

SUBJECT: DRAFT CAPITAL BUDGET PROPOSALS 2022/23 TO 2025/26

MEETING: Cabinet

DATE: 19th January 2022

DIVISION/WARDS AFFECTED: Countywide

1. PURPOSE:

- 1.1 To set out draft capital budget proposals for financial year 2022/23 and the indicative capital budgets for the three years 2023/24 to 2025/26.
- 1.2 To commence a period of consultation on the draft capital budget proposals for a four-week period to 16th February 2022.

2. RECOMMENDATIONS:

- 2.1 That Cabinet approves the release of its draft capital budget proposals for 2022/23 and indicative capital budgets for 2023/24 to 2025/26 as set out in **appendix 5** for consultation purposes.
- 2.2 That Cabinet note the reduction in core general capital grant of £762,000 highlighted in the provisional settlement received from Welsh Government that creates a funding shortfall and will require an assessment of the affordability of the existing programme prior to final capital proposals being presented.
- 2.3 That Cabinet notes the capital bids put forward in **appendix 1** that would require additional funding over and above that contained in the existing programme, and requests that further scrutiny is carried out of these bids prior to them being considered for inclusion in the final budget proposals.
- 2.4 That Cabinet confirms that the draft capital budget proposals for 2022/23 are wholly aligned with the priorities as set out in the Capital strategy, the Corporate Plan and the latest iteration of its strategic aims, and that looks to maintain focus on the longer term challenges facing communities.
- 2.5 That Cabinet reaffirms the principle that new capital schemes can only be added to the capital programme if the business case demonstrates that either:
 - they are self-financing
 - the scheme is deemed a higher priority, utilising the priority matrix in the Capital Strategy, than current schemes in the capital programme and displaces them
 - they do not compromise the core principles of affordability, sustainability or prudence
- 2.6 That Cabinet considers whether the draft budget proposals are reasonable and appropriate in light of the backlog capital pressures identified in **appendix 2**.

- 2.7 That Cabinet notes the capital receipt receipts forecast in **appendix 8** (exempt), and the prudence not to anticipate further significant additional receipts over this next 4-year MTFP window.
- 2.8 That Cabinet specifically approves the use of £2.65m of capital receipts, using Welsh Government guidance on the flexible use of capital receipts to fund revenue costs associated with service reform, to support the draft revenue budget proposals for 2022/23.
- 2.9 That Cabinet considers and re-affirms its agreement to the prudential indicators supplied in **appendix 9** that are based on the current draft revenue and capital budgets.

3. KEY ISSUES:

Current Capital MTFP

- 3.1 The four-year capital programme is reviewed annually and updated to take account of any new information that is relevant.
- 3.2 A new requirement was placed upon Councils during 2018/19 to prepare and update annually a more explicit capital strategy that better reconciles resourcing with affordability. The most recent strategy was approved by Council in March 2021 and now guides the Council's capital budget deliberations going forward. As part of the capital strategy, Council approved an investment criteria priority matrix (**appendix 4**) which is used to evaluate any proposed capital funding bids and to identify those which present the case for the most urgent investment.
- 3.3 Officers are developing the business case in relation to Band B proposals for the new 3-19 school in Abergavenny. The project SOC/OBC was submitted to Welsh Government in October 2021 and received Ministerial approval in December 2021. The current timeline proposes that the FBC will be submitted to County Council in March 2022 for approval prior to submission to Welsh Government to secure external funding. The new building is expected to be completed for occupancy by September 2024 and project completion date remains as December 2024.
- 3.4 Aside from the investment in the Councils Band B aspirations, the current four-year capital programme very much represents a consistent investment into maintaining the Council's infrastructure base through planned investment in:
- Property maintenance
 - Infrastructure & transports schemes
 - Disabled facilities grants & access for all
 - Match funding to leverage external grant opportunities to invest in our infrastructure
 - Investment in the Cardiff capital city region deal
 - Funding of eligible revenue costs associated with service reform, to support the draft revenue budget

Capital MTFP Preparation Considerations

- 3.5 Whilst the current planned investment in the Council's infrastructure goes a long way in meeting the requirement to maintain our existing estate, there still remains a considerable number of backlog pressures that sit outside of the core capital programme as indicated in **appendix 2**, and this has significant risk associated with it. Cabinet have previously acknowledged and accepted this risk.

- 3.6 Further to this, as part of the preparation of the draft capital budget proposals for 2022/23 and in utilizing the principles of the existing capital strategy, officers have brought forward a number of capital bids for funding which represent a requirement for more urgent and targeted investment and that unless addressed, will present significant Health & safety or legal implications for the Council.
- 3.7 These pressures would have previously been captured within the list of backlog pressures and risks that Cabinet would have reviewed and accepted in prior years, however officers have now indicated that these schemes can no longer be carried as a risk, and represent pressures that require investment over and above the existing levels of capital budget and that cannot be accommodated within annual maintenance programmes.
- 3.8 A summary of these capital bids is outlined in **appendix 1** and revolve around a need to consider further investment in our Highways and transport infrastructure alongside our IT and network estate. Whilst a considerable amount of work has been carried out in outlining the business case for investment in these schemes, there remains a need to clarify the exact level of investment required, the extent of third party funding available both in the current financial year and over the four-year budget period, and critically an assessment of the affordability of such investment in light of the Councils available resources.
- 3.9 It is therefore proposed that further scrutiny is carried out of these bids prior to them being considered for inclusion in the final budget proposals.
- 3.10 Furthermore, the Welsh Government provisional funding settlement announced on 21st December 2021 highlighted a reduction of £762,000 in respect of core general capital grant for 2022/23 and potentially through the latter 3 years of the capital MTFP. This is extremely disappointing, especially in light of the Councils limited recourse to internal resources in the form of capital reserves and receipts, or the additional revenue burden that would materialise from any resultant borrowing to meet the funding gap.
- 3.11 Alongside this, the current provisional specific grant indications highlight that the annual Highways refurbishment grant of £627k will be removed from 2022/23 onwards. This grant has become integral in maintaining a robust level of highways infrastructure investment and the potential shortfall in funding creates an immediate pressure in this area.
- 3.12 Clarification is also required on the further specific capital grant funding streams where there are initial indications that these are being removed or consolidated, or that the criteria are being tightened and that may impact on some of the pressures and bids being considered. This will also need further consideration in the final budget proposals.
- 3.13 In light of the above, an assessment of the affordability of the current capital programme alongside the new bids received and funding resources available will therefore be required prior to final budget proposals being recommended.

Capital MTFP backlog pressures

- 3.14 In summary the following capital backlog pressures and issues have been identified:
- Long list of back log pressures – infrastructure, property, DDA work, Public rights of way, as outlined in **appendix 2**. None of these pressures are included in the current capital MTFP, but this carries with it varying degrees of risk. These pressures have undergone recent review and the Capital and Asset Management Working Group will continue its work to assess risks and determine whether there needs to be any further capital budget provision afforded to mitigate any significant risks requiring more immediate action over the MTFP period.

- In addition to this there are various schemes and investment considerations (e.g. tranche C Future schools, climate emergency response, any enhanced DFG spending, depot and household waste recycling centre enhancement etc.) that could also have a capital consequence, but in advance of quantifying those or having Member consideration of these items, they are also excluded from current capital MTFP. Indicative MonLife investment considerations are separately shown in **appendix 3**.
- Capital investment required to deliver revenue savings – this is principally in the area of office accommodation, property investment, digital design, and service areas where revenue savings can be released from alternative delivery models that are capital intensive. The level of investment is currently being assessed however, in accordance with the capital budget principles already set, if the schemes are not going to displace anything already in the programme then the cost of any additional borrowing will need to be netted off the saving to be made.
- A change in Welsh Government homeless policy and the issue of Phase 2 Planning Guidance for Homelessness & Housing Related Support, combined with the requirement during the pandemic for all homeless people to be taken off the streets and to be appropriately housed, results in potential future capital pressures and considerations. Clarity is awaited on the level of Welsh Government support to be provided and grant conditions that enable such funding to be used to address the current accommodation needs.
- The requirement to secure adequate and suitable accommodation for registered placements for looked after children and where market supply is not available. It is expected that initial acquisitions will need to be made to satisfy the requirements that the courts have placed on us to secure registered placements.
- As a result of the consultation undertaken by the Public Works Loan Board (PWLB) important changes were announced on the conditions imposed on local authorities wishing to access loans, such as a requirement to submit high level descriptions of capital spending plans over the medium term. Authorities will be required to confirm that there is no intention to purchase commercial investment assets primarily for the purpose of yield within medium term budgets regardless of whether those transactions would have notionally been financed from sources other than the PWLB. Given the Council's commercial and asset investment strategy the implications of this continue to be discussed with the Council's treasury advisers and will be taken into account as the treasury strategy and capital budget setting proposals are finalised for 2022/23.

Capital budget strategy and alignment with Corporate plan priorities

3.15 The last capital budget strategy was approved by Council in March 2021. In preparing the draft capital budget proposals for 2022/23 and the subsequent three years of the capital MTFP regard has been given to underlying principles of the strategy and that remain fit for purpose. An updated capital strategy for 2022/23 will be considered by Council alongside the treasury strategy at its meeting on 3rd March 2022.

3.16 The strategy going forward has the following key components:

- The core MTFP capital programme needs to be financially sustainable without leading to borrowing levels that are unaffordable, unsustainable and imprudent.
- Welsh Government have traditionally confirmed capital grant funding awards late in the budget process or subsequently in-year. This can undermine a more planned approach

to capital expenditure. However, the Council has a successful track record of bidding for capital grant schemes and alongside investment in project officer support as part of the draft revenue budget proposals consideration is being given to a match-funding budget to enable the Council to have the budget readily in place to enable schemes to progress quickly and where grant terms and conditions can sometimes put in place unreasonable timescales for delivery.

- The provisional settlement announced on 21st December 2021 highlighted a reduction of £762,000 in respect of core general capital grant for 2022/23 and through the latter 3 years of the capital MTFP, alongside maintaining the existing level of supported borrowing. This will prompt the need for an assessment of the affordability of the current capital programme alongside the new bids received, alongside a review of alternative funding resources.
- Whilst the Band B 21st Century Schools final business case is being finalised and subject to Welsh Government and Council approval, subsequent additional funding approval from both Council and Welsh Government is anticipated to be sought following an increase in the overall cost envelope over and above the budget contained in the current capital MTFP. The consequential revenue borrowing cost (minimum revenue provision - the Authority's means of provisioning for the principal repayment of borrowing for capital purposes), will however be minimized within this next MTFP window as the costs of repayment tend to start following the year the asset becomes operational.
- No inflation increases will currently be applied to any of the capital programme with highways and infrastructure maintenance budgets set at the same level as last year.
- The County farms maintenance and property maintenance programme remains a core aspect of the annual capital programme and whilst the overall amount remains the same from year to year, the incidence of work is prioritized based on the revised asset management plan which should be supported by condition survey consideration.
- The capital investment directed to Disabled Facilities Grants (DFGs) has increased in recent years and continues throughout the capital MTFP at a level of £900,000. This is expected to be supplemented in 2022/23 by significant slippage of previous year's budget. This, together with a £250,000 per annum commitment to Access for All budgets has been maintained.
- The budget to enhance or prepare assets for sale reflects confirmation from corporate landlord services and is notionally funded by enhanced capital receipts values.

3.17 Furthermore, these budget proposals and the capital budget as a whole for 2022/23 continue to support the priorities of the Administration and are wholly aligned with the priorities set out in both the Corporate Plan and latest iteration of its strategic aims. Notably this includes ensuring that resources are aligned to meet the plans for tackling the longer term challenges that communities and public sector organisations are facing, and notably for Monmouthshire:

An ambitious place full of hope and enterprise

- Begin to build a new, carbon neutral school in Abergavenny and develop a detailed plan for the future of Chepstow School ahead of Band C of the 21st Century Schools Programme;
- Invest more than £2 million to upgrade and redevelop the leisure centres in Chepstow and Abergavenny;

- Work with technology companies to ensure more households and businesses can benefit from high speed broadband, using fibre to the premises and speeds of up to one gigabit per second;
- Make a substantial investment in maintaining and repairing the highways network;
- Improve connectivity and create more sustainable transport through projects such as the redevelopment of Severn Tunnel Junction station and push for the development of Magor Walkway station;
- Act on the findings of the recent Chepstow transport study report to improve traffic and travel movements in and around Chepstow and the surrounding area;
- Begin significant improvements to the active travel networks in Monmouth, Caldicot and Abergavenny to make it easier for people to walk and cycle in and around our towns.

A fair place where your family is safe

- Identify solutions to prevent homelessness and providing support for those who find themselves without a roof over their head;
- Progress the development of a new dementia friendly care home at Crick Road

A sustainable place where people care about each other

- Work with community groups to deliver the Magor with Undy Community Hub project; creating a new space for social, culture, leisure, sporting and other community activities

A place you are proud to call home

- Refurbish the Borough Theatre in Abergavenny ahead of a re-opening

Available capital resources

- 3.18 A capital strategy establishes a heightened responsibility to demonstrate that the core programme remains affordable and that existing assets are adequately maintained.
- 3.19 In light of the current pressures on the Authority's medium-term revenue budget, and the principles on which any prudential borrowing must be taken of affordability, prudence and sustainability, the use of further prudential borrowing has been carefully assessed and refreshed in **appendix 9**.
- 3.20 The level of capital receipts anticipated over the next 4-year window has again not been increased significantly from those communicated during the previous year's budget process. The pragmatic reason for this is a threefold consideration that,
- The effect of Welsh Government's land categorization exercise and the implications of this being worked through.
 - The consequences of the proposed Replacement Local Development Plan and the subsequent Strategic (Regional) Development Plan on Authority owned land.
 - Members aspiration for the Council to have a role in housing development and centred around delivering affordable housing in the County. Commonly the effect of that would be a need to subsidise such delivery through a reduced land price. Cabinet received a

[report](#) in December 2020 that updated members on the Councils ambition to disrupt the local housing market through the construction of low cost homes by the Council.

3.21 The Council is intent to use the benefit of Welsh Government guidance that allows the Council to make flexible use of capital receipts to afford certain costs around service reform that would traditionally be regarded as revenue expenditure. As was the case for 2019/20, 2020/21 and the current financial year this has beneficially affected the revenue outturn position.

3.22 In addition to this, 2022/23 will see a further proposed use of capital receipts for this purpose of £442k, bringing the level of support to a figure of £2.65m and in supporting the draft revenue budget proposals. It is accepted that this is not a sustainable long term means by which to support the revenue budget but it is accepted as necessary for 2022/23. The current revenue MTFP is modelled on the level of support reducing considerably in 2023/24 onwards to £507k per annum.

3.23 The table below illustrates the balance on the useable capital receipts reserve over the period 2021/22 to 2025/26 taking into account current capital receipts forecasts provided by Landlord Services and revised balances drawn to finance the existing programme.

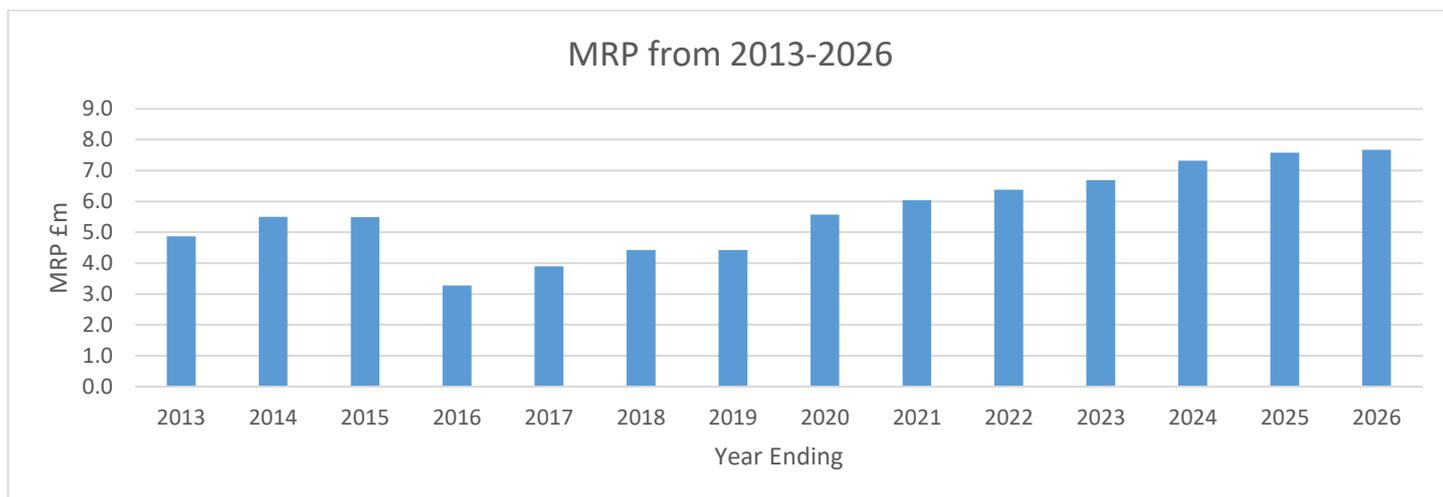
<u>GENERAL RECEIPTS</u>	2021/22	2022/23	2023/24	2024/25	2025/26
	£000	£000	£000	£000	£000
Balance as at 1st April	9,581	13,348	11,368	11,182	10,095
Less: capital receipts used for financing	(3,737)	(1,895)	(684)	(684)	(684)
Less: capital receipts used to support capitalisation directive	(2,208)	(2,650)	(507)	(507)	(507)
	3,636	8,803	10,177	9,991	8,904
Capital receipts Received	2,596	0	0	0	0
Capital receipts Forecast	7,115	2,565	1,004	104	104
Forecast Balance as at 31st March	13,348	11,368	11,182	10,095	9,008

3.24 The core capital programme does not generally include specific grant funded schemes as a consequence of such funding announcements and grant awards not being confirmed in time to feature in the forthcoming capital budget proposals. These are added to the capital programme during the year. Cabinet will receive in March alongside the final capital budget proposals confirmation of specific grant funded capital schemes. The final proposals will also contain an update on any early indications of additional capital funding from Welsh Government or any other funding bodies.

3.25 The prudential indicators appropriate to 2022/23 and highlighted in Appendix 9 to this report demonstrate:

- That for 2022/23 borrowing accounts for nearly 75% of the capital funding with internal Council resources (predominantly capital receipts) making up a further 13% with only 6% found from external sources. Years 2 to 4 of the programme show a greater proportion of funding coming from external resources, however this is primarily due to the overall level of expenditure incurred reducing.

- In terms of the mix of capital receipts usage versus borrowing, longer life assets (such as school building re-provision) are more suitable being funded from borrowing over their respective asset life rather than using capital receipts. Capital receipts are more suitable in affording short life capital assets expenditure, as this avoids proportionately higher Minimum Revenue Provision (MRP) costs affecting the revenue budget. This would introduce a trend of increasing capital receipts available to members to address short term priorities.
- However capital receipts have also increasingly been used in recent years to legitimately supplement the revenue budget, by way of use Welsh Government guidance relating to flexible use of capital receipts associated for costs of service reform.
- The continued use of capital receipts in this fashion, whilst necessary at the moment shouldn't be viewed as a long term way of supporting the Council's revenue budget and given their one-off nature meaning that capital receipts are neither available to address capital priorities or address the longer term capital pressures highlighted by service managers.
- Estimated gross debt levels compared against the capital financing requirement indicates around 14% headroom and that is reflective of "internal" borrowing where the Council is utilising its cash balances from reserves and working capital to avoid the need for additional external borrowing on a day to day basis. This is seen as the most cost effective treasury policy as it avoids entering into longer term borrowing at rates which are markedly higher than corresponding investment rates and would therefore mean incurring a significant "cost of carry" of any unspent and uncommitted borrowing sums.
- However the Council has recently taken advantage of a dip in longer term PWLB borrowing rates and secured an additional £20m of borrowing with an average duration of 48 years at historically low rates. This provides some longer term certainty in borrowing costs for the Council and reduces the risk of being overly exposed in the short term to interest rate risk. This approach continues to require careful monitoring and review, especially in a rising interest rate environment.
- The operational boundary for external debt acts a management tool for monitoring gross debt levels during the financial year and does not represent an absolute limit for gross borrowing unlike the Authorised limit which does act as the absolute limit for borrowing without further Council approval.
- The affordability of borrowing is considered by Members in setting an affordable and balanced annual budget. The prudential indicator showing the proportion of financing costs compared to the net revenue budget ensures that consideration is given to the impact of borrowing on the overall budget.
- The Council's annual borrowing costs are subsumed within the revenue budget, and members annually assess pressures, savings and priorities through their consideration of budget proposals. The most significant such cost is the minimum revenue provision, which is a proxy for principal repayments on borrowing secured. The following graph indicates a slightly rising trend in such costs for the next 4 years which is not unexpected given the commitment to borrowing for Band B considerations. Despite this the proportion of financing costs compared to net revenue budget remains broadly static throughout the MTFP window at just under 6%.



4. OPTIONS APPRAISAL:

- 4.1 The Capital and Asset Management Working Group have met to consider the core capital programme, the capital pressures and capital investment considerations leading to these draft proposals and the MTFP capital programme contained in this report and outlined in the appendices.

5. EVALUATION CRITERIA:

- 5.1 The means of assessing whether the final capital budget proposals 2022/23 have been successfully implemented is undertaken throughout the year via regular budget monitoring and periodic reports to Cabinet and then to Select committees for scrutiny.
- 5.2 The draft budget proposals will be subject to equal consideration as part of the consultation process that runs for a four-week period running until the 16th February 2021. Further information on the consultation process is provided as part of the draft revenue budget proposals being separately considered on this agenda.
- 5.3 Final budget proposals following consultation and receipt of the final settlement will go to the Cabinet meeting on 2nd March 2022 and approval of Council Tax and final budget proposals will then take place at Full council on 3rd March 2022.

6. REASONS:

- 6.1 To provide an opportunity for consultation on the draft capital budget proposals.

7. RESOURCE IMPLICATIONS:

- 7.1 Resource implications are noted throughout the report both in terms of how the core programme is financially sustainable, the key issues that require further quantification and also the risks associated with not addressing the pressures outlined in Appendix 2.
- 7.2 Investment considerations for MonLife over the MTFP period are outlined in appendix 3 and would require separate member consideration.

8. WELLBEING OF FUTURE GENERATIONS IMPLICATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING and CORPORATE PARENTING):

- 8.1 Capital budgets which impact on individuals with protected characteristics, most notably disabled facilities grant and access for all budgets, are being maintained at their core levels.

- 8.2 The future generation and equality impact implications where maintenance budgets are allocated to individual schemes is a responsibility of operational management and where individual assessments are undertaken.
- 8.3 The actual impacts from this report's recommendations will be reviewed on an ongoing basis by the Capital and Asset Management Working Group.

9. CONSULTEES:

Senior Leadership Team
All Cabinet Members

10. APPENDICES:

Appendix 1 – Draft capital bids proposed for funding in 2022/23
Appendix 2 – Capital MTFP backlog pressures
Appendix 3 – MonLife Investment Considerations
Appendix 4 – Approved Capital investment criteria
Appendix 5 – Capital budget summary programme 2022/23 to 2025/26
Appendix 6 – Forecast capital receipts 2021/22 to 2025/26
Appendix 7 – Capital receipts risk factors
Appendix 8 (exempt) – Forecast receipts
Appendix 9 – Prudential Indicators
Appendix 10 - Future Generations Evaluation

11. BACKGROUND PAPERS:

List of planned capital receipts: Exempt by virtue of s100 (D) of the Local Government Act 1972

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