

**CABINET
1 FEBRUARY 2022**

CAPITAL PROGRAMME 2022/23 – 2026/27

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

Reason for Report: To seek approval of the 2022/23 Capital Programme and note the draft 2023/24, 2024/25, 2025/26 and 2026/27 programmes.

RECOMMENDATIONS: That the Cabinet recommend to Full Council:

- 1. The detailed Capital Programme for 2022/23 of £34,303k be approved and the indicative Capital Programmes across the four remaining years of this Medium Term Financial Plan covering 2023/24 to 2026/27 be noted.**
- 2. That investment in the Council Housing Development schemes can start straight away (prior to 01/04/2022), following Full Council approval, to allow the design stage to commence and enable the prompt delivery of these projects.**

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

Financial Implications: The Capital Programme submitted for 2022/23 of £34,303k is fully funded. It does, however, include £12,426k of anticipated PWLB borrowing to fund various projects. Future capital receipts are now estimated at such a low level that the Council needs to continually 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 in the paragraph 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. New Capital Receipts for 2022/23 have been projected at a prudent level of £1,027k 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 identify an alternative funding mechanism to ensure full programme delivery. Other risks, such as cashflow management are managed through the operation of the Treasury Management Strategy.

Equality Impact Assessment: Each of the capital investments will be, where appropriate, subject to an impact assessment. This is done with a view to identifying possible actions to mitigate negative impacts. However, many of the proposals do not have a direct impact on the public and therefore do not require an Impact Assessment.

Impact on Climate Change: The Capital Programme contains significant investment in order to work towards the Council's Carbon Reduction Pledge. Any major asset replacements/upgrades will consider the environmental impact in relation to carbon footprint.

1.0 Introduction

- 1.1. The proposed 2022/23 Capital Programme shown in **Appendix 1** has evolved from that originally presented to Cabinet on 26 October and subsequently updated on 4 January 2022, following detailed consultation with Officers and Members. It is 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.
- 1.2. The 2022/23 programme includes significant investment into Council House building projects and future years indicative programmes include 'spend to save' projects improving the energy efficiency of our property estate that will only be undertaken if the Council is successful in securing sufficient external funding, and is accompanied by a robust business case that demonstrates an acceptable payback period.
- 1.3. A significant amount of work was undertaken when producing the Council's Medium Term Financial Plan (MTFP) during the year, which helped to scope the size and funding of the 2022/23 Capital Programme. A number of subsequent meetings were held with Corporate 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.
- 1.4. **Appendix 2** shows the updated indicative Capital Programme for the remaining years within this MTFP, refreshed with up to date information on expenditure and funding. These projections are likely to alter as we get closer to those years as greater information becomes available. Therefore only the Capital Programme for 2022/23 is proposed for approved; the indicative future years are only for information and noting.

2. The 2022/23 Capital Programme

- 2.1. Through the prioritisation of capital projects, the Council has been able to set a balanced Capital Programme for 2022/23. **Appendix 1** shows the proposed Capital Programme for 2022/23, which totals £34,303k.
- 2.2. This is a significant increase on previous years due to a significant plan to increase the investment into improving the energy efficiency of our property estate and increasing the HRA Housing stock directly through the HRA and plans to fund housing developments through 3Rivers. As with all capital

projects, these are all subject to a full appraisal and rigorous business case assessment.

2.3. The investment in the 2022/23 Capital Programme can be summarised as:

General Fund Projects	2022/23 Expenditure £K
Leisure Services	260
Other General Fund Estates Management	462
Economic Development Projects (Hydro Mills)	420
Housing Infrastructure Schemes (HIF)	13,054
ICT Projects	260
Disabled Facilities / Private Sector Housing Improvements	577
3 Rivers Development Projects	3,534
Other Development Projects	1,265
Regeneration Projects	500
Total General Fund Projects	20,332
HRA Projects	2022/23 Expenditure £K
Existing Housing Stock	3,015
Housing Development Schemes Funded From 1-4-1 Receipts	1,079
Housing Development Schemes Funded From Homes England Grants and Borrowing	7,435
Other HRA Projects / Council House Development	2,442
Total HRA Projects	13,971
TOTAL (GF & HRA)	34,303

2.4. General Fund Investment

2.4.1. Within the investment in our Leisure Service, there are a number of projects that will help the Council deliver its commitment to climate change and reducing carbon emissions. It is anticipated that external funding will assist with the funding of these bids, but at present the prudent position of undertaking borrowing is shown.

2.4.2. There is an assumption included in respect of the Housing Infrastructure Funded (HIF) projects. Currently, funding has been received to cover the initial projected estimated cost of the projects. However, costs have dramatically increased since that funding was received. Therefore the Council submitted a bid to the Levelling Up Fund to cover the forecast difference for the Cullompton project. This bid was rejected and currently other forms of funding are actively being sought to enable this project to be delivered. However for the Tiverton project, the assumption is that the shortfall (currently estimated to be £1,900k) will be funded through borrowing.

- 2.4.3. Further investment within our ICT assets is required to enable the Council to update its infrastructure, including upgrading the telephony and Wi-Fi, and improve its cyber security. In addition, a planned refresh of staff laptops and associated devices is due. This will be completed in a phased roll out to ensure that the cost is spread over a number of years.
- 2.4.4. As in previous years the Disabled Facilities Grant funding will be used to improve homes across the district that will enable residents with health problems to remain in their homes, avoiding or delaying the need for them to enter the health care system.
- 2.4.5. The Capital Programme for 2022/23 includes a further £3,534k of 3 Rivers Projects in line with their Business Plan approved by Cabinet in November. This is in addition to £10,364k of slippage to projects approved in prior years.

2.5. Housing Revenue Account Investment

- 2.5.1. A number of projects to enhance the quality of our existing housing stock are undertaken each year through the planned maintenance scheme. In 2022/23, provision has been made to invest in garage refurbishments, replace roofing, windows and doors in properties where required, along with general modernisation works, including updating heating systems. Budget has been included to address recent legislation post Grenfell and to undertake the remedial action required to mitigate the recommendations from the recent Fire Risk Assessment Audit.
- 2.5.2. Significant new investment of £8,514k is planned to deliver new housing within the district through highly efficient (zero carbon) modular buildings. To fund the proposed Housing Development Schemes, a prudent assumption has been included for the utilisation of 1-4-1 receipts or for additional grant funding to be made available from Homes England; although a substantial element of the cost remains with the Council. In total, £3,463k is assumed to be secured from 1-4-1 receipts or Homes England funding, leaving £4,249k to be funded by borrowing and the remaining £802k from existing reserves.
- 2.5.3. The investment in Other Council House Development includes the development of Post Hill in Tiverton.

3. Funding the Capital Programme

3.1. The 2022/23 Capital Programme is fully funded by a combination of:

General Fund Project Funding Sources	Amount of Funding £K
Capital Reserve	48
Disabled Facilities Grant	577
New Homes Bonus (NHB)	81
HIF Funding	6,465
Levelling Up #	6,436
DCC Funding – Cullompton Infrastructure Project	153
Contribution From Existing Useable Capital Receipts	5
Borrowing	5,977
ICT Equipment Sinking Fund EMR	260
Waste Infrastructure EMR	250
Economic Development EMR	80
Total Funding General Fund Projects	20,332
HRA Project Funding Sources	Amount of Funding £K
Contribution From Existing Useable Capital Receipts	410
Use Of Forecast Useable Capital Receipts	444
Major Repairs Allowance	2,465
New Homes Bonus (NHB)	21
Use Of Forecast Replacement Homes Capital Receipts	432
Contribution From Renewable Energy Fund EMR	250
S106 Affordable Housing	170
*Contribution From Affordable Rents Surplus EMR	299
Anticipated Homes England Funding For Housing Development Projects (Assumed At 45%)	3,031
Borrowing	6,449
Total Funding HRA Projects	13,971
TOTAL FUNDING (GF & HRA)	34,303

Levelling up bid failed now seeking alternative funding to make Cullompton infrastructure project viable

* 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.

3.2. 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.

- 3.3. Due to the very low level of estimated new capital receipts for 2022/23, only a small number of Council funded schemes have been incorporated in the Capital Programme. Council house sales have been predicted at a prudent level across the life of this programme. The projected level of usable capital receipts available for 2022/23 is £1,291k. All other previously generated capital receipts have been used to balance the subsequent years of the MTFP.
- 3.4. The Government Pooling arrangements mean a proportion of the Council House sale proceeds are 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.
- 3.5. As shown, the 2022/23 Capital Programme requires £102k (£81k General Fund + £21k 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 £561k.
- 3.6. The future of the NHB scheme and the associated funding is still unclear. The Government has stated, again, its intention to consult on changes to the New Homes Bonus scheme to make it more effective and it intends to implement any changes from 2023/24. Therefore there 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.
- 3.7. A programme of £2,465k 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.
- 3.8. There is also additional general projected slippage from 2021/22, currently estimated to be £23,239k that will roll into the 2022/23 Capital Programme. This is not yet included and approval will be sought to add it to the 2022/23 Capital Programme during Outturn.
- 3.9. 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. However, given the pressure on its finances, the Council will need to assess whether this remains affordable, or whether alternative options should be explored.

4. Council Borrowing

- 4.1. Prudential borrowing has been estimated for 2022/23 at £12,426k, this will be used to fund General Fund schemes amounting to £5,977k and HRA scheme amounting to £6,449k. 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 across the remainder of this MTFP amounting to £103,407k; of this £54,349k will be used to deliver General Fund projects and £49,508k to deliver HRA projects.
- 4.3. Borrowing will be supported or supplemented with short and medium term Treasury Management decisions based on prevailing and future interest rates and will only be 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. 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.

Contact for more information: Andrew Jarrett, Deputy Chief Executive (S151)
01884 234242 (ajarrett@middevon.gov.uk)

Robert Fish, Principal Accountant
01884 234313 rfish@middevon.gov.uk

Circulation of the Report Leadership Team, Cabinet

Background Papers: Capital Bid Submissions and workings for MTFP