

Report to:	EXECUTIVE CABINET
Date:	29 September 2021
Executive Member:	Councillor Oliver Ryan – Executive Member (Finance and Economic Growth)
Reporting Officer:	Kathy Roe – Director of Finance
Subject:	CAPITAL PROGRAMME & FINANCING UPDATE
Report Summary:	<p>The Council has limited resources available to fund Capital Expenditure. This report proposes the allocation of this limited resource to immediate priorities. If these immediate priorities are approved, there will be no further capital projects approved in the short term unless the schemes are fully funded from external sources.</p> <p>The future Capital Programme will be dependent on the generation of additional capital receipts and prudential borrowing. Funding Capital Expenditure from borrowing has revenue implications and the Council cannot commit to further borrowing until the revenue budget position for 22/23 and beyond has been agreed. The revenue cost of borrowing must be affordable and financially sustainable within the Council's Medium Term Financial Plan.</p>
Recommendations:	<p>That Executive Cabinet be recommended to:</p> <ul style="list-style-type: none"> (i) Approve the principles for Capital Investment decisions set out in paragraph 4.1 (ii) Approve the allocation of the remaining limited Capital Resources to the schemes indicated in Table 2. (iii) Approve the proposed review of Capital Priorities and affordability of future borrowing to fund Capital Expenditure following conclusion of the 2022/23 Budget setting process.
Corporate Plan:	The allocation of resources to support Capital Expenditure should align to the priorities in Corporate Plan.
Policy Implications:	Capital Budget is allocated in accordance with Council Policy.
Financial Implications: (Authorised by the statutory Section 151 Officer & Chief Finance Officer)	These are the subject of the report.
Legal Implications: (Authorised by the Borough Solicitor)	<p>It is a statutory requirement for the Council to set a balanced budget. It is vital that the capital expenditure position is regularly monitored so as to maintain a balanced budget and ensure that the priorities of the Council are being delivered.</p> <p>If there are insufficient capital receipts responsible councils should review its capital programme to ensure that expenditure does not exceed the available resources and decisions may have to be made in relation to the prioritisation of capital projects.</p>

Risk Management:

Associated details are specified within the report.

The Council cannot commit to Capital Expenditure without appropriate and affordable financing arrangements in place. The Council currently faces an extremely challenging revenue budget position, and future Capital Investment will need to be affordable within the constraints of the Medium Term Financial Plan.

Background Information:

The background papers relating to this report can be inspected by contacting Heather Green, Finance Business Partner:



Telephone: 0161 342 2929



e-mail: heather.green@tameside.gov.uk

1. INTRODUCTION

- 1.1 A substantial Capital Programme was approved in October 2017. This was to be financed through the use of £69 million of reserves and forecast capital receipts. The programme approved at that time included a number of schemes which had previously been fully approved (the 'approved' programme) and a large number of schemes identified as a priority ('earmarked' schemes) which were to be subject to full business cases prior to commencement and inclusion on the fully approved programme.
- 1.2 Since 2017, a number of the earmarked schemes have been approved and progressed, additional priority schemes have emerged, and the costs associated with the approved programme have increased. At the same time, the forecast level of Capital Receipts has reduced, resulting in an ever widening gap between the 'earmarked' capital ambition, and the resources available to fund schemes.

2. CAPITAL FUNDING OPTIONS

- 2.1 The capital programme is funded by a combination of external and internal (or 'corporate') resources.
- 2.2 External funding usually takes the form of grants, with some funding also available through developer contributions and section 106 agreements. Grant funding includes annual recurrent allocations in areas such as Education (Basic Need and School Condition grants) and Highways (Highways Maintenance grant), plus one-off specific grants which often involve a bidding or application process (such as funding for the Stalybridge Heritage Action Zone, and previous grants for digital fibre infrastructure).
- 2.3 Internal or Corporate Funding mostly comes from reserves and borrowing. Reserves are finite, and can only be used once. The Council's reserves position has previously been very strong, which enable the allocation of significant reserves to Capital Investment. However, significant use of reserves to support the revenue budget over the last few years, means that reserve balances have been significantly depleted. Capital Investment can also be funded from borrowing, but there are revenue costs associated with this to fund interest and the repayment of borrowing. Every £10million of additional borrowing results in an average annual revenue cost of approximately £0.5million.

3. CURRENT CAPITAL RESOURCING POSITION

- 3.1 The existing approved Capital Programme requires £16,625k of Corporate Funding from capital receipts and reserves. There is a balance of £8,908k in Capital Reserves at 1 April 2021 and anticipate Capital Receipts of £15,410k from the surplus assets approved for disposal at Executive Cabinet in September 2020. This results in remaining forecast Corporate Funding of £7,693k as set out in table 1 below.

Table 1: Corporate Capital Funding Position at 1 August 2021

Available Corporate Funding:	£000s
Capital Reserves	£8,908
Anticipated Capital Receipts	£15,410
Total	£24,318
Corporate funding committed to approved schemes:	
2021/22 approved programme	£15,192
2022/23 approved programme	£294
Stalybridge Civic Hall Roof (Executive Cabinet 28.7.21)	£1,139
Total	£16,625

Balance of forecast funding available	£7,693
--	---------------

3.2 The financial pressures facing the Capital Programme have been reported as part of the Capital Monitoring reports throughout 2019/20 and 2020/21. During 2020/21 Members agreed that the Capital Programme should be subject to detailed review and reprioritisation. All previously earmarked schemes have been removed from the programme and Officers submitted revised capital bids for priority Capital Investment over the period 2021 to 2026.

4. CAPITAL BIDS 2021

4.1 Directorate bids for Capital Investment over the period 2021 to 2026 were submitted in May 2021, with a combined value of £186 million. This far exceeded the previously earmarked schemes of approximately £40m, and is not affordable given the revenue pressures currently facing the Council. Discussions with Officers and Members in June 2021 therefore confirmed a number of principles for spending decisions in respect of the Capital Programme:

- Financing of Capital Projects needs to be part of a holistic view of the Council's financial position.
- The Council's needs a sustainable financial plan before any major commitments made on Capital Investment.
- The revenue budget challenge currently facing the Council means that there should not be any immediate commitment to further use of reserves (beyond that already identified for Capital) or additional borrowing.
- A significant number of potential schemes should not proceed without external funding.
- The limited resources currently available need to be prioritised and should focus on legal obligations, cost avoidance and invest to save.

4.2 In the context of the above principles, the proposed allocation of the remaining Capital resource is as follows:

Table 2: Proposed allocation of remaining Capital Resources

Balance of forecast funding available	£7,693
Highways Investment	£1,497
Worksmart	£500
Dukinfield Crematorium Roof (£600k from Cremators budget)*	£0
Planned Preventative Maintenance	£1,896
Statutory Compliance	£1,000
Contingency for urgent/unplanned schemes	£1,000
Provision for unanticipated cost pressures	£1,800
Remaining Balance	£0

* There is a forecast £681k of surplus budget on the replacement of cremators scheme which can be used to fund essential roof repair works at Dukinfield Crematorium.

4.3 The proposed allocation above seeks to allocate resources to immediate priorities where Capital Investment should avoid other consequential costs which will arise if no action is taken or (in the case of Worksmart) where investment is necessary to enable more efficient use of buildings and enable future revenue savings.

4.4 A contingency budget of £1million is to be retained for any urgent essential works not currently identified. Provision for unanticipated costs pressures of approximately 10% has also been included as market conditions suggest significant increases in the cost of building and construction works at the present time.

5. CONCLUSION AND NEXT STEPS

- 5.1 The Growth Directorate continue to review the Estate to identify further surplus assets which may be put forward for disposal to generate additional Capital Receipts. The forecast £15,410k of receipts from preciously agreed disposals is an estimate and additional receipts may be generated if sales exceed estimated values. Further Capital Receipts may become available to fund further investment in future.
- 5.2 A number of schemes identified as priority for future investment include revenue generation or invest to save elements, where borrowing may be appropriate to facilitate investment. Borrowing to fund Capital Investment has revenue consequences as budget is required to fund interest and repayment of loans, and therefore any such schemes will need to be subject to full business cases. The Council will need a sustainable financial plan for the revenue budget before borrowing commitments are agreed.
- 5.3 No further capital investment will be agreed until the revenue budget position for 2022/23 is clearer and the Council has a sustainable medium term financial plan. It is therefore proposed that a further review of Capital Priorities and the affordability of future borrowing to fund Capital Expenditure is undertaken following conclusion of the 2022/23 budget setting process.

6. RECOMMENDATIONS

- 6.1 As set out at the front of the report.