**Slough Borough Council**

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| **Report To:** | Cabinet |
| **Date:** | 27 February 2023 |
| **Subject:** | Capital Programme 2023/24 to 2027/28 |
| **Lead Member:** | Cllr Anderson – Financial Oversight and Council Assets |
| **Chief Officer:** | Steven Mair, Director of Finance (S151 officer) |
| **Contact Officer:** | Steve Muldoon, Deputy Director of Financial Management |
| **Ward(s):** | All |
| **Key Decision:** | YES |
| **Exempt:** | NO |
| **Decision Subject To Call In:** | NO |
| **Appendices:** | Appendix A Detailed Capital Programme 2023/24 to 2027/28 |

## 1. Summary and Recommendations

The report sets out the Council's capital strategy from 2023/24 to 2027/28.

**Recommendations:**

1.1 Recommend approval of the Capital Programme for 2023/24 to 2027/28 to full Council as set out in this report and Appendix A.

**Reason:**

1.2 The Council should have an approved capital programme over the medium term as part of its overall Financial Framework. This will comply with the requirements of the Capital Strategy as set out in the Treasury Management Strategy which is set out in a separate report. Capital expenditure is defined as expenditure that is predominantly incurred on buying, constructing or improving physical assets such as land, buildings, infrastructure and equipment.

**Commissioner Review**

1.3 The capital programme is a key component of the budget papers for 2023/24. This paper sets out that programme which has been compiled using some key principles, including meeting statutory requirements, including health and safety, Significantly, the programme is funded through external funding sources including grants, capital receipts and S106 funding. This means that no additional borrowing is undertaken which would incur additional debt repayment costs. The commissioners support this approach – it is essential that the borrowing costs are reduced supporting the council's overarching aim to live within its means.

## Introduction

1.4 The capital programme set out in the Capital Strategy forms a key part of the Council's budget setting process.

1.5 Prior to the 2022/23 capital programme, previous years' capital programmes have been ambitious involving several major projects in any one year and were heavily dependent on external borrowing. There was insufficient capacity to deliver the capital programme, resulting in slippage of 40% in delivering the programme.

1.6 The previous capital programme approved 9th March 2022, envisaged spending £219m (including 21/22) with a borrowing requirement of £17.540m. This year the size of the capital programme is £165m, with no new external borrowing needed. The programme is fully funded from grants, S106 contributions and capital receipts from the asset disposal programme. This ensures the Council lives within its means in respect of the capital programme.

## Options considered

1.7 The options available to the Council are dependent to the extent to which funding is available to pay for the capital projects, and whether it has the ability to borrow to finance an increased size of programme. Given the Council's current financial position, it is considered prudent to minimise and even eliminate as far as possible the amount of capital spend on projects which are dependent on the council funding from its own very limited resources, and to prioritise projects for which the Council has health and safety obligations and to comply with statutory requirements. It is currently having to sell off assets to generate capital receipts in order to reduce the level of minimum revenue provision (MRP) and pay off short term debt owed to other councils, so including expenditure in the programme which requires borrowing and increases the MRP is counter-productive in the Council's aim to live within its means.

1.8 The capital programme is therefore largely financed through capital receipts and particularly external capital grants, and it is the Council's ability to bring in such grants, and the conditions placed on such grants, that will determine the size and nature of schemes in the capital programme.

## Background

1.9 The total capital programme over the 6 years 2022/23 to 2027/28 is £165m largely funded by capital grants and the major repairs reserve in respect of the Housing Revenue Account (HRA) – see summary below:

**Table 1 - Funding of Capital Programme**

| | General Fund £m | HRA £m | Total £m |
|---|---|---|---|
| **Spend** | (102) | (63) | (165) |
| | | | |
| **Funded by** | | | |
| Government Grant | (83) | 0 | (83) |
| Capital Receipts | (18) | (12) | (30) |
| Developer contributions (s.106) | (1) | 0 | (1) |
| Major Repairs Reserve | 0 | (51) | (51) |
| Revenue contributions | 0 | 0 | 0 |
| Capitalisation Direction | 0 | 0 | 0 |
| **Total external funding** | **(102)** | **(63)** | **(165)** |
| | | | |
| **Total borrowing requirement** | **0** | **0** | **0** |
| | | | |
| **Total funding including borrowing** | **(102)** | **(63)** | **(165)** |

1.6 The detailed capital programme for both the General Fund and the HRA is set out in Appendix A.

1.7 In addition to the capital budgets and revenue implications, the report sets out:

- The Council's asset base
- Delivery strategies;
- Governance
- Capital funding and
- Risk management

## 2 Report

### The Council's Assets

2.1 The Council has total long-term assets of £1.303 billion comprising property, plant, equipment, investment property, heritage and other assets summarised in the table below:

**Table 2 - Asset Portfolio**

| Asset type | | Net book value at 31/3/2022 £m |
|---|---|---|
| Council dwellings | | 587 |
| Other land and buildings | | 365 |
| Investment property | | 208 |
| Infrastructure assets | | 71 |
| Assets under Construction | | 33 |
| Community Assets | | 11 |
| Vehicles, plant and equipment | | 8 |
| Surplus assets | | 19 |
| Intangible assets | | 1 |
| **Total** | | **1,303** |

2.2 Since March 2022 the Council has embarked on an asset disposal strategy. To date the Council has generated £173m of capital receipts from the asset disposal programme and is anticipating raising a total in excess of £210m by 31 March 2023, with a further £200m forecast for 2023/24.

2.3 The majority of capital expenditure set out in this strategy will be spent on enhancement to the existing property portfolio and infrastructure assets. The remainder will be revenue expenditure funded from capital under statute (REFCUS) – either funding loan advances to GRE5 or funding the capital direction.

2.4 The Council carries out regular maintenance on its properties and infrastructure assets. The capital programme ensure that the Council's highways, operational properties and council dwellings are continuously maintained to a good standard.

**Overview of delivery strategies**

2.5 The Council's capital programme objectives are:

- To rationalise the capital portfolio, so the remaining assets continue to deliver the services to the public.
- Ensure the necessary works to enhance the working conditions of the remaining assets, so they are fit for purpose and meet statutory requirements.
- Minimise any other works to those which are fully funded from external sources and can be undertaken at no additional cost to the Council.

**Development schemes**

2.6 In the past the Council had engaged in a substantial regeneration and acquisition programme in partnership with Slough Urban Renewal LLP, its joint venture with Morgan Sindall Investments Ltd.

2.7 As part of the Council's asset disposal strategy, and in response to the Council's financial situation, the Council has embarked on a process to disengage from all developments with Slough Urban Renewal LLP.

2.8 Consequently:

- there will be no further capital investment by the Council into the sites that are optioned to SUR.
- Two sites have been disposed of in 2022/23 with a further two to complete before 31st March 2023. The remaining sites are due to be disposed in 2023/24 and 2024/25.

**Strategic Acquisitions**

2.9 The 2022/23 Treasury Management Strategy identified that the investment properties acquired in previous years were not actually generating an adequate return for the Council. Consequently, these assets have been prioritised for disposal under the Asset Disposal Strategy. To date, seven assets have been sold and a further nine are scheduled to be sold by 31 March 2023.

**Operational**

2.10 As a result of stopping all development and strategic acquisitions, the capital programme is focussed solely on improvement works to the Council's operational asset portfolio and other schemes as fully funded through external grants. Departments will work with the programme management team to ensure that delivery of all projects is suitably resourced

## 3 Governance

3.1 Once the capital programme is approved by full Council, any changes must be approved in accordance with para 2.4.6 of the Council's financial procedure rules. These require the following:

3.1.1 Cabinet approval is required for all capital budget and funding virements and yearly profile changes (slippage or accelerated spend) between approved capital programmes i.e., as per the budget book. The report must show the proposed:

(i) Budget transfers between projects and by year.
(ii) Funding transfers between projects and by year; and
(iii) A summary based on a template approved by the Chief Finance Officer

3.1.2 The Chief Finance Officer can approve virements of capital monies up to £1m under delegated responsibilities but these must be reported to Cabinet on a quarterly basis.

3.1.3 Cabinet approval is required for all capital additions to the capital programme. All Capital additions are reviewed by senior officers prior to being recommended for approval to Cabinet. Capital additions should also be included in the quarterly budget monitoring report to Project Review Board for noting.

3.1.4 Funding substitutions in order to maximise funding are the responsibility of the Chief Finance Officer.

3.1.5 Cabinet can approve spend on new capital projects up to £5m where expenditure is covered by external grant, is in accordance with the Council's treasury management strategy, has no full year revenue implications and does not exceed £20m in total in any one year.

3.1.6 The Chief Executive can approve virements between projects of up to £1m following consultation with the Chief Finance Officer and the Lead Member.

3.1.7 The Chief Finance Officer can approve virements between projects of up to £500k following consultation with the Lead member.

3.1.8 Executive Directors can approve virements between projects of up to £250k following consultation with the Chief Finance Officer and the Lead Member.

NB- all virements will be reported to Cabinet on a quarterly basis

## 4 Summary of the Capital Programme 2022/23 to 2027/28

4.1 The capital programme and the proposed funding is set out in table below:

**Table 3 - Proposed Capital Programme 2022/23 to 2027/28**

| | Forecast | Five Year Plan | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022/23 £000s | 2023/24 £000s | 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | Total £000s |
| **Expenditure** | | | | | | | |
| **General Fund** | | | | | | | |
| Housing & Property | 10,335 | 8,397 | 2,400 | 2,400 | 400 | 0 | 23,932 |
| Place & Communities | 15,982 | 22,428 | 13,434 | 2,562 | 1,999 | 1,339 | 57,744 |
| Adults | 1,818 | 1,169 | 1,140 | 1,140 | 1,140 | 1,140 | 7,547 |
| Children's Services | 877 | 4,323 | 2,961 | 2,080 | 1,680 | 941 | 12,862 |
| Finance & Commercial | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **HRA** | 10,720 | 10,093 | 8,019 | 9,531 | 10,196 | 14,875 | 63,434 |
| **Total expenditure** | **39,732** | **46,410** | **27,954** | **17,713** | **15,415** | **18,295** | **165,519** |
| External funding | (39,732) | (46,410) | (27,954) | (17,713) | (15,415) | (18,295) | (165,519) |
| **Borrowing Requirement** | | | | | | | |
| **General Fund** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **HRA** | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Borrowing Requirement** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

4.2 In drawing up the above programme, the emphasis has been on ensuring that only schemes which are essential for meeting health and safety requirements or complying with statutory obligations and are largely funded from external sources are prioritised. Hitherto, the Council's capital programme has been heavily dependent on borrowing to the extent that the borrowing level and associated costs have become unaffordable and are consuming a substantial part of the net revenue budget.

4.3 The table below summarises the changes to the capital programme arising from the review of the programme and the need to reduce future borrowing. As a result, the overall capital budget reduces by £54m over a five-year timescale. This has been largely achieved by stripping out schemes which were reliant on new external borrowing in line with the Council's overarching aim to live within its means.

## Table 4 - Summary of Reductions in Capital Programme

| | Forecast 2022/23 £000s | 2023/24 £000s | Five Year Plan 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | Total £000s |
|---|---|---|---|---|---|---|---|
| **Capital Programe 21/22** | | | | | | | |
| General Fund | 38,323 | 45,259 | 8,333 | 7,878 | 7,863 | 6,370 | 114,026 |
| HRA | 13,001 | 22,111 | 24,108 | 24,770 | 7,253 | 13,951 | 105,194 |
| **Total** | **51,324** | **67,370** | **32,441** | **32,648** | **15,116** | **20,321** | **219,220** |
| **Capital Programme 22/23** | | | | | | | |
| General Fund | 29,012 | 36,317 | 19,935 | 8,182 | 5,219 | 3,420 | 102,085 |
| HRA | 10,720 | 10,093 | 8,019 | 9,531 | 10,196 | 14,875 | 63,434 |
| **Total** | **39,732** | **46,410** | **27,954** | **17,713** | **15,415** | **18,295** | **165,519** |
| | | | | | | | |
| **Change** | **(11,592)** | **(20,960)** | **(4,487)** | **(14,935)** | **299** | **(2,026)** | **(53,701)** |
| **Borrowing** | | | | | | | |
| Capital Programme 21/22 | 8,538 | 7,103 | 8,050 | 10,380 | 1,500 | 1,500 | 37,071 |
| Capital Programme 22/23 | | | | | | | |
| **Change** | **(8,538)** | **(7,103)** | **(8,050)** | **(10,380)** | **(1,500)** | **(1,500)** | **(37,071)** |

## Key Projects

### Place & Communities Directorate

4.4 **Zone 4 – Stoke Road**

This is the final element of a wider improvement scheme approved by the Council and funded through the Berkshire LEP programme. This final stage includes the implementation of improvements to two junctions associated with the North West Quadrant site and will enable the sale and development of the site by improving access/egress of traffic. There will also be some upgrade works to the Heart of Slough junction to ensure the entire traffic signal junction works well.

4.5 **Flood Defence Measures (Sponge City Project)**

The Council has been awarded from Defra Grant funding of £5.65m - £7.9m for delivery of the Smart, Sponge Catchments Project. This aims to improve flood resilience in the Chalvey Ditches and Salt Hill Stream river catchments in north-west Slough and southern Buckinghamshire. The project will help the Council to meet its corporate priority for an environment that helps residents live more independent, healthier and safer lives, by delivering infrastructure and enriched public spaces that can act as sponges, soaking up surface water to improve resilience to flooding.

4.6 **A4 Safer Roads**

The A4 in Slough was identified in 2016 as being in the UK's 50 most dangerous roads and SBC is required by Government to make changes to improve its safety. This project will introduce road safety improvements on the A4 that will be funded by the Department for Transport's (DfT) Safer Roads Fund grant. A number of road safety measures will be designed and introduced to regulate driver behaviour. One of these measures is a proposed speed reduction on some sections of the A4. Additional complementary engineering measures, to reduce the number and severity of fatal and serious injury collisions, will be introduced as the overall scheme design progresses in consultation with residents, key partners and subject to the necessary approvals within the Council.

4.7 **Destination Farnham Road**

The Council's Transport team have been advised of an award of £9.249m from the Department for Levelling Up, Housing and Communities. In addition, a 10% local contribution of £1.004m provided through other DFT grants and S106 contributions related to the location. The proposed scheme will revitalise the Farnham Road (A355) corridor by transforming its public realm, in a way that prioritises walking and cycling, and improves bus priority through signal upgrades and the enforcement of parking restrictions. Fully grant funded, initial designs will be presented to Cabinet to enable progression to consultation, detailed design and construction. The scheme focuses on the Britwell and Northborough wards and Farnham. North-south transport connections will be made stronger to enhance connections to Slough town centre. Farnham Road District Centre's public realm will be improved to support economic growth and improved social function.

4.8 **A4 Cycleway**

The Council's Transport team have secured £10.2m from the Department for Transport for the design and implementation of an off road cycleway along the A4. The scheme extents are from Huntercombe to the Town Centre. The procurement process has started and will continue in 2023/24 for design support.

**Housing & Property Directorate**

4.9 **Fire Risk Assessment Nova House**

Nova House is a block of 68 apartments in the town centre which failed flammability tests. GRE5 owns the freehold lease of Nova House. In 2018, the Council acquired 100% of the shares of GRE5 due to concerns about the capacity of GRE5 to undertake the substantial remediation works required to the building and concerns about the safety of residents. In addition to replacement of ACM cladding, there are significant deficiencies in the fire safety of the building identified on the Fire Risk Assessment that need rectifying. The expenditure has been converted to a loan to GRE5 which was executed August 2022. The loan limit is currently £10m and repayments are being made as claims are submitted to Homes England. This is to be increased by £5m to £15m as a result of additional costs. Currently the company has a Grant Funding Agreement with Homes England for £9.3m of "eligible development costs". The company is currently engaged in legal proceedings with the building's warranty provider, Allianz. The timing and amount of any final settlement are uncertain, and it may be that some costs will have to be borne by leaseholders. There are substantial risks associated with this project in terms of cost escalation, the outcome of the insurance claim and leaseholders may not be liable for all of the unfunded costs. Therefore there is a risk that the Council may need to impair the loan for any unrecoverable costs

4.10 **Britwell Hub Development**

The Britwell Hub Development was a part refurbishment and part extension of the Britwell Community Centre in partnership between Slough Borough Council and East Berkshire CCG / Frimley Health and Care ICS. The refurbishment of the existing building provided meeting rooms and a new hall, and the extension provided a modern up to date purpose designed medical centre which was completed in April 2022. The retention held on this contract is payable following completion of the works after the defect's liability period ends in April 2023. Further works are also required together with upgrading the existing mechanical and electrical systems. In addition, there is also a requirement to repay the balance of funding owed to the DfE for Grove Academy S278 works, that SBC is liable for.

4.11 **Office Accommodation Strategy**

SBC intends to reduce its corporate footprint to a minimum level to reduce running costs and maximise disposal opportunities. 6 assets are likely to be retained and are candidates for accommodating the full desk requirement of the council (currently set at 460 desks). The first step is to appoint consultants to carry out costed options appraisals. These will inform the Council's decision on best use of these 6 assets, to accommodate the Council's office requirements. Once a decision is taken on the final number of desks to be provided and location of these desks, conversion works will be undertaken to deliver the project.

**Children's Directorate**

4.12 The key projects for the Children's Directorate continue to be the schools modernisation programme and the expansion of the special schools provision in the Council area to meet the increasing numbers of pupils with Special Education Needs. Both projects are largely funded from capital grant from the Department for Education (DfE) supplemented by developer contributions.

## 5 Capital Funding

5.1 The Council is required to have a funded capital programme that is affordable. i.e. all capital expenditure should have a source of funding and if that funding source is borrowing, the cost of borrowing should be built into a balanced revenue budget.

5.2 The key sources of funding for the Council are:

- grants
- developer contributions
- capital receipts
- direct revenue funding
- Major Repairs Reserve (HRA only) and
- borrowing

**Grants**

5.3 These are predominantly Government grants and are usually provided to the Council to fund specific schemes or programmes. The majority of grants which the Council receives for capital are from:

- the Department for Education (DfE) to ensure the Council is meeting its statutory duty to provide school places and that school buildings are in good condition;
- the Department for Transport (DfT) for infrastructure (i.e. highways) improvements; and
- Department for Levelling Up, Housing and Communities (DLUHC) for disabled facilities grant (DFG).

5.4 Capital grants usually have conditions attached which require the grant to be used for specific schemes and potentially require repayment in the event that they are not used for the purpose intended or within a set timetable.

**Developer contributions**

5.5 Developer contributions are a contract between a developer and the Council, which have to be used on specific projects rather than a more general objective. These are either:

- s.106 agreements made under the section 106 of the Town and Country Planning Act 1990 whereby the planning authority places an obligation on the developer to undertake an obligation as part of the planning permission, and the developer agrees to pay a contribution to the authority for the authority to undertake the works to discharge the obligation; and
- s.278 agreements made under section 278 of the Highways Act 1980 which allow a developer to enter into an agreement with the highways authority to make permanent alterations or improvements to a public highway as part of a planning approval.

**Capital Receipts**

5.6 Capital receipts are generated from the sale of non-current assets (e.g. land and buildings). The use of capital receipts is statutorily prescribed, such that they can only be used primarily to fund capital expenditure or repay borrowing. The Council holds all capital receipts corporately, which ensures that they can be used to fund the overall capital programme.

5.7 As set out in the Debt Recovery Strategy approved by Cabinet on 20 September 2021, capital receipts generated from asset sales will be used:

- firstly, to finance the much reduced flexible use of capital receipts programme set out in the revenue budget report
- secondly, to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and
- thirdly, to repay existing external debt.

5.8 In addition, because the capital receipts have significantly exceeded forecasts for both 2022/23 and 2023/24, the Council has the potential to pay off the pension fund deficit.

**Borrowing**

5.9 Borrowing to fund capital expenditure is normal practice in both the private and public sector. In local government the prudential regime has operated since 2003/04 under which local authorities must take responsibility to ensure that borrowing is both affordable and sustainable for the revenue budget and the council taxpayer.

5.10 Borrowing can take the form of internal or external borrowing. Internal borrowing is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long-term basis providing the Council with a return on investment. However, the Council does not have any internal borrowing as all internal resources have been used in previous years.

5.11 Consequently, the Council's borrowing is entirely external borrowing. External borrowing is where the Council borrows money from the open market such as from banks or the Government via the Public Works Loans Board or other local authorities.

5.12 Although the capital programme may highlight a need to borrow to fund capital expenditure (the borrowing requirement referred to in Table 2), the timing and type of borrowing depends on cashflow modelling in line with the Council's Treasury Management Strategy.

5.13 The Council's total borrowing requirement is based on capital expenditure incurred historically but yet to be financed is measured and reported as the Capital Financing Requirement. This is published in the Statement of Accounts in the Capital Expenditure and Financing Note and projections are reported in the Treasury Management Strategy.

5.14 All borrowing incurs capital financing costs, namely interest charges and a minimum revenue provision (MRP). MRP is an amount which the Council is statutorily required to set aside to repay borrowing to the extent that the Council's CFR remains positive.

5.15 All capital financing costs must be treated as a revenue cost and built into the Council's budget plans. In essence the more the Council borrows, the greater the call on the revenue budget, which then requires further service savings to be identified to fund this in the longer term. Consequently, it is important that borrowing is set at a level which is both affordable and sustainable in revenue budget terms.

## 6 Capital Programme Funding 2022/23 to 2027/28

6.1 Table 5 summarises the funding of the proposed capital programme both for the General Fund and the HRA.

### Table - 5 Analysis of Proposed External Funding

| 2021/22 Actual £000s | | 2022/23 Forecast £000s | 2023/24 Estimate £000s | 2024/25 Estimate £000s | 2025/26 Estimate £000s | 2026/27 Estimate £000s | 2027/28 Estimate £000s | Total £000s |
|---|---|---|---|---|---|---|---|---|
| | **Expenditure** | | | | | | | |
| 38,323 | General Fund | 29,012 | 36,317 | 19,935 | 8,182 | 5,219 | 3,420 | 102,085 |
| 13,001 | HRA | 10,720 | 10,093 | 8,019 | 9,531 | 10,196 | 14,875 | 63,434 |
| | | | | | | | | |
| **51,324** | | **39,732** | **46,410** | **27,954** | **17,713** | **15,415** | **18,295** | **165,519** |
| | | | | | | | | |
| | **Funding** | | | | | | | |
| | **General Fund** | | | | | | | |
| (12,816) | Government Grant | (25,577) | (31,394) | (15,789) | (4,930) | (3,278) | (2,220) | (83,188) |
| (41) | Capital Receipts | (3,435) | (4,255) | (4,146) | (3,252) | (1,941) | (1,200) | (18,229) |
| (1,194) | Developer contributions (s.106) | 0 | (668) | 0 | 0 | 0 | 0 | (668) |
| (200) | Revenue contributions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (15,534) | Capitalisation Direction | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| | **HRA** | | | | | | | |
| 0 | Government Grant | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1,834) | Capital Receipts | (5,331) | (2,422) | (2,563) | (1,325) | (482) | 0 | (12,123) |
| (11,167) | Major Repairs Reserve | (5,389) | (7,671) | (5,456) | (8,206) | (9,714) | (14,875) | (51,311) |
| 0 | Revenue contributions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | Developer contributions (s.106) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| **(42,786)** | | **(39,732)** | **(46,410)** | **(27,954)** | **(17,713)** | **(15,415)** | **(18,295)** | **(165,519)** |
| | | | | | | | | |
| **8,538** | **Net financing need for the year** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

6.2 Table 5 above shows that the entire capital programme of £165m will be fully funded from capital grants, capital receipts and developer contributions without recourse to any external borrowing.

6.3 This is a huge change in capital strategy compared to that approved in March 2021, which was planning to incur additional borrowing of £119m over the shorter period from 2021/22 to 2023/24 or 55% of the capital programme. The reduction in reliance on borrowing has been achieved by removing schemes which were totally relying on borrowing and seeking alternative sources of funding.

## 7 Revenue Implications of the Programme

7.1 Any General Fund capital expenditure which is not fully funded from available capital resources (i.e. capital receipts, capital grants, developer contributions and direct funding from revenue) gives rise to borrowing which incurs capital charges in the form of MRP and interest. Where expenditure is to be met from a capitalisation direction, this incurs MRP also which is amortised over 20 years in line with the Statutory Guidance on Minimum Revenue Provision (issued by DCLG 2018).

7.2 HRA capital expenditure falls outside the MRP requirements. Instead, loan repayments are a direct charge to the HRA.

7.3 No additional MRP arises from the current capital programme because it is fully funded.

## 8 Risk Management

8.1 Capital projects require careful management to mitigate the potential risks that can arise. Effective monitoring, management and mitigation of these key risks is a key part of managing the capital strategy, which are set out below.

### Interest Rate Risk

8.2 Whilst the capital programme does not envisage any additional external borrowing over the next five years, the Council is still exposed to interest rate risk on the temporary borrowing which historically had been used to fund the capital programme. As a result of the Asset Disposal Programme, the capital receipts generated to date are forecast to reduce temporary borrowing to £133m by 31 March 2023 and to fully repay temporary borrowing by September 2023. This will largely eliminate interest risk from the capital programme.

8.3 Interest rates are variable and are forecast to increase over the next year as the Bank of England seeks to manage inflation nationally. To date, any additional borrowing required has been met by borrowing short-term from other local authorities. This strategy works well provided that there is surplus money within the local authority money market. In the event that liquidity slows in this market then the Council will need to lock into fixed borrowing with the PWLB, but will seek to avoid doing so while the current debt reduction strategy is in place.

### Inflation Risk

8.4 Construction inflation (e.g. on highways works, not solely developments) over and above that budgeted could impact on the affordability of the capital programme. A rise of 1% in the cost of the overall programme would increase the cost of the programme by £1.7m, or £0.5m in 2023/24. Whilst this can be mitigated through regular, close monitoring of project expenditure, this may require projects to be scaled back in ambition, deferred to future years or deleted. Where projects are financed through external grants, the intent should be to manage within the same overall budget envelope rather than require the Council to borrow to meet an overspend.

## 9. Implications of the Recommendation

### 9.1 Financial Implications

9.1.1 The financial implications are set out in the main body of this report.

### 9.2 Legal implications

9.2.1 The Local Government Act 2003 sets out the framework for local authority capital finance. This confers a broad power to borrow, subject to affordable borrowing limits. This framework is supplemented by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, and by codes of practice and statutory guidance.

9.2.2 Approval of the budget and policy framework is reserved to full Council. In accordance with Part 4.3 of the Council's Constitution, by the end of February Cabinet shall consider the resources available to finance capital projects for the next five years together with the Prudential Indicators and approve the capital expenditure programme for the next five years. By 11 March, Cabinet shall recommend to full Council the capital programme, borrowing limits and the Prudential Indicators for the following five years.

9.2.3 The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council's constitution and in particular the Financial Procedure Rules.

9.3 **Risk management implications**

9.3.1 These are set out in the main body of the report in section 8.

9.4 **Environmental implications**

9.4.1 Inevitably, with any capital projects there are likely to be environmental implications, which will be considered when approval is sought for particular schemes. The HRA report looks further at this with respect to decarbonisation of the housing stock and damp and mould issues.

9.5 **Equality implications**

9.5.1 At this stage, it is not possible to fully measure the impact of these proposals on those people who have protected characteristics under the Equality Act 2010, or how the geographic spread of the capital strategy proposals will be felt across all areas of Slough. However, our preliminary equality impact analysis of the planned activity for 2023/24 indicates that whilst the Council is focused on making a wide range of changes during 2023/24 in order to balance its budget, it is likely that many of the proposals will have limited negative impacts on the communities that we serve.

9.5.2 It should be noted that there a number of schemes included in the capital budget for 2023/24 which are specifically for the benefit of certain residents within the protected characteristic groupings, namely £1.140m of improvements funded by the Disabled Facilities Grant, £29k on a Learning Disability Change Programme and £4.323m on Children's Services. In particular within the latter, there is £1.675m for Special School Expansion and £1.250m for SEND Resource bases and Improvements. These are all expected to have favourable benefits for vulnerable residents.

9.5.3 In order to ensure that the Council complies with its duty under section 149 of the Equality Act 2010, individual equality impact assessments will continue to be undertaken as proposals are developed in order to ensure there are mitigating actions, where possible, to minimise any adverse impacts on our communities.

## 10 Background Papers

10.1 HRA 2023/24 budget and 30-year business plan, containing the HRA capital programme and submitted as part of the overall suite of papers that form the Council's 2023/24 budget plans.