following review by the Capital Strategy Board, may authorise a variation to a project subject to the overall cost of the variation (including previous variations) not incurring expenditure of more than 10% of the total cost of the scheme or £250,000 whichever is less.

3.1.5 A variation which results in the total or annual cost of the scheme exceeding the financial limits set out in 3.1.4 must be reported to the Cabinet.

3.1.6 A scheme approved in the capital programme for a future financial year may be brought forward into the current financial year, or a current scheme may be varied, subject to:

(i) The overall revenue impact of the capital programme in the current financial year remaining the same and there being no increase to the underlying borrowing requirement;

(ii) Consideration by the Capital Strategy Board and consultation with the Director of Finance and the respective Lead Member;

(iii) Reporting to Cabinet as part of the next quarterly finance report.

3.1.7 Any re-profiling of capital schemes in year will be reported to Cabinet to consider whether the overall revenue cost of the capital programme is exceeded. Any revenue increase to the Capital Programme or the underlying borrowing requirement must be considered by full Council.

3.1.8 Where a directorate has overspent on capital schemes in any one year, it will be expected to have balancing underspends to enable the Council to stay within the overall annual capital programme.

4 Summary of the Capital Programme 2021/22 to 2026/27

4.1 The capital programme and the proposed funding is set out in Table 2 below.

Table 2 Proposed Capital Programme 2021/22 to 2026/27

	Forecast 2021/22 £000s	Five Year Plan 2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	Total £000s
Expenditure							
General Fund							
People Children	720	2,037	3,050	1,695	1,680	1,680	10,862
Customer and Community	1,146	180	0	0	0	0	1,326
Place	26,549	38,604	2,833	3,933	3,933	2,440	78,292
People Adults	948	353	0	0	0	0	1,301
Finance & Resources	6,582	2,000	2,000	2,000	2,000	2,000	16,582
Corporate	2,378	2,085	450	250	250	250	5,663
HRA	13,001	22,111	24,108	24,770	7,253	13,951	105,194
Total expenditure	**51,324**	**67,370**	**32,441**	**32,648**	**15,116**	**20,321**	**219,220**
External funding	(42,786)	(60,267)	(24,391)	(22,268)	(13,616)	(18,821)	(182,149)
Borrowing Requirement							
General Fund	8,538	4,102	400	1,500	1,500	1,500	17,540
HRA	0	3,001	7,650	8,880	0	0	19,531
Total Borrowing Requirement	**8,538**	**7,103**	**8,050**	**10,380**	**1,500**	**1,500**	**37,071**

4.2 In drawing up the above programme, the emphasis has been on ensuring that only schemes which are largely funded from external sources are included. This is part of the Council’s debt reduction strategy. Hitherto, the Council’s capital programme has been heavily dependent on borrowing to the extent that the borrowing level and associated costs have become unaffordable and are consuming a substantial part of the net revenue budget.

Table 3 Summary of the reductions in capital programme

	Forecast 2021/22 £000s	Five Year Plan 2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	Total £000s
Original budget							
General Fund	100,439	33,857	13,261				147,557
HRA	40,672	53,874	67,197				161,743
Total	**141,111**	**87,731**	**80,458**	**0**	**0**	**0**	**309,300**
Revised budget							
General Fund	38,323	45,259	8,333	7,878	7,863	6,370	114,026
HRA	13,001	22,111	24,108	24,770	7,253	13,951	105,194
Total	**51,324**	**67,370**	**32,441**	**32,648**	**15,116**	**20,321**	**219,220**
Change	**(89,787)**	**(20,361)**	**(48,017)**	**32,648**	**15,116**	**20,321**	**(90,080)**
Borrowing							
Original budget	65,578	44,943	8,879				119,400
Revised budget	8,538	7,103	8,050	10,380	1,500	1,500	37,071
Change	**(57,040)**	**(37,840)**	**(829)**	**10,380**	**1,500**	**1,500**	**(82,329)**

4.3 Table 3 above summarises the changes to the capital programme arising from the review of the programme following the s.114 Notice and the need to reduce future borrowing. As a result the overall capital budget reduces by £90m over a five year timescale compared with the three years previously and the future need to borrow reduces by £82m to £37m. With a revenue saving of £2.5m per annum. On a three year 2021/22 to 2023/24 like for like comparison with the previous years capital programme the overall reduction is £158m.

4.4 One of the projects cancelled is for an Extra Care Centre at Chalvey. The project involved leasing a plot of land for 42 years and then the project was to build the extra care centre on the plot of land, with income from residents being used to cover the costs of financing the construction and the lease rentals. As a result of cancelling the project, the Council is left with a lease for a plot of land, for which it is contractually committed to pay lease rentals for the unexpired term of the lease which is forty years. As the Council currently is receiving no financial benefit from the lease, this is an abortive cost, and has to be recognised as a provision for an onerous contract, the cost of which is £4.6m for the remaining term of the lease.

Key projects

Place Directorate

4.5 The key projects for the Place Directorate include various highways projects totalling £29m funded through the Berkshire Local Enterprise Partnership, developer contributions and capital grant from the Department for Transport.

4.6 A key project is the provision of loan facilities to GRE5 Ltd to remove cladding from Nova House. The gross budget is £20.7m which is expected to be supported by grant from Homes England totalling £9.3m over the next two years. The expenditure on Nova House is statutorily classified as capital expenditure, as it is a loan to a third party (GRE5 Ltd) for capital works. The loan will be repaid by the company passporting the grant to the Council, and by an insurance claim and charges on leaseholders. The latter two sources depend on the outcome of litigation so have not been included in the capital programme. The initial loan advance is being funded from the Capitalisation Direction.

4.7 There is an ongoing programme of works to address issues arising from the stock condition survey totalling £6.7m which will require funding from borrowing over the next five years in the absence of other alternative capital resources. The works are essential to maintain the condition of the Council's asset portfolio to meet health and safety and fire safety requirements.

4.8 The capital programme includes a project called Sponge City which will improve flood resilience for the Salt Hill Stream and Chalvey Ditches catchment totalling £6m over the next five years. The project is fully funded by capital grant from the Environment Agency.

4.9 In previous years the Council has allocated a substantial budget to the Strategic Acquisition Fund to acquire property for investment returns. Review of the performance of the portfolio shows that these were not adequately managed and lacked a cohesive strategy. This has resulted in a very mixed collection of assets, which have produced a net negative rate of return of 0.60%. For this reason, as part of the Council's debt reduction strategy, the Strategic Acquisition Fund has been terminated.

4.10 Currently British Land plc and the Abu Dhabi Investment Authority are progressing plans to redevelop a large section of central Slough - the Queensmere Centre. The Council currently has no involvement in the project other than as the planning authority. There is a potential that the Council may be called upon to undertake some infrastructure works from 2024 onwards as part of the proposed development. Nothing has been included in the forward capital programme and the Council will consider its priorities and role in relation to the Town Centre development.

4.11 The Council needs to reduce infrastructure very significantly to reduce the borrowings it is carrying, so that it can afford to service the remaining associated debt of the fewer essential assets it will continue to hold. The capitalisation direction request to DLUHC assumes asset sales in the order of £600m.

4.12 This will mean that the Council will have significantly smaller infrastructure and will need to enable services from fewer buildings. To achieve this, the days of having departmentally occupied and managed buildings must end. The buildings that are retained will either be for a very specific technical/operational purpose or will become more intensively-used hubs for the communities, where residents can access services.

4.13 The Council's Cabinet and Corporate Leadership Team are going through a process to establish the Council's future service offer and which of the Council's buildings will be key locations for service delivery at community/neighbourhood level going forward. Some Council Buildings may need to be adapted to enable a wider range of uses to take place from them, as part of the process to reduce the number of buildings from which services are provided and to consolidate more services into key sites

4.14 Once this is agreed, has been considered by Scrutiny and Cabinet, and full Council have approved the Council's future operating model and core operational assets/sites, additional reports will be presented to ensure the remaining operational assets/sites conform to the forward strategy, backed up by robust business cases and fully taking into account the financial position of the Council - these reports may include adjustments to the capital programme to ensure that the Council's retained assets are fit for purpose and can deliver the agreed strategy within available resources for a sustainable Council.

4.15 In preparing the capital programme, a number of assumptions have been made in respect of the Council's involvement in it's companies:

- there will be no further capital programme costs in relation to sites optioned to SUR LLP;
- there will be no further capital expenditure in relation to GRE5 Ltd over and above the Council's loan facility to the company of £10m;
- no further property acquisitions by James Elliman Homes Ltd, and therefore no further drawdown against the loan facility provided to the company.

People – Childrens Directorate

4.16 The key projects for the Childrens Directorate continue to be the schools modernisation programme and the expansion of the special schools provision in the Council area to meet the increasing numbers of pupils with Special Education Needs. Both projects are largely funded from capital grant from the Department for Education (DfE) supplemented by developer contributions. The programme has been forecast on the assumption that the DfE will continue to provide grant funding beyond the next 12 months, because currently the Department only provides assurance over funding within the next 12 months.

Corporate operations

4.17 The capital programme includes £5.7m to modernise the Council's information technology (IT) infrastructure. This involves modernising a substantial number of systems essential to the continuing effective operation of the Council and to improve the Council's resilience to cyber attack. This will be part funded from grant from DLUHC and the main part through the capitalisation direction.

4.18 Because of the Council's extreme financial pressures the preparation of the capital programme has totally correctly been led by the need to minimise expenditure that is not externally financed to reduce the consequential impact on the revenue budget. Nevertheless it may be necessary for the Council in exceptional circumstances to incur some limited capital expenditure. Hence a sum of £2m per annum has been set to one side. In order for this to be accessed a report of the Director of Finance and relevant Executive Director to Cabinet will be needed. This will be funded from the capitalisation direction in the event that the contingency is needed in any year.

5 Capital Funding

5.1 The Council is required to have a funded capital programme that is affordable. i.e. all capital expenditure should have a source of funding and if that funding source is borrowing, the cost of borrowing should be built into a balanced revenue budget.

5.2 The key sources of funding for the Council are:

- grants
- developer contributions
- capital receipts
- direct revenue funding
- Major Repairs Reserve (HRA only) and
- borrowing

Grants

5.3 These are predominantly government grants and are usually provided to the Council to fund specific schemes or programmes. The majority of grants which the Council receives for capital are from:

- the Department for Education (DfE) to ensure the Council is meeting its statutory duty to provide school places and that school buildings are in good condition;
- the Department for Transport (DfT) for infrastructure (i.e. highways) improvements; and
- the Department for Levelling Up, Housing and Communities (DLUHC) for disabled facilities grant (DFG).

5.4 Capital grants usually have conditions attached which require the grant to be used for specific schemes and potentially require repayment in the event that they are not used for the purpose intended or within a set timetable.

Developer contributions

5.5 Developer contributions are a contract between a developer and the Council, which have to be used on specific projects rather than a more general objective. These are either:

- s.106 agreements made under the section 106 of the Town and Country Planning Act 1990 whereby the planning authority place an obligation on the developer to undertake an obligation as part of the planning permission, and the developer agrees to pay a contribution to the authority for the authority to undertake the works to discharge the obligation; and

- s.278 agreements made under section 278 of the Highways Act 1980 which allow a developer to enter into an agreement with the highways authority to make permanent alterations or improvements to a public highway as part of a planning approval.

Capital receipts

5.6 Capital receipts are generated from the sale of non-current assets (e.g. land and buildings). The use of capital receipts is statutorily prescribed, such that they can only be used primarily to fund capital expenditure or repay borrowing. The Council holds all capital receipts corporately, which ensures that they can be used to fund the overall capital programme.

5.7 As set out the Debt Recovery Strategy approved by Cabinet 20 September 2021, capital receipts generated from asset sales will be used:

- firstly, to finance the much reduced flexible use of capital receipts programme set out in the revenue budget report
- secondly, to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and
- thirdly, to repay existing external debt.

Direct revenue funding

5.8 The Council can, if it chooses to, fund capital expenditure via its revenue budget. This can be through in-year underspends, earmarked reserves or via the General Fund or Housing Revenue Account (HRA). Any funding of the capital programme via revenue resources has to be considered in light of:

- the Council's overall revenue budget and the Medium Term Financial Plan in respect of the General Fund
- the HRA Business Plan in respect of the Housing Revenue Account.

Major Repairs Reserve

5.9 The Major Repairs Reserve (MRR) is unique to the HRA. Statute requires that depreciation on dwellings within the HRA is transferred to the MRR, and can only be used on capital expenditure on HRA assets.

Borrowing

5.10 Borrowing to fund capital expenditure is normal practice in both the private and public sector. In local government the prudential regime has operated since 2003/04 under which local authorities must take responsibility to ensure that borrowing is both affordable and sustainable for the revenue budget and the council taxpayer.

5.11 Borrowing can take the form of internal or external borrowing. Internal borrowing is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long-term basis providing the Council with a return on investment. However, the Council does not have any internal borrowing as all internal resources have been used in previous years.

5.12 Consequently, the Council's borrowing is entirely external borrowing. External borrowing is where the Council borrows money from the open market such as from banks or the Government via the Public Works Loans Board or other local authorities.

5.13 Although the capital programme may highlight a need to borrow to fund capital expenditure (the borrowing requirement referred to in Table 2), the timing and type of borrowing depends on cashflow modelling in line with the Council's Treasury Management Strategy.

5.14 The Council's total borrowing requirement is based on capital expenditure incurred historically but yet to be financed is measured and reported as the Capital Financing Requirement. This is published in the Statement of Accounts in the Capital Expenditure and Financing Note and projections are reported in the Treasury Management Strategy.

5.15 All borrowing incurs capital financing costs, namely interest charges and a minimum revenue provision (MRP). MRP is an amount which the Council is statutorily required to set aside to repay borrowing to the extent that the Council's CFR remains positive.

5.16 All capital financing costs must be treated as a revenue cost and built into the Council's budget plans. In essence the more the Council borrows, the greater the call on the revenue budget, which then requires further service savings to be identified to fund this in the longer term. Consequently, it is important that borrowing is set at a level which is both affordable and sustainable in revenue budget terms.

6 Capital Programme Funding 2021/22 to 2026/27

6.1 Table 4 overleaf summarises the funding of the proposed capital programme both for the General Fund and the HRA.

Table 4 Analysis of proposed external funding

	Forecast 2021/22 £000s	Five Year Plan 2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	Total £000s
Funding							
General Fund							
Capital grants	(12,816)	(35,503)	(5,483)	(4,128)	(4,113)	(2,870)	(64,913)
Capital receipts	(41)	0	0	0	0	0	(41)
Developer contributions	(1,194)	(100)	0	0	0	0	(1,294)
Direct funding from revenue	(200)	0	0	0	0	0	(200)
Capitalisation Directive	(15,534)	(5,554)	(2,450)	(2,250)	(2,250)	(2,000)	(30,038)
Total GF funding	**(29,785)**	**(41,157)**	**(7,933)**	**(6,378)**	**(6,363)**	**(4,870)**	**(96,486)**
Housing Revenue Account							
Capital grants							0
Capital receipts	(1,834)	(1,790)	(1,843)	(1,897)	(1,950)	0	(9,314)
Developer contributions							0
Major Repairs Reserve	(11,167)	(15,320)	(12,615)	(9,993)	(5,303)	(13,951)	(68,349)
Direct funding from revenue	0	(2,000)	(2,000)	(4,000)	0	0	(8,000)
Total HRA funding	**(13,001)**	**(19,110)**	**(16,458)**	**(15,890)**	**(7,253)**	**(13,951)**	**(85,663)**
Total funding excluding borrowing	**(42,786)**	**(60,267)**	**(24,391)**	**(22,268)**	**(13,616)**	**(18,821)**	**(182,149)**
Borrowing	(8,538)	(7,103)	(8,050)	(10,380)	(1,500)	(1,500)	(37,071)
Total funding including borrowing	**(51,324)**	**(67,370)**	**(32,441)**	**(32,648)**	**(15,116)**	**(20,321)**	**(219,220)**

6.2 Table 4 above shows that £182m of the overall capital programme is to be funded from external sources (i.e. not borrowing) equivalent to 83% of the capital programme, leaving only £37m, 17%, to be funded from borrowing.

6.3 This is a huge change in capital strategy compared to that approved in March 2021, which was planning to incur additional borrowing of £119m over the shorter period from 2021/22 to 2023/24 or 55% of the capital programme. The reduction in reliance on borrowing has been achieved by removing schemes which were totally relying on borrowing and seeking alternative sources of funding.

7 Revenue Implications of the Programme

7.1 In respect of any General Fund capital expenditure which is not fully funded from available capital resources (i.e. capital receipts, capital grants, developer contributions and direct funding from revenue) gives rise to borrowing which incurs capital charges in the form of MRP and interest. Where expenditure is to be met from a capitalisation direction, this incurs MRP also which is amortised over 20 years in line with the Statutory Guidance on Minimum Revenue Provision (issued by DCLG 2018).

7.2 HRA capital expenditure falls outside the MRP requirements. Instead, loan repayments are a direct charge to the HRA, as evidenced by the £10m repayment due in March 2022, which is the first repayment arising from the national HRA re-financing exercise carried out in March 2012.

7.3 Table 5 overleaf shows that even with a modest amount of additional borrowing in respect of the General Fund capital programme, the capital financing charges mount up as the incremental impact takes effect.

Table 5 Summary of revenue implications of the GF Capital Programme

	Forecast	Five Year Plan					
	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	Total £000s
Borrowing Requirement							
General Fund	8,538	4,102	400	1,500	1,500	1,500	17,540
Additional MRP on borrowing		252	351	390	430	470	1,894
Additional MRP on capitalisation		777	1,054	1,177	1,177	1,177	5,362
Interest charges		138	170	203	236	268	1,015
Total additional MRP and interest charges	**0**	**1,167**	**1,575**	**1,770**	**1,843**	**1,915**	**8,271**
Incremental increase in MRP and interest charges		**1,167**	**408**	**195**	**73**	**73**	

8 Risk Management

8.1 Capital projects require careful management to mitigate the potential risks that can arise. Effective monitoring, management and mitigation of these key risks is a key part of managing the capital strategy, which are set out below.

Interest rate risk

8.2 The Council is planning to potentially borrow £37m for the capital programme over the next five years (£17m General Fund and £20m HRA) as set out in this Capital Strategy. Whilst this seems counter-intuitive given that the Council has a debt reduction strategy in place, nonetheless in order to complete the projects currently outstanding from previous programmes will require some borrowing and some limited borrowing will be essential to allow the Council to function.

8.3 Interest rates are variable and are forecast to increase over the next year as the Bank of England seeks manage inflation nationally. Currently any additional borrowing has been by borrowing short-term from other local authorities. This strategy works well provided that there is surplus money within the local authority money market. In the event that liquidity slows in this market then the Council will need to lock into fixed borrowing with the PWLB, but will seek to avoid doing so while the current debt reduction strategy is in place.

Inflation risk

8.4 Construction inflation over and above that budgeted could impact on the affordability of the capital programme. A rise of 1% in the cost of the overall programme would increase the cost of the programme by £1.9m. Whilst this is mitigated through regular budget monitoring, this may require projects to be deferred to future years or deleted.

9. Implications of the Recommendation

9.1 Financial implications

9.1.1 These are set out in the main body of this report.

9.2 Legal implications

9.2.1 The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council’s constitution and in particular the Financial Procedure Rules.

9.3 Risk management implications

9.3.1 These are set out in the main body of the report

9.4 Environmental implications

9.4.1 Inevitably, with any capital projects there are likely to be environmental implications, which will be considered when approval is sought for particular schemes.

9.5 Equality implications

9.5.1 At this stage, it is not possible to fully measure the impact of these proposals on those people who have protected characteristics under the Equality Act 2010, or how the geographic spread of the capital strategy proposals will be felt across all areas of Slough. However, our preliminary equality impact analysis of the planned activity for 2022/23 indicates that whilst the council is focused on making a wide range of changes during 2022/23 in order to balance its budget, it is likely that many of the proposals will have limited negative impacts on the communities that we serve.

9.5.2 In order to ensure that the Council complies with its duty under section 149 of the Equality Act 2010 individual equality impact assessments will continue to be undertaken as proposals are developed in order to ensure there are mitigating actions, where possible, to minimise any adverse impacts on our communities.

9.6 Procurement implications

9.6.1 Inevitably with any capital projects there are likely to be procurement implications, which will be considered when approval is sought for particular schemes.

9.7 Workforce implications

9.7.1 There are no specific implications.

9.8 Property implications

9.8.1 Inevitably with some capital projects there are likely to be procurement implications, which will be considered when approval is sought for particular schemes.

10. Background Papers

None