

REPORT TO:	Cabinet 24 January 2022
SUBJECT:	Updated 2021/22 and Forecast General Fund Capital Programme 2022/23 to 2024/25
LEAD OFFICER:	Richard Ennis, Corporate Director of Resources (S151 Officer)
CABINET MEMBER:	Councillor Hamida Ali, Leader of the Council Councillor Stuart King, Cabinet Member for Croydon Renewal Councillor Callton Young, Cabinet Member for Resources & Financial Governance

SUMMARY OF REPORT:

This report is the second of four Cabinet reports that form part of the budget setting process of the Council ahead of full Council on 28th February.

The report sets out the capital investment the Council will make in the borough over this and the next three years. In addition the report demonstrably shows that the Council is taking ownership of its financial issues by recommending utilisation of the Council's own capital receipts to fund much of its own investment programme (and specifically the capitalisation direction recommended for approval by the Improvement Panel and subject to agreement by the Secretary of State) in order to reduce the forecast levels of additional Council borrowing. This means the Council will not be adding to the national borrowing position from the capitalisation direction.

The report sets out the priority areas of investment in the borough and the improvements planned through the Capital Board to drive and monitor delivery of the capital programme.

This report sets out the latest forecasts and requests for capital expenditure and its financing requirements for the remainder of the current financial year and the following three years of the new Medium Term Financial Strategy [MTFS] planning horizon.

FINANCIAL IMPACT

The net cost of the proposed capital programme (net of grants and contributions) and use of CIL and s106 funding is £202m over the four years, and in itself would incur additional annual revenue borrowing costs of c£11m by the end of the MTFS period.

However, the asset disposal strategy has begun to deliver capital receipts, and together with planned receipts from capital loan repayments and investments is expected to generate capital receipts of £212m over the four year period. The report sets out the Council's overall borrowing at the end of the four year period, coupled with Minimum Revenue Provision charges being set aside annually to also reduce debt. It is expected that net borrowing (the Capital Financing Requirement [CFR]) will fall by £80m rather than increase. The revenue saving implications of this net position have been incorporated into

the planning assumptions contained in the Council's MTFS that will be presented to Cabinet later in February.

As part of the Council's transformation agenda, £65.8m was charged as a capitalisation direction for 2020/21, with further assumptions of £50m for the current year (and £25m in 2022/23 and £5m in 2023/24). These values are included in the Council's borrowing levels brought forward and future capital spend assumptions. By prioritising the use of capital receipts to repay these capitalisation direction costs, the Council minimises the revenue impact and allows the Council over the three years to fully finance the cost of capitalisation directions from its own resources, without impacting the level of public sector debt.

1. RECOMMENDATIONS

The Leader has delegated authority to Cabinet to make the following decisions:

- 1.1 Approve the revised General Fund Capital Programme updated for 2021/22 and the future years 2022/23 to 2024/25 as summarised in this report and detailed in Appendix 1;
- 1.2 Note the strategy for the use of capital receipts which prioritises their use first for Transformation Funding costs (Flexible Use of Capital Receipts), then to finance the costs relating to the Capitalisation Direction, and finally to repay historic capital borrowing costs;
- 1.3 Note that any further revisions to the General Fund Capital Programme that emerge prior to the February Cabinet meeting will be reported as part of the Council Tax and Medium Term Financial Strategy report;
- 1.4 Note that progress on updating the Council's Capital Strategy will be reported alongside the Treasury Management Strategy and Minimum Revenue Provision in the February Cabinet report;
- 1.5 Note that subject to approval by Cabinet of the overall capital programme below, officers will work up the detailed project plans for schemes and these will be validated by CB before final commitment to spend; and
- 1.6 Note that the Housing Revenue Account Capital Programme will be reported separately to a subsequent meeting alongside, Revenue Budget and Rent-Setting Policy or Housing Business Plan.

2. EXECUTIVE SUMMARY

- 2.1. This report sets out the latest forecast for the General Fund Capital Programme for 2021/22 as well as updated proposals for capital spending over the future

three years. The planning horizon has been extended by an additional year from that last considered in March 2021 to mirror the timeframe in the new Medium Term Financial Strategy being developed for the revenue budget.

- 2.2. The proposals as set out in this report would see gross capital investment in the Council's priorities increase by £78m over the new four year planning horizon (£41m of which is new for 2024/25 and £37m additional across the existing planning horizon), whilst by utilising expected capital receipts in the most efficient manner see overall borrowing levels fall by £80m.

3 GENERAL FUND CAPITAL PROGRAMME

3.1 The Approved Three Year Capital Programme

- 3.2 The 2021/22 General Fund Capital Programme was approved in March 2021 as part of the overall Council Tax and MTFS approval. That approved budget is summarised in the table below:

Table 1 – Original Approved Capital Programme 2021/22 to 2023/24

	2021/22		2022/23		2023/24		3-Year
	Spend	Funding	Spend	Funding	Spend	Funding	Total
	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)	(£,000's)
Health, Wellbeing & Adults	3,965	(2,400)	2,400	(2,400)	2,400	(2,400)	1,565
Children, Families & Education	13,677	(11,346)	3,730	(3,730)	3,555	(3,555)	2,331
Place	31,171	(1,885)	9,848	(761)	477	(74)	38,776
Resources	13,715	-	8,200	-	11,919	-	33,834
Corporate	-	(6,400)	-	(6,600)	-	(6,600)	(19,600)
Capitalisation Direction	50,000	-	25,000	-	5,000	-	80,000
	112,528	(22,031)	49,178	(13,491)	23,351	(12,629)	136,906
		Net		Net		Net	
Being:	Gross Spend	112,528	49,178	49,178	23,351	23,351	185,057
	CIL/s106 Funding	(7,571)	(6,800)	(6,800)	(6,800)	(6,800)	(21,171)
	Grant Funding	(14,460)	(6,691)	(6,691)	(5,829)	(5,829)	(26,980)
	Borrowing	90,497	35,687	35,687	10,722	10,722	136,906

- 3.3 Further in-year changes to the approved budget have taken place during the course of the year, in particular the approval of 2020/21 underspends rolled forward as part of the outturn report and approved by Cabinet in July 2021. The current approved budget taking into account those changes is summarised in the following table:

Table 2 – Current Approved Capital Programme 2021/22 to 2023/24

	2021/22		2022/23		2023/24		3-Year Total (£,000's)
	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	
Adult Social Care & Health	1,726	-	-	-	-	-	1,726
Children, Young People & Education	26,078	(11,346)	3,730	(3,730)	3,555	(3,555)	14,732
Housing	4,773	(4,373)	2,400	(2,400)	2,400	(2,400)	400
Sustainable Communities, Regeneration & Economic Renewal	76,597	(2,043)	9,848	(761)	477	(74)	84,044
Assistant Chief Executive	20,625	-	6,200	-	9,919	-	36,744
Resources	9,047	-	2,000	-	2,000	-	13,047
Corporate	1,893	(8,293)	-	(6,600)	-	(6,600)	(19,600)
Capitalisation Direction	50,000	-	25,000	-	5,000	-	80,000
	190,739	(26,055)	49,178	(13,491)	23,351	(12,629)	211,093
		Net	Net	Net	Net	Net	
Being:	Gross Spend	190,581	49,178	23,351	263,110		
	CIL/s106 Funding	(7,571)	(6,800)	(6,800)	(21,171)		
	Grant Funding	(16,433)	(6,691)	(5,829)	(28,953)		
	Capital Receipts	(1,893)	-	-	(1,893)		
	Borrowing	164,684	35,687	10,722	211,093		

3.4 Revised and Extended Capital Programme

3.5 In line with refreshing and extending the General Fund Revenue Medium Term Financial Strategy, requests from service departments have been received to update their capital spend and funding forecast requirements over the existing MTFS planning horizon (2021/22 to 2023/24) and to extend it into the additional new MTFS year 2024/25.

3.6 A process has been put into place to collate those submissions and has been subject to initial officer review and then a “Star Chamber” challenge session including Cabinet members. That process, and taking into account current year forecast spend as included in the Period 8 monitoring report, has seen a revised forecast for 2021/22 and a request to re-phase part of that quantum as well as future year spend as summarised in the table below, and set out in more detail in Appendix 1.

Table 3 – Revised Capital Programme Proposals 2021/22 to 2024/25

	2021/22		2022/23		2023/24		2024/25		4-Year Total (£,000's)
	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	Spend (£,000's)	Funding (£,000's)	
Adult Social Care & Health	68	-	1,707	-	269	-	-	-	2,044
Children, Young People & Education	15,451	(12,649)	15,964	(15,964)	6,057	(6,057)	-	-	2,802
Housing	3,393	(2,993)	3,493	(2,993)	2,993	(2,993)	2,993	(2,993)	900
Sustainable Communities, Regeneration & Economic Renewal	45,427	(13,529)	45,064	(18,249)	28,386	(14,672)	29,496	(15,444)	86,479
Assistant Chief Executive Resources	11,867	-	14,028	-	7,271	-	6,276	-	39,442
Corporate	3,456	(168)	4,631	(404)	2,687	(34)	-	-	10,167
Capitalisation Direction	2,393	(8,793)	2,500	(9,100)	2,500	(9,100)	2,500	(2,500)	(19,600)
	50,000	-	25,000	-	5,000	-	-	-	80,000
	132,055	(38,132)	112,387	(46,710)	55,162	(32,856)	41,265	(20,937)	202,234
		Net	Net	Net	Net	Net	Net		
Being:	Gross Spend	131,897	112,387	55,162	41,265	340,711			
	CIL/s106 Funding	(12,630)	(10,462)	(7,220)	(226)	(30,538)			
	Grant Funding	(22,951)	(33,747)	(23,136)	(18,211)	(98,045)			
	Capital Receipts	(2,393)	(2,500)	(2,500)	(2,500)	(9,893)			
	Borrowing	93,923	65,677	22,307	20,328	202,234			

3.7 As can be seen by comparing the approved capital programme as set out in Table 2 to the current proposals as set out in Table 3, gross capital spend has increased from £263.1m to £340.7m – an increase of £77.601m investing in the borough and Council's priorities, with only £41.265m of this being due to the additional year in the programme. In essence there is an additional £36.336m being invested by the Council in the borough.

3.8 At the same time the approved borrowing requirement (before application of capital receipts other than to fund Transformation Funding) has decreased from £211.1m to £202.2m – a reduction of £8.9m, despite including an additional year (2024/25) in the programme. This is the result of further grant funding being utilised and application of Community Infrastructure Levy [CIL] and s106 Planning Receipts being applied.

3.9 Whereas the current approved capital programme only assumed capital receipts would be applied to fund the 2021/22 Transformation costs (£1.9m), the net borrowing set out in Table 3 (£202.2m over the four years) includes provision for £10.0m of Transformation expenditure over the four years. This will support and drive the delivery of the transformation of the Council and delivery of the significant efficiencies programme. It helps to align delivery resources to the programme.

3.10 The Council has been implementing a capital disposal strategy to generate further capital receipts from the disposal of surplus properties and in addition is seeing loans and investments previously given for capital purposes be repaid (these are accounted for as capital receipts) or expected to be repaid over the four years of the new MTFs period. These receipts are able to be used to be set aside for the repayment of debt or to fund new borrowing costs.

3.11 The Council aims to apply those capital receipts in the most economic manner to minimise capital financing costs, and the general strategy is to apply those receipts in the following order

- a) Transformation Expenditure – freedoms to charge revenue transformation costs against capital receipts is given under the Flexible Use of Capital Receipts Regulations and can only be so financed by capital receipts;
- b) Capitalisation Direction Borrowing – approval by the Secretary of State to capitalise revenue expenditure as the Council transforms is given subject to the maximum period of twenty years borrowing. As this is less than the average period for other capital borrowing a bigger annual revenue saving is achieved by prioritising the repayment or financing of this category of capital borrowing. In addition, an additional 1% premium of borrowing from the Public Works Loans Board [*PWLB*] is chargeable on borrowing not repaid by capital receipts as a condition of the Capitalisation Direction.

The Council is committed to fund the capitalisation direction costs from its own capital receipts for the above reason and to demonstrate that it has managed to balance its finances within its own resources

- c) Other Capital Borrowing – the Minimum Revenue Provision [*MRP*] charges against revenue for historic capital borrowing are calculated on an annuity basis – that is they are lower in early years and increase in latter years. All other things being equal, a bigger revenue saving is made by using capital receipts to set-aside to repay historic borrowing rather than to finance new expenditure.

3.12 The Corporate Director of Resources will continue to review the capital financing position and apply capital receipts in the most revenue efficient manner as capital receipts allow.

3.13 Forecast capital receipts over the four year MTFS planning horizon and how they may be applied to reduce borrowing are summarised in the table below:

Table 4 – Capital Financing Requirement [CFR] (Borrowing)

	Mar 21	Mar 22	Mar 23	Mar 24
	(£m's)	(£m's)	(£m's)	(£m's)
Capital Financing Requirement b/f	1,274.5	1,297.0	1,255.4	1,204.2
Net Capital Proposal Borrowing	96.3	68.2	24.8	22.8
Less Capital Receipts Applied				
Asset Disposals	(48.2)	(30.2)	(2.9)	-
Investment & Loan Repayments	(7.0)	(58.6)	(53.0)	(12.1)
Less MRP Set-Aside	(18.7)	(21.0)	(20.1)	(20.2)
Capital Financing Requirement c/f	1,297.0	1,255.4	1,204.2	1,194.7

- 3.14 Based on the assumptions as to future net capital spend and capital receipts, despite investing £212m funded from “borrowing”, the Council would in fact be able to reduce its CFR by £80m rather than increase it.
- 3.15 The Council continues to develop its capital strategy and has begun the process of reviewing all of its fixed asset holdings, the costs and benefits of owning and operating from them and the investment required to maintain them as fit for purpose. A Capital Strategy is in the process of being updated and will be further reported on to February Cabinet alongside the Treasury Management Strategy and Minimum Revenue Provision Policy.
- 3.16 Whilst Cabinet is requested to approve the overall General Fund capital programme, as detailed in this report, prior to any individual proposal commencing approval to proceed will additionally be required from the officer-led Capital Board. This additional approval gateway will ensure all appropriate due diligence and programme planning/delivery considerations have been undertaken on a scheme by scheme basis prior to any spend being committed.
- 3.17 Under the regulations governing the use of Flexible Capital Receipts, Full Council approval is required for transformation costs funded by flexible capital receipts. The February Council Tax and Budget Report will include a full schedule of transformation fund projects for consideration and will thereafter follow on to the February Full Council meeting for approval.
- 3.18 Any further changes that emerge to the capital programme over the next month will also be provided as an update in that report.

4 FINANCIAL CONSIDERATIONS

- 4.1 As contained in the body of this report.

5 LEGAL CONSIDERATIONS

- 5.1 The Head of Litigation and Corporate Law comments on behalf of the interim Director of Law and Governance that the Council is under a statutory duty, as set out in Section 31A of the Local Government Finance Act 1992, to ensure that it maintains a balanced budget and to take any remedial action as required in year.
- 5.2 The Council is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's Chief Finance Officer has established financial procedures to ensure the Council's proper financial administration. These include procedures for budgetary control. It is consistent with these arrangements for Cabinet to receive information about the revenue and capital budgets.
- 5.3 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 requires the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)" ("The Treasury Code") issued by CIPFA.
- 5.4 Statutory Guidance on the Flexible Use of Capital Receipts has been issued by the Secretary of State pursuant to Section 15(1) of the Local Government Act 2003 and the Council is required to have regard to this guidance in exercising its functions in this regard. The Statutory guidance defines qualifying expenditure and also provides that the Council should prepare and adopt a Strategy on the Flexible Use of receipts ("the Strategy"). This need not be a separate strategy and may for example be approved as part of the Annual Budget documents.
- 5.5 As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years. The Strategy should contain details on projects approved in previous years, including a commentary on whether the planned savings or service transformation have been/are being realised in line with the initial analysis. This strategy is required to be approved by Full Council.
- 5.6 Two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain guidance on capital receipts and local authority accounting that complement the statutory guidance. These publications are: The Prudential Code for Capital Finance in Local Authorities and the Code of Practice on Local Authority Accounting

Approved by Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Interim Director of Law and Governance and Deputy Monitoring Officer.

6 HUMAN RESOURCES IMPACT

6.1 No direct Human Resources impacts in this report

7 EQUALITIES IMPACT

7.1 No direct Equalities impacts in this report

8 ENVIRONMENTAL IMPACT

8.1 No direct Environmental impacts in this report

9 CRIME AND DISORDER REDUCTION IMPACT

9.1 No direct Crime and Disorder Reduction impacts in this report

10 DATA PROTECTION IMPLICATIONS

10.1 No Data Protection Implications in this report

REPORT AUTHOR: Matthew Davis, Interim Director of Finance
(Deputy S151 Officer)

APPENDICES: Appendix 1 – Detailed General Fund Capital Programme

BACKGROUND DOCUMENTS:

Approved 2021/22 Budget and Three Year MTFs – Council 8th Mar 21 (Item 18/21)
Outturn Report & Capital Roll-Forward – Cabinet 12th July 2021 (Item 100/21)