CABINET
4 FEBRUARY 2021

CAPITAL PROGRAMME 2021/22 – 2024/25

Cabinet Member	Cllr Andrew Moore
Responsible Officer	Andrew Jarrett, Deputy Chief Executive (S151)

Reason for Report: To seek approval of the 2021/22 Capital Programme and note the draft 2022/23, 2023/24 and 2024/25 programmes.

RECOMMENDATIONS: That the Cabinet recommend to Full Council:

1. **The detailed Capital Programme for 2021/22 be approved and the estimated amounts for 2022/23, 2023/24 and 2024/25 be noted.**

2. **To agree to earmark New Homes Bonus (NHB) monies of £0.790m to support the 2021/22 Capital Programme (see para 2.3).**

Relationship to the Corporate Plan: The Capital Programme identifies the capital investment proposed across all strands of the Corporate Plan over the next four years.

Financial Implications: The Capital Programme submitted for 2021/22 is fully funded. It does, however, include £11.878m anticipated PWLB borrowing to fund various projects including: Hydromills electricity generation project £0.8m, the Park Road development scheme £0.875m (this project is yet to be determined until conclusion of a marketing exercise which may result in a Capital receipt for the authority), 3 Rivers Development Company committed projects of £6.986m and the housing development at Post Hill £3.217m. Future capital receipts are now estimated at such a low level that the Council needs continue to evaluate ways of making additional provision to fund its long-term capital programme or reduce its property portfolio. This is especially relevant due to the uncertainty around the future of New Homes Bonus and its availability as an income stream going forward.

Legal Implications: See comments below in relation to spending of grants and receipts.

Risk Assessment: There is a risk of clawback of external funds if sums received are not spent in accordance with the terms on which they were given, or not within agreed timescales. Useable Capital Receipts for 2021/22 have been projected at a prudent level of £349k but there is a risk that if these do not materialise, the Authority may need to delay scheme start dates to the following financial year or to make a revenue contribution to Capital to ensure full programme delivery.

Equality Impact Assessment: It is considered that the impact of this report on equality related issues would be nil.

Impact on Climate Change: There are no direct impacts from the content of this report. Any major asset replacements/upgrades will, however, consider the environmental impact in relation to carbon footprint. The Hydromills Electricity generation project is included in the 21/22 Capital Programme (Appendix1).

1.0 Introduction

1.1 The proposed Capital Programme has been produced following detailed consultation with officers and is now mainly focused on essential asset maintenance, funding a range of private sector housing projects, ICT replacement and investment and ensuring that our existing housing stock is maintained to the decent homes standard. The programme also includes Council House building projects and spend to save projects that will only be undertaken if a robust business case demonstrates an acceptable payback period.

1.2 A significant amount of work was undertaken when producing the Council's Medium Term Financial Plan (MTFP) during the late summer, which helped to scope the size and funding of the 2021/22 Capital Programme. A number of subsequent meetings were held with Group Managers, which focused on the essential projects (in terms of end of life asset replacement or health and safety) and involved reprioritising or rescheduling expenditure to future years.

2.0 The 2021/22 Capital Programme

2.1 Through reprioritisation of capital projects, the Council has been able to set a balanced capital programme for 2021/22. Appendix 1 shows the proposed Capital Programme for 2021/22, which totals £17.705m.

2.2 The 2021/22 Capital Programme is fully funded by a combination of:

General Fund Project Funding Sources	**Amount of Funding £k**
Capital Reserve	40
DCLG (Disabled Facilities Grant)	577
New Homes Bonus (NHB)	769
HIF Funding	510
Contribution from existing Useable Capital Receipts	88
Borrowing	8,661
ICT Equipment Sinking fund	110
Total Funding General fund Projects	**10,755**
HRA Project Funding Sources	**Amount of Funding £k**
Contribution from existing Useable Capital Receipts	452
Use of forecast Useable Capital Receipts to be generated in 21/22	349
Major Repairs Allowance	2,275
New Homes Bonus (NHB)	21

Use of forecast Replacement Homes Capital Receipts	150
Contrib from Renewable Energy fund EMR	250
Contrib from Housing Maintenance Fund	88
*Contrib from Affordable Rents Surplus EMR	148
Borrowing	3,217
Total Funding HRA Projects	**6,950**
Total Funding (GF & HRA)	**17,705**

* Note Affordable Rents Surplus is the additional amount generated from new Council Houses let at affordable rents as opposed to social rent historically charged for our Council Homes.

2.3 The 2021/22 Capital Programme requires £0.790m (£0.769m General Fund + £0.021m HRA) of New Homes Bonus (NHB) funding to ensure it is balanced. Further contributions from NHB are required over the life of the MTFP, with the forecast contributions amounting to £1.052m for 2022/23, 2023/24 and 2024/25.

2.4 We are aware that the mechanism behind allocating NHB will change in the near future. This is a major risk to the availability of funding for our future capital programme. The Revenue report highlights the need to explore other revenue income streams to try to mitigate reduction in NHB but this will of course be challenging.

2.5 A contribution is expected from the Housing Maintenance Fund (30 year maintenance plan) of £0.088m in order to deliver the HRA related projects identified in the 21/22 Capital Programme. Further contributions from this reserve will be required to deliver council house building aspirations identified in our MTFP amounting to £4.792m for 2022/23, 2023/24 and 2024/25. The remainder of these schemes will be mainly funded by a combination of useable capital receipts (general and replacement homes receipts).

2.6 A deliverable programme of £2.275m has been identified to maintain our existing council house stock, the balance of available monies will remain in the Major Repairs Reserve in order to deal with future additional spend that has been identified by the stock condition survey.

2.7 The Capital Programme for 21/22 includes £7.861m of 3 Rivers Projects that includes £13.704m from their Business Plan (this is the £14.004m detailed in their Business Plan less the working Capital sum of £0.300m) that will go to 18 February Cabinet, less projected slippage of £5.843m from 20/21 that will roll forward to 21/22 in relation to existing Capital Schemes. Please note the slippage forecast has been calculated with more up to date information than that was used to calculate slippage in the Q3 20/21 monitoring. There is also additional projected slippage from 20/21 of £7.009m that will roll into 22/23; this has also been aligned with 3 Rivers projected spending plans and relates to the project at Knowle Lane.

2.8 Appendix 1 shows, the 21/22 Capital Programme that has evolved from that originally presented with the budget report at the October 20 and subsequent January 21 Cabinet. Appendix 2 shows the updated MTFP, which was originally presented at the Dec 2020 Cabinet; these appendices have been refreshed with up to date information on expenditure and funding as referred to in paragraphs 2.1 to 2.6 above. A summary of the subsequent 3 years is shown in the table below.

MTFP Summary 2022/23, 2022/23 & 2024/25

	2022/23 £k	2022/23 £k	2024/25 £k
Total General Fund Capital Projects	22,760	26,653	14,957
Total HRA Capital Projects	15,498	7,485	5,310
Total GF & HRA Capital Projects	**38,258**	**34,138**	**20,267**

For a detailed breakdown, please refer to Appendix 2

2.9 The further into the future we try to predict the more difficult it is to do with the same level of certainty, therefore although 2023/24 and 2024/25 give an indication of the likely resource required during these years, we will know with a greater level of certainty nearer the time and therefore the predicted level of expenditure may well change.

3.0 Funding the Capital Programme

3.1 NHB funding forms a substantial amount of the funding of this programme (as referred to in para 2.3 above) (£1.842m over the four years which includes £0.790m in 21/22). The anticipated change in NHB funding (referred to in para 2.4), may impact on our future capital programmes and those proposed projects may need to be curtailed to match the funding we have available.

3.2 Due to the very low level of estimated new capital receipts for 2021/22, only a small number of Council funded schemes have been incorporated in the Capital Programme. Council house sales have been predicted at 15 sales per annum for the life of this programme. The Government Pooling arrangements mean a proportion of the sale is pooled to the Government, a proportion is retained in a ring-fenced reserve for replacement house building (linked to the HRA self-financing arrangements that have been in place since 01/04/12) and the balance is retained by the authority as a useable capital receipt, which can be used to support our Capital Programme.

3.3 The projected level of usable capital receipts available for 2021/22 is £1.039m. This is made up of £0.349m, net of pooling, estimated to be generated from sales in 2021/22, a contribution of £0.540m (£0.088m GF + £0.452m HRA) from existing Useable Capital Receipts) and a contribution from the ring fenced replacement homes reserve of £0.15m. All other previously generated capital receipts have been used to balance the subsequent years of the MTFP.

3.4 The figures assumed for receipts from the sale of assets have been calculated prudently and therefore if any additional receipts are generated we can return to some of the projects which could not be funded in the first instance and consider their inclusion. Any such decision (subject to constraints within the financial rules) would require Full Council approval and be linked to the Corporate Plan priorities.

3.5 We continue to set aside sinking funds for future asset maintenance, replacement of Leisure plant and equipment and for future replacement of ICT systems and equipment. This ensures the revenue base budget is more robust and that we are making adequate provision to replace assets in much the same way as we have in the past for our vehicle fleet.

4.0 Council Borrowing

4.1 Prudential borrowing has been estimated for 2021/22 at £11.878m, this will be used to fund General Fund schemes amounting to £8.661m that includes the Hydromills scheme and a number of developments schemes. In addition there is a HRA scheme amounting to £3.217m at Post Hill. All schemes will be subject to a rigorous business case assessment; their cost and timing of spend will determine the amount of actual prudential borrowing required.

4.2 Borrowing is also envisaged in 2022/23, 2023/24 and 2024/25 amounting to £44.249m to deliver General Fund projects and £11.0m to deliver HRA projects. Schemes for both General Fund and HRA include similar projects mentioned in 4.1 including: development projects, infrastructure (Cullompton Relief Road and potential combined depot) and funding a number of smaller projects traditionally funded by New Homes Bonus, which we are now unable to do so due its uncertain future and therefore limited availability going forward. Borrowing will be supported or supplemented with short and medium term Treasury Management decisions based on prevailing and future interest rates and will only considered in exceptional circumstances, whether in relation to the projects detailed above or for spend to save projects following a robust cost/benefit analysis exercise that would be able to demonstrate both an acceptable 'payback period' and that savings would be generated in excess of the annual revenue cost of servicing the debt.

5.0 Conclusion

5.1 As previously mentioned, the Capital Programme for the next four years is limited due to the scarce availability of funding (with the exception of borrowing). It is, therefore, imperative that capital funds are only spent on those projects that enable the Council to deliver its Corporate Plan objectives, reduce operational cost, or generate a financial return.

5.2 Due to the continuing austerity programme being implemented by Central Government the Council is beginning to explore more commercial options in order to balance budgets. Examples include regeneration projects and land or building acquisition; any such projects will need to be justified through robust business cases. Projects of this type will need significant capital funding either from existing receipts or from longer term borrowing. All Members will be kept informed of any developments in these areas.

Contact for more information:	Andrew Jarrett, Deputy Chief Executive (S151) 01884234242(ajarrett@middevon.gov.uk) Robert Fish, Principal Accountant 01884 234313 rfish@middevon.gov.uk
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