

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Cabinet

**DATE:** 9<sup>th</sup> March 2022

**SUBJECT:** Acceptance of Indicative Capitalisation Directions for 2016/17 to 2022/23

**CHIEF OFFICER:** Steven Mair, Director of Finance (s151 Officer)

**CONTACT OFFICER:** Peter Robinson

**WARD(S):** All Wards

**PORTFOLIO:** Cllr Anderson – Financial Oversight, Council Assets and Performance

**KEY DECISION:** Yes

**EXEMPT:** No

**DECISION SUBJECT TO CALL IN:** No

**APPENDICES:** The following appendix accompanies this report:

| <b>Appendix</b> | <b>Description</b>   |
|-----------------|----------------------|
| A               | Letter from Minister |

### **1 Summary and Recommendations**

- 1.1. The Council cannot set a legal budget for 2022/23 unless Government permits it to capitalise the estimated accumulated estimated revenue deficit to 31.03.22 of £223m and a further £84.1m for 2022/23. The background to this is set out in the S151 Officers S25 report and 2022/23 Budget Report.
- 1.2. The Minister wrote to the Leader of the Council on 7<sup>th</sup> March 2022 stating that she is minded to approve capitalisation directions for the period between 2018-19 to 2022-23. This is contingent on the Authority reporting to the Department the final amounts identified for which it requires capitalisation for each year, with the agreement of the Authority's external auditors and endorsed by the Best Value Commissioners.
- 1.3. This report requests Members to approve acceptance of the direction in order that the budget can be approved.
- 1.4. Included within the capitalisation direction is provision to build the General Balance to £20m and provides for some earmarked reserves to enable risks to be managed.

### **2 Recommendations:**

- 2.1. Cabinet is requested to:

2.2. Recommend to full Council:

- i. Acceptance of the capitalisation direction of £223m up to 31.03.22
- ii. Acceptance of the capitalisation direction of £84.1m for the 2022/23 financial year
- iii. Acceptance of the accompanying conditions set out in the report.

2.3. To Note:

- i. The capitalisation direction is not a grant. The Council needs to fund the revenue expenditure capitalised from disposing of assets to repay the resulting debt.
- ii. The Council is in a precarious state and will be required to request future capitalisation directions to balance future years budgets, estimated at an additional £172m, £479m in total
- iii. The minded to directions will be converted into actual directions on an annual basis as the accounts for each year are closed and audited

**Reason:**

- 2.4. This report is required to enable the Council to set a legally, balanced budget for 2022/23.

**Commissioner Review**

- 2.5. The Minister's letter sets out how the Council needs to work with the Commissioners throughout the process.

**3 Report**

- 3.1. The Council have been in discussion with DLUHC since June 2021 about the potential for a significant capitalisation direction request and have given them regular updates as to the arising issues.
- 3.2. A final request was made in February 2022 that was agreed with the Council's DLUHC Best Value Commissioners.
- 3.3. Kemi Badenoch MP, Minister of State for Equalities and Levelling Up Communities wrote to the Council on 7 March 2022, attached as appendix 1, stating that she is minded to approve capitalisation directions for the period between 2018-19 to 2022-23.
- 3.4. The minded to approve is adequate to enable the Council to set its 2022/23 budget and is in the same terms as other Councils who have been awarded capitalisation directions.
- 3.5. Before the final amounts are confirmed the Secretary of State will require the following assurance and the capitalisation directions are also subject conditions, both set out in an appendix to the letter.

## **Assurance**

- Progress in delivering its Improvement Plan, including an outline action plan to achieve financial sustainability and to close the long-term budget gap identified by the Authority across the period of its Medium Term Financial Strategy (MTFS) and beyond if necessary;
- Progress in developing and / or delivering against plans for asset disposal; debt reduction; savings targets; and long-term council tax levels in Slough;
- Overall financial position and its ability to meet any or all of the identified budget gap without additional borrowing. Your outline action plan to achieve financial sustainability, which will be a significant component of the Improvement Plan, must include an ambitious and deliverable asset disposal strategy.

## **Conditions**

- The Authority may only capitalise expenditure when it is incurred
- Where expenditure is capitalised, that the Authority shall charge annual Minimum Revenue Provision using the asset life method with a proxy 'asset life' of no more than 20 years, in accordance with relevant guidance;
- Where the Authority's capital financing requirement is increased as a result of the capitalisation of expenditure under this direction, any further borrowing from the date of the capitalisation letter up to and including, but not exceeding, the increase in the financing requirement must be obtained from the Public Works Loan Board and must be subject to an additional 1 percentage point premium on the interest rate above the rate the loan would otherwise be subject to. This requirement does not apply to borrowing in relation to your Housing Revenue Account. Where any borrowing to which these conditions initially apply is refinanced, the conditions must continue to apply to the resulting borrowing;
- The Authority makes good progress against its Improvement Plan, as assessed by the Best Value Commissioners, in their regular reports to the Secretary of State.

3.6. The Secretary of State also reserves the right to attach additional bespoke conditions to any directions issued in respect of the financial years above, depending on the Council's individual circumstances.

3.7. Council needs to agree to the direction and conditions in order to set a legal balanced budget.

## **4. Implications of the Recommendation**

### **4.1. Financial implications**

4.1.1. The financial implications are discussed throughout this report.

## 4.2. Legal implications

- 4.2.1. The Council submitted a capitalisation direction to DLUHC to allow it to treat as capital expenditure certain types of revenue expenditure. The Secretary of State only permits the Council to capitalise expenditure when it is incurred, minimum revenue provision must be charged and the Council must comply with the conditions set out by DLUHC. It should be noted this the capitalisation direction is not a grant. The Council needs to fund the revenue expenditure from disposing of assets and utilising the sale proceeds of such assets.

## 4.3. Environmental implications

- 4.3.1. Not Applicable

## **5. Background Papers**

None