

Blaby District Council

Cabinet Executive

Date of Meeting	20 February 2023
Title of Report	5 Year Capital Programme 2023/24 to 2027/28 This is not a Key Decision and is on the Forward Plan
Lead Member	Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)
Report Author	Finance Group Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

- 1.1 This report sets out the Council's proposed Capital Programme and resources for the next five financial years commencing in 2023/24. The Capital Programme covers our planned expenditure on the acquisition, construction and/or enhancement of non-current assets, i.e., those assets with a useful life of greater than one year.
- 1.2 The report also presents the Council's updated Capital Strategy in accordance with the requirements of the 2017 Prudential Code.

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 That the 5 Year Capital Programme for 2023/24 to 2027/28, set out at Appendix A, is approved.
- 2.2 That the application of capital resources of 3,618,500 for 2023/24, including a borrowing requirement of 2,295,500, is approved.
- 2.3 That the Capital Strategy 2023/24 to 2027/28 is approved

3. Reason for Decisions Recommended

- 3.1 To obtain approval for the proposed level of capital expenditure in 2023/24 and the suggested method of financing that expenditure.
- 3.2 To provide a longer term forecast of capital expenditure and financing requirements for the period 2023/24 to 2027/28.
- 3.3 To ensure compliance with the Prudential Code.

4. Matters to consider

4.1 Background

The Council approved its current Capital Strategy on 24th February 2022. The Capital Strategy is a high-level document that considers the Council's future capital spending plans and available capital resources, together with the implications for the revenue account. The strategy also sets out the overall governance process for setting the Capital Programme.

Part of the governance process involves the approval of a rolling 5 Year Capital Programme based around the Council's strategic priorities and planned renewal and replacement of existing assets.

The summarised 5 Year Capital Programme covering the financial years 2023/24 to 2027/28 is attached at Appendix A. The starting point is the existing 5-year programme, which was also approved by Council at the above meeting. The Senior Leadership Team has reviewed the existing programme and separated the schemes into the following categories as a way of targeting resources where the need is most urgent or where longer-term savings will be generated:

- Invest to Save schemes
- Essential schemes or those where the Council is contractually committed
- Desirable schemes subject to affordability
- Schemes that are externally funded

Consideration has also been given to where schemes can be, or need to be, deferred to a future financial year. The headline proposals were considered by Strategic Board in November 2022, although some of the detail has since been refined to reflect emerging priorities and slippage to the planned programme of works.

4.2 Proposal(s)

As can be seen at Appendix A, the total proposed Capital Programme for the next five years amounts to £11.1m, of which just over £3.6m falls in 2023/24. At this point in time, many of the schemes put forward for inclusion in the Capital Programme require further refinement in terms of specification and cost. Some of those schemes may also require separate approval from Council before proceeding. In cases such as this a further report will be brought before Council at the appropriate time.

Across the life of the 5 Year Capital Programme, it is forecast that just under £2.1m of capital expenditure can be met from the Council's own resources (e.g., capital receipts and reserves), and another £3.3m from capital Grants and contributions. This leaves a projected borrowing requirement of £5.7m between 2023/24 and 2027/28.

The estimated borrowing requirement in 2023/24 is £2.3m with the remainder of the programme being funded from a mixture of government grant, Section 106 contributions, capital receipts, and earmarked reserves. The main expenditure requirements in 2023/24 are as follows:

- Fleet Vehicle Replacement Programme (£1,505,000) – this allows for 5 refuse vehicles at an approximate cost of £200,000 each, a sweeper and transit van for District Cleansing (£125,000), and various vehicles for the Open Spaces team (£380,000). At this point it has been agreed that we will not seek to purchase electric vehicles until we have the necessary charging infrastructure in place, and whilst the price margin between diesel and electric vehicles remains at current levels.
- Disabled Facilities Grants (£660,000) - the precise grant allocation has not yet been released but is expected to be similar to 2022/23. £30,000 of this sum is earmarked for the provision of housing support grants.
- Installation of solar panels and an air source heat pump at the Depot (£600,000) – as mentioned on the previous page, this is an indicative cost and will require further market testing. A separate report will be brought back to Council before proceeding. It is anticipated that this scheme will generate longer term efficiencies in terms of reduced energy costs.
- Electric Vehicle Infrastructure for Depot (£250,000) – the progression of this investment will be dependent upon the extent to which the Council decides to move to electrification of the fleet.

In September 2022, Council approved a change to its Minimum Revenue Provision (MRP) Policy, effective from 2022/23. This involves moving from a straight-line “depreciation” method of writing down borrowing costs to an annuity-based method using the weighted average asset life of assets included in the capital programme during the financial year.

Under the new policy, the additional MRP chargeable in respect of schemes in the 2023/24 Capital Programme is just under £300,000, although this charge will not hit the General Fund budget until 2024/25, the year after the borrowing is incurred. There will also be additional revenue costs in respect of loan interest payable, and other running costs as shown in the table below.

Additional Revenue Costs:	2023/24 £	Full Year £
MRP related to new borrowing	0	265,395
Interest payable	43,000	86,000
Other running costs	24,100	24,100
	67,100	375,495

The costs above have been built into the base budget and medium-term financial strategy. Capital schemes that fall within the category of “Invest to Save” are expected to generate efficiencies and savings in future financial years, although these savings have yet to be quantified and included within the base budget.

Given the impact of the current cost-of-living crisis, and high inflation, it should be noted that many of the budgets included in the capital proposals are best estimates and subject to change. They are designed to give a broad indication of the likely cost of each scheme and will need to be refined as the procurement process gets underway. Where there is a significant departure, outside of the tolerances permitted by the financial regulations, a further report will be brought back to Council with final costs when they are known.

Furthermore, it will be necessary for the Asset Management Group to closely monitor the progress against the Capital Programme and, if the revenue implications become prohibitive, because of increasing costs or changes to available funding, schemes may be recommended for deferral. Similarly, if it becomes apparent that the Council can utilise more of its own resources to fund capital expenditure, instead of borrowing, this will also be considered to reduce ongoing revenue costs.

4.3 Capital Strategy

The 2021 Prudential Code makes it incumbent upon local authorities to produce an annual Capital Strategy. This is largely in response to the major expansion of local authority investment activity over recent years into the purchase of non-financial investments, particularly property.

The main issues raised in the Code are:

- A local authority should define its risk appetite and its governance processes for managing risk.
- A local authority should assess the risks and rewards of significant investments over the long term, to ensure the long-term financial sustainability of the authority. CIPFA has not defined what longer term means but it infers a timescale of 20-30 years in line with the financing time horizon and the expected life of the assets, while medium term financial planning, at a higher level of detail, is probably aimed at around a 10-year time frame and to focus on affordability.
- The Prudential Code stresses that local authorities should ensure that their approach to commercial activities should be proportional to its overall resources.
- A local authority should have access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

Up to now, since Blaby has not purchased any non-financial assets, it has not been considered necessary to produce a 20-to-30-year Capital Strategy. Now that Council has approved, in principle, the investment in property for regeneration purposes, it may be necessary to widen the timescale covered by the Capital Strategy in future. However, for the time being, only the capital proposals for the period 2023/24 to 2027/28 have been built into the updated Capital Strategy which appears at Appendix B.

5. What will it cost and are there opportunities for savings?

5.1 The costs are detailed in the body of this report and in Appendices A and B.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
Investment in capital schemes which may not be aligned to Council priorities, or which might not be affordable.	All bids submitted for inclusion in the capital programme are reviewed against the Council's priorities, whether the investment supports service delivery, and the capital and revenue consequences for the budget.
That the authorised capital expenditure is exceeded as projects progress throughout the year.	The projects are monitored throughout the year by the AMG, which highlights any possible variances at the earliest opportunity.
That the revenue costs arising from the Capital Programme are unaffordable in light of changes to local government funding.	Future year's schemes may need to be reviewed and, where necessary deferred or stopped completely, if revenue savings need to be identified.

7. Other options considered

7.1 None. It is important to produce a 5-year Capital Programme as a minimum requirement of the Capital Strategy, and that the programme aligns with the Council's Medium Term Financial Strategy.

8. Environmental impact

8.1 None arising directly from this report, but all capital bids are required to make clear how they help to achieve the Council's Carbon Net Zero target.

9. Other significant issues

9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – 5 Year Capital Programme

10.2 Appendix B – Capital Strategy

11. Background paper(s)

11.1 None.

12. Report author's contact details

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