SUBJECT:	**DRAFT CAPITAL BUDGET PROPOSALS 2021/22 TO 2024/25**
MEETING:	**Cabinet**
DATE:	**20th January 2021**
DIVISION/WARDS AFFECTED:	**Countywide**

1. PURPOSE:

1.1 To set out draft capital budget proposals for financial year 2021/22 and the indicative capital budgets for the three years 2022/23 to 2024/25.

1.2 To commence a period of consultation on the draft budget proposals for a four-week period to 17th February 2021.

2. RECOMMENDATIONS:

2.1 That Cabinet approves the release of its draft capital budget proposals for 2021/22 for consultation purposes.

2.2 That Cabinet considers whether draft budget proposals are reasonable and appropriate in light of the capital pressures identified in Appendix 1.

2.3 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

2.4 That Cabinet notes the capital receipt receipts forecast in appendix 6 (exempt), and the prudence not to anticipate further significant additional receipts over this next 4-year MTFP window, until the uncertainties identified in paragraph 3.8 have been resolved.

2.5 That Cabinet specifically approves the use of £1.7m 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 2021/22.

2.5 That Cabinet considers and re-affirms its agreement to the prudential indicators supplied in Appendix 7 and its interpretation in paragraph 3.14 of this report.

2.6 That Cabinet issues its draft capital budget proposals for 2020/21 and indicative capital budgets for 2022/23 to 2024/25 for consultation purposes as set out in Appendix 3.

3. KEY ISSUES:

Capital MTFP Preparation Considerations

3.1 The four-year capital programme is reviewed annually and updated to take account of any new information that is relevant.

3.2 The Council's Band A 21st Century Schools capital programme is coming to a successful conclusion with finalization work taking place with defects and retention sums with the main contractor for the two comprehensive school sites in Monmouth and Caldicot. Officers are now developing the business case in relation to Band B and proposals for a new 3-19 school in Abergavenny. The current project timeline suggests that the SOC/OBC will be submitted to Welsh Government in April 2021 with the FBC being submitted in May 2022. The project completion date is December 2024. The Council will not be required to make a firm commitment to the project until Welsh Government approves the FBC and the necessary funding award is secured.

3.3 A new requirement was placed upon Councils during 2018-19 to prepare a more explicit capital strategy that better reconciles resourcing with affordability. This now guides the Council's capital budget deliberations going forward. Notwithstanding this there will still remain a considerable number of pressures that sit outside of the core capital programme, as indicated in Appendix 1, and this has significant risk associated with it. Cabinet have previously acknowledged and accepted this risk.

3.4 In summary the following capital pressures and issues have been identified:

- Long list of back log pressures – infrastructure, property, DDA work, Public rights of way, as outlined in Appendix 1. 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 2.

- 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 principle already set above, 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.

- The IT reserve is finite so funding for any major new IT investment is limited. Any additional IT schemes will need to either be able to pay for themselves or displace other schemes in the programme.

- Officers are continuing work to determine the potential budgetary implications in responding to its health and safety responsibility around ash tree die back disease. This is an issue that impacts all Welsh local authorities and it is as yet unclear as to the level of Welsh Government support that will be made available. This is currently a potential and likely financial risk though the budgetary impact on the Council and whether this will fall as a revenue or capital pressure is as yet unclear.

- 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. Again clarity is awaited on the level of Welsh Government support to be provided beyond that made available from the COVID Hardship Fund. This will be considered in due course and separately by Cabinet.

- As a result of the consultation undertaken by the Public Works Loan Board (PWLB) important changes were recently announced and where the PWLB lowered its rates by 100 basis points for all new standard loans. Further conditions are 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 will be discussed with the Treasury advisers and will be taken into account as the treasury strategy and capital budget setting proposals are finalised for 2021/22.

Capital budget strategy

3.5 The last capital budget strategy was approved by Council in September 2019. In preparing the draft capital budget proposals for 2021/22 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 2021/22 will be considered by Council alongside the treasury strategy at its meeting on 11th March 2021.

3.6 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 22nd December 2020 maintains effectively a standstill funding position in respect of core general capital grant and supported borrowing for 2021/22. This is assumed to continue at current levels through the latter 3 years of the capital MTFP. However, the current levels of general capital grant include an additional level of capital grant maintained from 2020/21. Any reduction or removal of this additional sum in future years would have consequences on both capital and revenue budgets.

- Whilst the Band B 21st Century Schools business case is being developed and subject to Welsh Government and Council approval, subsequent approval has been anticipated to involve an indicative £43m spend in the current capital MTFP. This introduces a small degree of interest costs to the related revenue MTFP, presuming to use Welsh Government funding before the Council's own prudential borrowing element. The minimum revenue provision, the Authority's means of provisioning for the principal repayment of borrowing for capital purposes, is also minimized within this next MTFP window as the costs of repayment tend to start when the asset becomes operational, 3 years hence.

- No inflation increases will be applied to any of the capital programme with highways and infrastructure maintenance budget 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) was increased last year and throughout the continuing capital MTFP to £900,000. This, together with a £250,000 per annum commitment to Access for All budgets has been maintained.

- The commitment and contribution towards the Cardiff Capital Regional City Deal across the capital MTFP has been updated to reflect the latest and revised profile received.

- The budget to enhance or prepare assets for sale reflects confirmation from corporate landlord services and is effectively funded by enhanced capital receipts values.

Available capital resources

3.7 A capital strategy establishes a heightened responsibility to demonstrate that the core programme remains affordable and that existing assets are adequately maintained.

3.8 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 7.

3.9 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.

3.10 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 and the current financial year this has beneficially affected the revenue outturn position. For the current financial year and as part of the in-year budget recovery plan the Council has extended its planned use of receipts for this purpose by £675k from £1.416m to £2.091m.

3.11 Additional to this, 2020-21 will see a further proposed use of capital receipts for this purpose of £1.7m and in supporting the draft revenue budget proposals. This represents costs associated with service reform as shown in the table below (£1m provision has been made in the revenue budget proposals) and £700k in respect of provision for one-off redundancy and termination payments associated with restructuring and service reform. Similar indicative use has also been modelled for 2022-23. As stated in the report this is not a sustainable means by which to support the revenue budget but is necessary at this time.

Nature of Expenditure	**£'000**
[ENT] - Passenger Transport - Sharing Senior Management with Newport CC	38
[ENT] - Waste - Service Transformation costs	125
[ENT] - Transport - additional post within Fleet to help with service transformation	50
[RES] - Audit - Sharing Audit manager with Newport CC	36
[RES] - Digital Programme office	309
[RES] - Innovation Team - Service Transformation/Systems Thinking	68
[RES] - Payroll - System development posts	113
[CEO] - Performance Mgt Team	100
[SCH] - GWICES section 33 lead commissioner costs	28
[SCH] - Residential section 33 lead commissioner costs	10
[SCH] - Frailty section 33 lead commissioner costs	5
[SCH] - Regional Safeguarding Board payment	36
[SCH] - 4 C's partner contribution to RCT CBC	21
[SCH] - Joint Deprivation of Libersty Safeguarding (DOLS) team	100
Total	**1,039**

3.12 The table below illustrates the balance on the useable capital receipts reserve over the period 2021/22 to 2024/25 taking into account current capital receipts forecasts provided by Landlord Services and revised balances drawn to finance the existing programme.

GENERAL RECEIPTS	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	£000	**£000**	**£000**	**£000**	**£000**
Balance as at 1st April	3,040	6,150	8,856	7,877	7,397
Less: capital receipts used for financing	(2,688)	(684)	(684)	(684)	(684)
Less: capital receipts used to support capitalisation directive	(2,091)	(1,700)	(1,700)	0	0
	(1,738)	3,766	6,472	7,193	6,713
Capital receipts Forecast	7,788	4,988	1,300	100	100
Deferred capital receipts - General	4	4	4	4	4
- ACM	96	98	100	100	100
Forecast Balance as at 31st March	**6,150**	**8,856**	**7,877**	**7,397**	**6,918**

3.13 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.

3.14 The prudential indicators appropriate to 2021/22 and highlighted in Appendix 7 to this report demonstrate:

- That for 2021/22 the Council continues to be successful in using external resourcing and grants as its primary source of affording the capital programme (68%), with borrowing accounting for 21% and Authority funding (predominantly capital receipts) making up 10% funding. Years 2 to 4 of the programme show a greater proportion of funding coming from borrowing and Authority.

- 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.

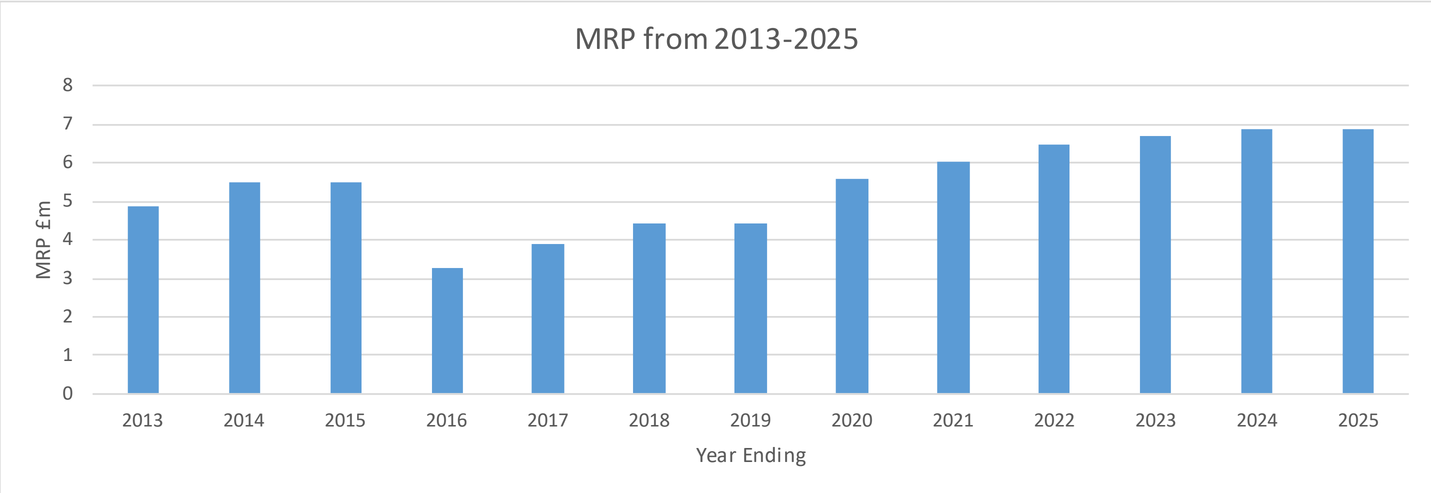
- Estimated gross debt levels compared against the capital financing requirement indicates around 22% headroom and that is reflective of "internal" borrowing where the Council is utilising its cash balances from reserves and working capital to avoid the need for additional external borrowing on a day to day basis. This is currently 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.

- This approach requires careful monitoring and review as in a rising interest rate environment the Authority would look to lock into some longer term borrowing to secure a greater level of budget certainty over the medium term.

- 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 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.

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 ensure that consideration is given to the impact of borrowing on the overall budget.



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 appendices 1, 2 and 3.

5. EVALUATION CRITERIA:

5.1 The means of assessing whether the final capital budget proposals 2021/22 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 17th 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 3rd March 2021 and approval of Council Tax and final budget proposals will then take place at Full council on 11th March 2021.

6. REASONS:

5.1 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 1.

7.2 Investment considerations for MonLife over the MTFP period are outlined in appendix 2 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 – Capital MTFP pressures
Appendix 2 – MonLife Investment Considerations
Appendix 3 – Capital budget summary programme 2020/21 to 2023/24
Appendix 4 – Forecast capital receipts 2020/21 to 2023/24
Appendix 5 – Capital receipts risk factors
Appendix 6 (exempt) – Forecast receipts
Appendix 7 – Prudential Indicators
Appendix 8 - Future Generations Evaluation

11. BACKGROUND PAPERS:

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

12. AUTHOR:

Peter Davies – Chief Officer for Resources (S151 Officer)

13. CONTACT DETAILS:

Tel: (01633) 644294 / 07398 954828
Email: peterdavies@monmouthshire.gov.uk