

Report to Cabinet



Date of Meeting	23 rd November 2021
Portfolio	Cabinet Member for Finance and Corporate and Corporate
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Public/Private Document	Public

Capital Programme 2022/23 to 2026/27

Executive Summary

- 1.1 To outline changes to the Council's Capital Programme 2021/22, as described in section 4.1. The 2021/22 programme has been increased to £107.3m. The base budget of £57.2m agreed at Budget Council March 2021 has been increased by £94.7m of budget rephased from previous years, £11.7m of capital budget changes, and reduced by £56.3m of budget that has been reviewed and rephased into future years.
- 1.2. To outline the Council's proposed Capital Programme 2022/23 to 2026/27, as a basis for consultation.
- 1.3 To outline Members' of the risks of borrowing to finance the Capital Programme and its long term impacts on the longer term financial sustainability of the Council and Treasury Management Strategy (TMS), as discussed in section 4.3.
- 1.4 Some of the assumed external funding included in the programme is still subject to clarification from Government and other sources and in some cases may involve bids for funds. It is therefore recommended that all approvals are subject to confirmation of funding allocations.

Recommendations

- 2.1 Cabinet consider and approve the proposed changes to the Capital Programme 2021/22.
- 2.2 Cabinet consider and approve the Capital Programme 2022/23, and provisional programmes for 2023/24 to 2026/27, as a basis for consultation, subject to confirmation of grant funding allocations, as detailed in Appendix 1.
- 2.3 Cabinet to consider and approve the proposal to delegate approval to spend of the £6m Investment scheme (held for urgent capital spend) to the Chief Finance Officer in consultation with the Portfolio Holder for Finance.

Reason for Recommendation

- 3.1 Cabinet members are required to recommend a balanced 2022/23 Revenue Budget to Budget Council, and provisional budgets for 2023/24 to 2024/25.
- 3.2 The Council is required to set a balanced budget for 2022/23 by 11th March 2022.
- 3.3 The Capital Programme is a key element of the budget setting process.

Key Points for Consideration

4.1 Capital Programme Review 2021/22

- 4.1.1 As reported to Cabinet 27th July, a review of the current Capital Programme was in progress.
- 4.1.2 Due to the ongoing pressures being placed on the Council, a review of the Capital programme has been undertaken to reduce the future debt repayment burden on the Council as part of the Medium Term Financial Strategy (MTFS) and to understand spend in the current year and the impact on the Council's cash flow.
- 4.1.3 The objective of the review of the 2021/22 capital budgets across the Council was to consider whether schemes could be re-prioritised, rephased into future years or reduced, which can reduce the forecast revenue cost.
- 4.1.4 The outcome of the review was to realise a revenue saving of £0.5m per annum through reduction in prudential borrowing repayments over the next three financial years (2022/23 – 2024/25). This being in addition to the reductions included in the current MTFS.

4.1.5 The Capital Programme budget for 2021/22 as approved at Quarter 1 Finance Update Report was £107.3m. This being £57.2m approved as the new programme at March Budget Council, £94.7m rephased from 2020/21 into 2021/22, £11.7m of capital budget changes, and reduced by £56.3m of budget that has been reviewed and rephased into future years.

4.1.6 An updated position is detailed in Table 1

Table 1 Updated Capital Programme 2021/22 to 2023/24

	2021/22 £'000s	2022/23 £'000s	2023/24 £'000s
Budget Council March 2021	57,186	32,468	46,760
Rephasing Brought Forward from previous years	94,703	20,850	12,355
Capital Budget Changes	11,697	(831)	
Rephasing requested Quarter 1	(56,258)	51,258	5,000
Budget as at end of June 2021	107,328	103,745	64,115

4.1.7 As part of the Quarter 2 Finance Update Report additional rephasing from the 2021/22 programme has been identified and agreed with Directorates, this being £18.5m as detailed in appendix 2.

4.1.8 Any rephasing from Quarter 3 will be detailed in the final report to be approved at Budget Council. Following this underspend at the year-end will be carried forward and added to the opening budget total.

4.2 Capital Programme 2022/23 to 2026/27

4.2.1 The Capital Investment and Disposal Strategy including the 2022/23 – 2026/27 Capital programme will be presented to Cabinet in February and Council on 23rd February 2022.

4.2.2 The strategy is a requirement from Chartered Institute of Public Finance and Accountancy (CIPFA) for all local authorities to demonstrate a high level long term view of capital expenditure, financing and treasury management activity to contribute to the provision of services, an overview of risk in capital items and the implications of capital expenditure on the future financial sustainability.

4.2.3 To address the CIPFA requirements, the Strategy will address longer term aspirations for the borough with capital requirements and detail the short to medium term capital spend in a five year programme.

4.2.4 The programme aims to:

- Deliver investment in the Borough to support the Borough wide priorities, including economic benefit and gross value added to the Borough;
- Deliver investment in Service Provision to deliver future savings;
- Maintain and enhance the Council's assets;
- Meet Statutory provision;

- Provide value for Money.

4.2.5 The Capital Programme continues to align with the Council's priorities:

- Place Plan – aligning capital investment to support the borough's economic growth potential and continue to regenerate our town centres.
- Corporate Plan – ensuring the borough maintains its high standard of quality building and public space.
- Asset Strategy – aiming to hold fewer but more efficient assets, realising maximum value from the estate whilst safeguarding its staff, customers and other building users.

4.2.6 Additional Capital Schemes identified as part of the 2022/23 Capital Programme are summarised in table 3 below and table 4 provides details of the funding source for each project. Full details of each scheme are within Appendix 3.

Table 3 Additional Capital Schemes

Directorate	Scheme	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000
Economy	Rochdale Flood Innovation Programme	2,708	957	876	815	717
Economy	Industrial Units – Capital Programme	1,703	1,047	812	-	-
Economy	Town Hall - Drainage	-	-	-	-	-
Economy	Towns Fund – New Homes Central Rochdale	1,000	853	-	-	-
Economy	Towns Fund – Heritage Skills Studio	-	180	137	-	-
Economy	Towns Fund – St Mary’s Gate	-	2,035	-	-	-
Economy	Towns Fund – Strategic Gateway Sites	396	61	-	-	-
Economy	Towns Fund – AMPI	4,915	6,388	3,697	-	-
Economy	Towns Fund – Kingsway	500	-	-	-	-
Economy	Towns Fund – Neighbourhoods	1,200	1,200	-	-	-
Economy	Rochdale Town Centre Slopes Restoration	1,000	1,000	-	-	-
Neighbourhoods	Highways Steady State Funding	3,190	3,190	3,190	3,190	3,190
Neighbourhoods	GM ONE Network	665	395			
Neighbourhoods	Additional ICT Infrastructure Refresh	330				
Neighbourhoods	Highway Fees	100	100	100	100	100
Resources	Investment Fund	2,000	2,000	-	2,000	-
Total Cost		19,707	19,406	8,812	6,105	4,007

Table 4 Funding Source for additional Capital Schemes

Scheme	Funding Source	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000
Industrial Units – Capital Programme	Prudential Borrowing	1,703	1,047	812	-	-
Rochdale Town Centre Slopes Restoration	Prudential Borrowing	1,000	1,000	-	-	-
Investment Fund	Prudential Borrowing	2,000	2,000	-	2,000	
Highways Steady State Funding	Prudential Borrowing	2,851	2,851	2,851	2,851	2,851
GM ONE Network	Prudential Borrowing	665	395	-	-	-
Additional ICT Infrastructure Refresh	Prudential Borrowing	330	-	-	-	-
Total	Prudential Borrowing	8,549	7,293	3,663	4,851	2,851
Rochdale Flood Innovation Programme	Grant	2,708	957	876	815	717
Towns Fund – New Homes Central Rochdale	Grant	1,000	853	-	-	-
Towns Fund – Heritage Skills Studio	Grant	-	180	137	-	-
Towns Fund – St Mary’s Gate	Grant	-	2,035	-	-	-
Towns Fund – Strategic Gateway Sites	Grant	396	61	-	-	-
Towns Fund – AMPI	Grant	5,059	6,441	3,712	-	-
Towns Fund – Kingsway	Grant	500	-	-	-	-
Towns Fund – Neighbourhoods	Grant	1,200	1,200	-	-	-
Highways Steady State Funding	Grant	339	339	339	339	339
Total	Grant	11,058	12,013	5,049	1,154	1,056
Traffic Calming – Council Motion	Capital Receipts	100	100	100	100	100
Total	Capital Receipts	100	-	-	-	-
Overall Total		19,707	19,406	8,812	6,105	4,007

4.2.7 As part of the Capital bids process the following schemes have identified that external funding may be available and, therefore would reduce the need to borrow for these schemes.

- Highways Steady State Funding – The City Region Sustainable Transport Settlement (CRSTS) has the potential to offer £1m of carriageway improvement schemes for Rochdale in 2022/23 which would reduce the borrowing need for that year to £2.19m.
- Rochdale Town Centre slops restoration – Due to the historic nature of the works a National Heritage Lottery Fund (NLHF) application can be submitted. Early consultation with the NLHF are being arranged. Also, as a large part of the work is drainage a contribution from the Environment Agency (EA) is also being explored. These contributions would reduce the borrowing requirement for the year the funding is secured.

4.2.8 Along with the Council's current priorities, the proposed Capital Programme has been developed for 2022/23 to 2026/27, taking into consideration the available resources.

4.2.9 The approach for setting the 2022/23 capital budget has followed the steps below:

- Initial budget as provisionally approved at Budget Council on 3rd March 2021.
- Review of current capital programme as described at 4.1.
- Consideration of new schemes in the current financial climate.
- Review sessions with the Cabinet Member for Finance and Corporate and Assistant Portfolio Holder for Finance and Corporate, Director of Economy and the Assistant Directors within the Neighbourhoods Directorate, followed by approval to progress the proposed programme by the Council's Leadership Team.

4.2.10 Appendix 1 details the proposed Capital Programme for 2022/23 and provisional Capital Programmes for 2023/24 to 2026/27 including the rephasing detailed in section 4.1. Appendix 2 detailed the rephasing of schemes as approved in the Quarter 1 Finance Update, plus those rephased at Quarter 2.

4.2.11 Table 5 shows the total proposed Capital expenditure for 2022/23 to 2026/27 summarised by Directorate and the funding source. With Table 6 summarising the establishment of the programme from Council in March.

Table 5 Summary of Capital Programme and funding source

Directorate	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000
Adult Care	3,987	2,987	2,987	2,987	2,987
Children's Services	30,197	12,453	7,453	7,453	7,453
Economy	81,705	47,568	28,522	815	717
Neighbourhoods	33,218	18,612	13,948	14,954	14,496
Public Health	4,006	-	576	100	-
Resources	2,000	2,000	-	2,000	-
Total Requirement	155,113	83,620	53,486	28,309	25,653
Funding Source					
Government Grants	47,242	27,453	15,489	11,594	11,496
Other Grants	12,972	-	-	-	-
Contributions	11,756	2,714	2,714	2,714	2,714
Prudential Borrowing	35,519	31,498	14,848	12,590	10,032
Prudential Borrowing (Invest to Save)	43,089	21,700	20,180	1,156	1,156
General Capital Receipts	4,080	100	100	100	100
Revenue Contribution to Capital Outlay (RCCO)	455	155	155	155	155
Total Funding	155,113	83,620	53,486	28,309	25,653

Table 6 Buildup of Capital Programme

	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000
Programme Budget Council March 2021	32,468	46,760	45,021	22,500	-
Programme extension to 26/27	-	-	-	-	20,722
New Schemes	19,707	19,406	8,812	6,105	4,007
Rephasing	102,938	17,454	(347)	(296)	924
Proposed Programme	155,113	83,620	53,486	28,309	25,653

4.2.12 The Capital schemes listed in appendix 1 are categorised as follows:

- Annual Allocation – These schemes receive annual allocations either as a result of external funding, or because the capital investment is essential for the Council to maintain current service delivery or to meet statutory responsibilities.
- Scheme started in previous years – These schemes are multi-year schemes that commenced prior to 2022/23.
- New Bid – These are new schemes or schemes requiring additional funding for the 2022/23 capital programme or future years.

4.2.13 The 2022/23 Capital Programme includes Schemes totaling £35.5m to be funded from Prudential Borrowing, £8.5m of which are new additions to the programme as detailed in Table 4. The annual revenue cost of funding the new £35.5m of borrowing is approximately £2.99m per annum.

4.2.14 A small number of the new capital schemes have ongoing revenue running

costs totaling £0.331m.

- 4.2.15 Investment Fund scheme, totaling £6m over 5 years is a new scheme proposed to allow funding of schemes already in the 5 year capital programme to be brought forward to 2022/23. In addition the allocation of capital funds to urgent scheme requests during the financial year e.g. sink holes in the roads. Cabinet are asked to consider delegating the approval of the allocation of £6m Investment Fund scheme to the Chief Finance Officer in consultation with the Portfolio Holder of Finance to enable schemes to be progressed as early as possible.

4.3 Prudential Borrowing

- 4.3.1 Table 5 highlights the funding streams for the programme, the majority are funded from prudential borrowing including Invest to Save Schemes (£78.6m). The borrowing classed as Invest to Save are included within the MTFS and longer term financial sustainability calculations as having income / budget reductions to offset the borrowing costs. The repayment of the main borrowing is added to the annual budget requirements. If invest to save schemes do not achieve the offset, the prudential borrowing costs are added to the budget requirement in the MTFS.
- 4.3.2 Any borrowing which the Council undertakes is governed by the Treasury Management Strategy (TMS), which sets out an Authorised Limit and
- 4.3.3 Operational Boundary to place a ceiling on overall borrowing. However, it should be noted that, these limits are calculated based upon the value of the approved capital programme, therefore if the level of the Capital Programme increases the upper value to which the Council can borrow increases in relation. In light of proposed investments / increasing capital expenditure detailed in this report, the Council needs to consider additional limits for the level of borrowing it feels is acceptable, such as the percentage of available resources that are committed to debt repayment and therefore are not available for the delivery of services. This debt exposure limit would have to include schemes classified as invest to save which in theory have the ability to repay their own debt charges as mentioned above, as this allows us to understand the worst case scenario if the schemes do not achieve.
- 4.3.4 The operational boundary is set at £540m and the authorised limit for borrowing at £716m in the TMS for 2021/22. The operational boundary is lower than the authorised limit to allow for unforeseen borrowing. The current level of borrowing is £290m which is significantly lower than the operational limit. As stated above though the limits increase as the programme increases.
- 4.3.5 An alternative threshold for the operational boundary / borrowing limit could be calculated as a percentage of net revenue expenditure. This ratio is shown with the TMS as the affordability indicator and is calculated net of invest to save schemes. The indicator for 2021/22 is 9.07%. If invest to save schemes are

included as per the current programme and revenue budget the indicator increases to 11.28%.

4.3.6 There is no external guidance on what the affordability indicator should be and CIFPA as the professional body have been questioned as to if there should be a range in which the affordability indicator should sit for a local authority i.e. 10 – 15% but this has not been confirmed and remains with each individual authority to decide.

4.3.7 The risks of committing to high levels of borrowing for the Council include:-

- Having long term commitments to repay which reduce the level of funds to deliver services
- Changing interest rates
- Need to refinance in future years

4.4 Alternatives Considered

4.4.1 The Council is legally obliged to set a balanced budget. The budget setting process is complex and must be undertaken in a planned way. It is equally important that assumptions used in the preparation of the budget are agreed, reasonable and consistently applied by all services.

4.4.2 A number of alternative elements of the Capital Programme were considered in the development of the programme, the one which is presented is of the most strategic/community value and is aligned with the Council's priorities and therefore forms the basis for consultation, on the understanding that any alternatives offered during that process will be considered.

Costs and Budget Summary

5.1 Costs and Budget Summary

5.1.1 As the cost of the proposed Capital programme is greater than the capital receipts and external funding available, borrowing is required to fund the difference. This has an impact on the Council's Revenue budget. This is included within the budget estimates and the gap in the Revenue Budget 2022/23 to 2024/25 Cabinet papers.

5.1.2 Borrowing requires repayment of both the principle sum borrowed and associated interest over a given number of years. The total budgeted cost of borrowing for 2022/23 is £22.4m, increasing to £24.9m in 2023/24.

5.1.3 The Capital budget is funded from a number of sources: borrowing, capital receipts, revenue contribution to capital outlay and external funding/contributions. Borrowing has an implication for the Council's revenue budget as the Council has to make provision to repay the cost of borrowing.

5.1.4 The Council is able to borrow resources for capital schemes. The revenue implications of this option are that for every £1m of capital expenditure there is revenue costs to repay borrowing. Table 7 below provides details of the revenue costs to repay borrowing over different time scales.

Years	Annual Costs £'000
6	203
8	161
11	127
20	86
40	61

Risk and Policy Implications

6.1 Risk Implications

- 6.1.1 There are a number of areas of the Council's Capital Programme where risks to the projections contained in this report have been identified. The most significant of these are detailed below.
- 6.1.2 By committing to capital spend funded via Prudential Borrowing the Local Authority is committing to the long term revenue costs of interest and capital repayments, the funding for which must be reflected in the revenue budget and MTFS.
- 6.1.3 The forecast cost implications are based on the current estimated PWLB borrowing rates, however these are subject to change and may increase which would lead to additional revenue costs.
- 6.1.4 The Invest to Save Schemes included in the Programme assume that the cost of borrowing will be covered by income generation or savings, however this is not guaranteed and needs to be monitored carefully.
- 6.1.5 Externally funded schemes cannot start until confirmation of the required funding has been received. This is a particular risk where the scheme is reliant on external funding with the provisional budget being based on forecast income. Should the level of income not be received, the level of expenditure would need to be considered to allow the scheme to progress with a reduced budget.
- 6.1.6 Ongoing impact of the Covid-19 pandemic – the budget assumptions for both Capital and Revenue budgets will be kept under review as more information becomes available on the ongoing impact of the pandemic on Council services.

6.1.7 Health and Safety – the Capital Programme aims to mitigate any risks surrounding health and safety by ensuring Council assets are in a good state of repair.

6.1.8 Climate Emergency and Sustainability – within the Capital Programme there are a number of schemes dedicated to Climate Emergency and Sustainability.

- Climate Emergency – Carbon Neutral
- GM Air Quality Monitoring

6.2 Legal Implications

6.2.1 The Council is legally obliged to set a balanced Revenue Budget. The revenue impact of the Capital Programme is included within the overall Revenue Budget for 2022/23 to 2024/25.

Consultation

7.1 The proposed Capital Programme for 2022/23 will be brought forward for consultation with Corporate Overview and Scrutiny Committee on 8th December 2021. Consultation will also be undertaken with Township Committees. Following consultation the Capital Programme 2022/23 to 2026/27 will be recommended by Cabinet on 10th February 2022 for approval at Budget Council on 23rd February 2022.

Background Papers	Place of Inspection
8. Individual bid requests Reports	Floor 2, Number 1 Riverside Email on request
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