

Blaby District Council

Cabinet Executive

Date of Meeting	26 February 2024
Title of Report	5 Year Capital Programme 2024/25 to 2028/29 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 2024/25. 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 at Appendix B.

2. Recommendation(s) to Cabinet Executive and Council

- 2.1 That the 5 Year Capital Programme for 2024/25 to 2028/29, set out at Appendix A, is approved.
- 2.2 That the application of capital resources of £3,826,900 for 2024/25, including a borrowing requirement of £1,665,938, is approved.
- 2.3 That the Capital Strategy 2024/25 to 2028/29 is approved.

3. Reason for Decisions Recommended

- 3.1 To obtain approval for the proposed level of capital expenditure in 2024/25 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 2024/25 to 2028/29.
- 3.3 To ensure compliance with the Prudential Code.

4. Matters to consider

4.1 Background

The Council approved its current Capital Strategy on 22nd February 2023. 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 2024/25 to 2028/29, 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 and full business case.
- 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 Informal Cabinet in October 2023, and shared with Scrutiny in January 2024, 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 £11.3m, of which just over £3.8m falls in 2024/25. 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 £1.6m of capital expenditure can be met from the Council's own resources (e.g., capital receipts and reserves), and another £4.1m from capital Grants and contributions. This leaves a projected borrowing requirement of £5.6m between 2024/25 and 2028/29.

The estimated borrowing requirement in 2024/25 is £1.7m 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 2024/25 are as follows:

- Fleet Vehicle Replacement Programme (£1,308,000) – this allows for 4 refuse vehicles at an approximate cost of £215,000 each, a road sweeper for District Cleansing (£190,000), and various vehicles for the Open Spaces team (£258,000). As discussed during the budget scrutiny process, currently there is a significant difference between the cost of electric vehicles and the cost of diesel vehicles. Furthermore, electric options are not readily available for all vehicles that have reached the end of their useful life, and the infrastructure required to charge electric vehicles will not be in place until later in 2024. Therefore, the proposed budget only allows for the purchase of diesel vehicles, which can run using hydrogenated vegetable oil (HVO). Consideration will also be given as to whether purchase of replacement vehicles can be delayed by extending the use of the assets where possible, until electric charging points have been installed at the depot and/or electric vehicles required are available.
- Disabled Facilities Grants (£660,000) - the precise grant allocation has not yet been released but is expected to be broadly the same level as 2023/24. The Capital Programme will be updated as soon as allocations are announced and will be reported to Council through the quarterly monitoring process.
- Provision for IT infrastructure improvements (£500,000) – this relates to the exempt report on this agenda (ICT Provision Options Appraisal).
- Improvements to the car park at Bouskell Park (£440,000) – this scheme has been included under the umbrella of those that will only proceed if they are affordable. This will mean that either external funding is identified, or a charging regime is introduced to cover any ongoing financing costs.
- Replacement of Customer Relationship Management (CRM) software (£200,000) – the Council's current contract encompassing CRM, "My Account", online forms software, and workflow services, expires in November 2024. The budget included in the Capital Programme is, at this point in time, an indicative sum and further details will be established as the procurement process gets underway. This software plays a key role in our digital transformation aspirations.

Capital Financing Costs

The Council writes down borrowing costs on an annuity basis using the weighted average life of assets funded through borrowing. This is in line with the Council's approved Minimum Revenue Provision (MRP) Policy, and links to the Treasury Management Strategy also on this agenda.

The additional MRP chargeable in respect of schemes in the 2024/25 Capital Programme, based on a weighted average life of 7 years, averages out at £238,000 per annum. This charge will not hit the General Fund budget

until 2025/26, 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:	2024/25 £	Full Year (Average) £
MRP related to new borrowing	0	237,991
Interest payable (assuming 4%)	34,000	68,000
Other running costs	10,590	10,590
	44,590	316,581

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.

In most cases, the capital proposals in this report are indicative, and will be refined as the procurement process for each scheme gets underway. An allowance for inflation has been built into the estimates for future years but scheme costs are nevertheless subject to change due to the passage of time. Where there is a significant departure from the estimates, outside of tolerances permitted by the financial regulations, a further report and business case will be brought back to Council with the final costs when they are known.

Officers will closely monitor the progress of expenditure 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.

UK Shared Prosperity Funding

The Council expects to receive an allocation of around £1.3m in 2024/25 from the UK Shared Prosperity Fund (UKSPF). The grant conditions specify that a minimum of 20% of that allocation takes the form of capital expenditure, which equates to just under £0.3m. Local authorities may spend more on capital schemes if they so wish, subject to the approval of a revised Investment Plan. The proposals for the 2024/25 Capital Programme contain an assumption that up to £510,000 could be funded from UKSPF but this could be more or less, and it may be necessary to review capital financing proposals accordingly. Any changes will be reported back to Cabinet and Council as part of the routine quarterly monitoring process.

4.3 Capital Strategy

The 2021 Prudential Code made 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.

Since Blaby does not have any non-financial assets, it has not been considered necessary to produce a 20-to-30-year Capital Strategy. For that reason, only the capital proposals for the period 2024/25 to 2028/29 have been built into the updated Capital Strategy which appears at Appendix B. In addition to the updated capital plans, the strategy has also been revised to ensure that it reflects the latest governance processes involved in setting the 5 Year Capital Programme.

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.

