14 February 2024	ITEM: 7
Extraordinary Corporate Overview and Scrutiny Committee	
Capital Strategy/Programme 2024/25 to 2028/29	
Wards and communities affected: All	**Key Decision:** Key
Report of: Steven Mair Interim Chief Financial Officer/s151	
Accountable Assistant Director: Mike Jones – Assistant Director for Strategic and Corporate Finance	
Accountable Director: Steven Mair Interim Chief Financial Officer/s151	
This report is public	
Version: Final	

Executive Summary

This report sets out proposed changes to the Council's capital strategy from 2024/25 to 2028/29.

Capital investment plans are an integral part of the budget framework and of the financial planning process. The programme has been put together taking account of the Council's financial position, the Government Directions and the Improvement and Recovery Plan (IRP) all underpinned by the need to reduce borrowing and the cost of borrowing on revenue budgets, especially the General Fund.

The preparation of the capital programme has included:

- a review of the previously approved programme to establish the base line
- reviews of the then current programme to establish what should no longer be included in the programme
- an extension of the programme to cover a 5 rather than 3 year period
- the identification of areas for improvement in the management of the programme

The capital programme approved by Full Council on 3 March 2023 envisaged capital spending totalling £202m over three years between 2023/24 and 2025/26. This budget had increased to £275m by the end of the first quarter of 2023/24, of which £155m was to be funded from borrowing and a further £121m from external funding. This increase is made up of capital budget carry forwards, capital budget deletions and new capital projects financed from external funding, informed by the outturn position for 2022/23. **Appendix 1** provides a summary of the then revised capital programme.

Version Control (delete as appropriate)
Version 1 - First draft ready for DMT, SLT and Commissioner input; **Version 2** - Second Draft ready for Portfolio Holder, Leader and other Member Input; **Version 3** - Third draft for any further comments; **Version Committee** – Draft ready for submission to public committee; **Version Cabinet** – Final version ready for Cabinet/Executive decision

In addition to the above previously approved bids totalling £119m were put “on hold” before March 2023 and not included in the capital programme of £202m. The funding of the £119m capital projects included £62.9m borrowing, £51.5m grants and £4.5m capital receipts. These are set out in **Appendix 2**, had these been included in the capital programme they would have added a further £119m to the £202m capital programme that was approved and to the £275m that it became.

The capital programme has been reviewed, formally removing £101.4m from the capital budgets, see **Appendix 3**, to:

- reduce capital expenditure to focus on existing contractual commitments, fulfilling statutory services and public safety requirement in line with the s.114 Notice

- reduce reliance on borrowing from £40.1m to £4.9m for the General Fund and from £115m to £96.2m for the HRA;

- formally remove the capital projects on hold of £119m with the associated borrowing of £62.9m

- formally remove the capital projects not yet started and deemed to be not required of £3.3m wholly funded from borrowing

Details of these proposed changes are set out in **Appendix 4** showing capital schemes totalling £3.3m, and wholly funded from borrowing, not yet started and now considered not to be required and **Appendix 5** showing schemes to be removed from the programme. Unaffected schemes i.e. those externally funded are shown in **Appendix 6**

To bring the Council’/s budget setting arrangements into line with CIPFA recommended practice, the current 3-year capital programme has been extended to 5 years as set out in **Appendix 3**.

In summary it is proposed that:

- total General Fund capital spending between 2024/25 and 2028/29 is limited to £115.8m, funded by £4.9m borrowing, £10.5m capital receipts, £100.4m external funding, and

- total HRA capital spending between 2024/25 and 2028/29 is set at £175.1m funded by £96.2m borrowing, £21.7m Right-to-Buy receipts and £57.2m from the use of Revenue Contributions to Capital.

This review has also highlighted further areas for improvement in terms of management and oversight of the capital programme, which are set out in **Appendix 8**. Action plans are now in place to address these issues, which will continue to be updated and reviewed at the monthly Capital Programme Board. In the meantime, to improve transparency of decision-making:

- any changes to the capital programme should require Full Council approval whilst ensuring that external funding can be relied upon, and

- ➢ any new borrowing should also require Commissioner approval.

Commissioner Comment:

To be added as an addendum prior to the meeting

1. Recommendation(s)

1.1. That the Corporate Overview and Scrutiny Committee comment on the matters set out in this report prior to it being presented to Cabinet on 22 February 2024 and Council on 28 February 2024.

1.2. That the Committee note that Full Council will be asked to agree the following:

(a) approve the revised capital strategy and 5 year capital programme for 2024/25 to 2028/29 as set out in this report

(b) approve that the capital projects:

- ➢ currently “on hold” totalling £119.0m (see **Appendix 2**) are not included in the Capital Programme and the associated borrowing of £62.9m is not required,
- ➢ the capital schemes that have not started totalling £3.3m (see **Appendix 4**) are also formally confirmed as removed from the capital programme and the associated borrowing of £3.3m is not required,
- ➢ those schemes assessed and considered no longer necessary totalling £60.1m (see **Appendix 5**) are confirmed as removed from the capital programme and the associated borrowing of £56.5m is not required.

(c) approve the proposed financing of the capital programme as set out in **Appendix 3**

(d) delegate to the Interim Director of Finance s151 all decisions surrounding the financing of individual items of expenditure within the revised capital programme, in line with the overall capital programme as set out in Appendix 3, in a manner which achieves the most effective use of Council’s resources.

(e) approve that any future changes to the capital programme should be approved by Full Council, whilst ensuring that external funding is able to be used in a timely manner, with any new borrowing requirements subject to Commissioner approval.

(f) approve that the Capital Programme Board review and receive updates on the action plans put in place to address the further improvements identified in **Appendix 7** and to note progress on continued delivery of these improvements.

2. Introduction and Background

Background Information

2.1. The Council currently holds an asset portfolio of under £1.3 billion comprising council dwellings, other land and buildings, infrastructure assets and other assets as summarized in Table 1 below:

Table 1 Asset portfolio at 31 March 2022

Asset Type	£m
Council dwellings	794
Other land and buildings	123
Infrastructure assets	231
Assets under construction	26
Community assets	10
Vehicles. Plant and equipment	21
Surplus assets	62
Heritage Assets	1
Assets held for sale	2
Total	**1270**

2.2. The majority of capital expenditure set out in this strategy will be spent on infrastructure and council dwellings. Infrastructure amounting to £28.587m principally roads and bridges and £176m on council dwellings.

2.3. The Council carries out regular maintenance on its infrastructure assets, and the capital programme has been re-focused to ensure that the Council's highways and council dwellings are priority areas of spend which reflects the current conditions of these assets.

Overview of Previous Capital Expenditure

2.4. The Council's capital programme has been split over three key areas in previous years:

- developments to regenerate areas of key sites within Thurrock,
- infrastructure to meet relevant safety requirements, and
- operational to meet service delivery objectives, reduce carbon footprint and meet statutory requirements.

Development and Regeneration

2.5. The Council has engaged in a substantial regeneration programme over the past seven years in partnership with SELEP, Homes England and third party contractors.

2.6. However, these capital projects have been largely financed from borrowing. Partly as a consequence of this, the Council's overall borrowing has increased from £396m in 2018 to £1.553bn at 31 March 2023. This is financially unsustainable for an authority the size of Thurrock with a below average taxbase. Consequently, the Council has embarked on a process to reduce its development and regeneration activities.

2.7. A key financial risk from development projects is the need to have accurate and reliable financial estimates and profiling of expenditure in line with project milestones.

2.8. This has not been current practice within the Council which has impacted financial planning, budget setting and financial reporting. In addition, the Council has experienced a high turnover of directors and representatives on the Boards of its key partnership vehicles which has weakened oversight and performance management.

2.9. In recent years three limited company vehicles have been established to promote development and regeneration initiatives in the Borough. These are all under review as part of the Improvement and Recovery Plan. Whilst no firm decisions have been made by the Council as yet, if no further funding for such projects is forthcoming it seems likely that in the longer term, these vehicles will be wound up. In the meantime, maintaining good governance and oversight of company activities remains a priority.

Infrastructure

2.10. Infrastructure has been a priority due to the condition of both bridges and roads, annual external funding of £3.8m has been incorporated into the previous and future capital budgets. Further to this, £4.9m is included in the 5 year capital programme for roads and bridges, funded from borrowing.

Operational

2.11. The Council has had budgets totalling £6.0m for operational buildings to meet service delivery objectives, a further £8.7m to reduce carbon footprint and £21.5m to meet statutory requirements. This is financially unsustainable moving forward and consequently budgets have been reduced accordingly. The capital budgets for Adults and Childrens has not been reduced as this was primarily funded from external funding.

2.12. As the Council shifts towards a reduced capital programme, improvements have been made to strengthen governance arrangements, including:

- a Capital Programme Board with clearer oversight roles and
- significantly improved in-year reporting of operational delivery, financial position and risk.

Capital Programme Review

2.13. There have been 3 key stages to this review:

- Stage 1 review – selected capital projects put "on hold" but not recommended to members for removal from the capital programme,
- Quarter 1 financial monitor – selected capital projects recommended to Cabinet for removal from the capital programme,
- Stage 2 review – re recommendations to remove further capital projects to minimise prudential borrowing and identification of and recommendations to improve the capital programme management.

2.14. The review has been carried out by working closely with Directors to establish a recommended position that maintains delivery of essential services and ensures public safety and has been focused primarily on capital projects expected to be funded from borrowing.

2.15. A number of "on hold" projects some of which were previously approved capital bids but deemed to require further work before they could progress have after review not been included in the capital programme. These projects are set out in **Table 2 and Appendix 2**

Table 2 Summary of Previously On Hold Capital Projects

Summary

	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m
Adults & Children's	6.166	3.500	0.000	**9.666**
Place	47.009	5.144	0.000	**52.153**
Public Realm	13.241	23.625	15.000	**51.866**
Corporate	5.132	0.160	0.067	**5.359**
HRA	0.000	0.000	0.000	**0.000**
Total	**71.548**	**32.429**	**15.067**	**119.044**

Funding

	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m
Borrowing	(52.717)	(10.179)	(0.067)	**(62.963)**
Government Grant	(9.250)	(22.250)	(15.000)	**(46.500)**
Other Grants	(5.053)	0.000	0.000	**(5.053)**
Capital Receipts	(4.528)	0.000	0.000	**(4.528)**
Total	**(71.548)**	**(32.429)**	**(15.067)**	**(119.044)**

2.16. Three of the projects on hold and not included in the new capital programme are Grays Station, Stanford le Hope and Purfleet developments. These are not financially viable in their current form and require new business cases to be brought forward.

2.17. Likewise a number of projects have not yet started and are now considered to be a lower priority and can thus be removed from the capital programme. These are shown in **Table 3 and Appendix 4**

Table 3 Capital Bids Approved by Cabinet and Not Started

Summary

	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m
Adults & Children's	0.888	0.000	0.000	**0.888**
Place	0.000	0.000	0.000	**0.000**
Public Realm	0.000	0.000	0.000	**0.000**
Corporate	1.933	0.370	0.130	**2.433**
HRA	0.000	0.000	0.000	**0.000**
Total	**2.821**	**0.370**	**0.130**	**3.321**

Funding

	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m
Borrowing	(2.821)	(0.370)	(0.130)	**(3.321)**
Total	**(2.821)**	**(0.370)**	**(0.130)**	**(3.321)**

2.18. Similarly a number of projects have been identified that can be removed from the programme as they are less of a priority in the current financial climate and are shown in **Table 4 and Appendix 5**

Table 4 Summary of the reductions in existing 3 year capital programme

Summary

	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m
Adults & Children's	0.000	0.000	0.000	0.000
Place	(19.241)	(5.800)	0.000	(25.041)
Public Realm	(1.794)	(0.200)	(0.100)	(2.094)
Corporate	(1.806)	0.190	0.000	(1.616)
HRA	(2.323)	(4.794)	(24.200)	(31.317)
Total	(25.164)	(10.604)	(24.300)	(60.068)

Funding

	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m
Borrowing	21.564	10.604	24.300	56.468
Other Grants	3.600	0.000	0.000	3.600
Total	25.164	10.604	24.300	60.068

2.19. Capital projects that were budgeted to be wholly funded from other sources i.e. capital receipts, government grants or revenue funding, are detailed in **Appendix 6** and it is anticipated that these projects will remain largely unchanged.

2.20. The HRA capital budget has been reviewed within this stage 2 review and this process identified significant slippage on the Blackshots and Teviot Avenue projects, to the extent that £62.7m of improvement work originally planned to take place between 2023/24 and 2025/26 is now expected to be take place between 2026/27 and 2028/29. This re-scheduling has been reflected in the proposed 5-year capital programme set out in **Appendix 3**. Formal recognition and approval of these delays reduces the capital budget, and the Council's short-term borrowing need by £62.7m between 2023/24 and 2025/26.

3. Improvements to the Capital Programme

3.1. Improvements in governance arrangements, underpinned by improved reporting, data quality and robust management processes, is vital to maintaining financial control over the capital programme. This review has identified scope for improvement, in a number of areas, as set out in **Appendix 7**. Action plans are now in place to address these issues, which will continue to be updated and reviewed by the monthly Capital Programme Board.

3.2. The Capital Programme Board has responsibility for the oversight and management of the capital programme and reports to the Senior Leadership Team on a quarterly basis. Enhanced financial reporting to this Board now includes:

- in-year, year to date and whole scheme costs, for all major capital projects
- funding information, and
- an up-to-date assessment of the strategic and operational risks associated with major capital projects.

3.3. All variances are reported and Red Amber Green (RAG) rated. For all red RAGs mitigations are sought from Directors. The report to September 2023 Capital Board is attached by way of example in **Appendix 8**.

3.4. Further improvements to the management and oversight of the capital programme need to ensure that members are sighted on all changes made to the capital programme following its initial approval by Full Council at the start of each financial year. Currently financial regulations allow for increases to the capital programme without recourse to Members where projects are financed from external funding or where these projects deliver savings. This has led in the past to a situation where capital expenditure, and funding requirements, were not reported to members in their totality, although the updated figures were used as the basis for reporting.

3.5. There have also been situations in the past when approved capital bids put "on hold", for example pending detailed business case development or further design work, have been omitted from the capital programme formally reported to members.

3.6. Action will be taken as soon as possible to address the further improvements identified in **Appendix 7**. In the meantime, however, to improve transparency of decision-making, it is recommended that:

- any changes to the capital programme should require Full Council approval, ensuring that external funds can still be banked, and
- any new borrowing should also require Commissioner sign off.

4. Revenue Implications of the Programme

4.1. In respect of 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).

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

4.3. General Fund borrowing of £40m in the approved budget for 2023/24, £62.9m borrowing for the £119m on hold capital projects and £3.2m for the capital projects not yet started, would attract MRP at 5% and interest at 7% amounting to £5.3m and £7.2m respectively. Had these programmes been incorporated into the capital programme for 2023/24 the revenue costs would have totalled £12.5m for the 2023/24 financial year.

4.4. Table 6 shows that even with a modest amount of additional borrowing in respect of the General Fund capital programme, the capital financing charges mount up as the incremental impact takes effect.

Table 6 Summary of revenue implications of the GF Capital Programme

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000s	£000s	£000s	£000s	£000s	£000s
MRP		73	95	126	152	207
Interest	91	206	252	295	334	352
Total	**91**	**279**	**347**	**421**	**486**	**559**

5. Reasons for Recommendation

5.1. In addition to the reasons set out in the Executive Summary ie the Council's financial position, the Government Directions, the IRP and the need to reduce borrowing the programme and recommendations are designed to ensure compliance with good practise

5.2. In connection with this good practice the Council is required, under the CIPFA Prudential Code, to agree a capital strategy that is both prudent and sustainable. The Council is also required to set a balanced revenue budget, and debt charges associated with the cost of capital expenditure form part of this revenue budget.

5.3. Both budgets form part of the Council's Medium-Term Financial Plan and must be approved by Full Council before the start of each financial year.

6. Consultation (including Overview and Scrutiny, if applicable)

6.1. There has been full engagement with the Executive Directors and their teams in preparing the preparation of the revised programme and the commissioners have been consulted on the proposals.

7. Impact on corporate policies, priorities, performance and community impact

7.1. The Capital Programme will be a major contributor to financial sustainability of Council. By reducing the Capital Programme and focussing on key capital projects, this will reduce the revenue impact of Capital Programme.

8. Implications

8.1. Financial

Implications verified by: **Mark Terry**

Senior Financial Accountant

These are set out in the main body of this report.

Existing agreed capital budgets are based on the reported position as at 30th September 2023 and are subject to review as part of the quarterly monitoring exercise. Any future budget adjustments including yearend carry forwards, will be reported to Cabinet as part of the Revenue and Capital out-turn reports.

8.2. **Legal**

Implications verified by: **Jayne Middleton-Albooye**

Interim Head of Legal Services

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 with the Contract Procedure Rules and Financial Regulations.

In the Capital Programme where funding has been provided subject to conditions, these must be strictly complied with in order to avoid any risk of repayment of the monies.

8.3. **Diversity and Equality**

Implications verified by: **Becky Lee**

Community Development and Equalities Manager

There are no direct diversity implications noted in this report. Revisions to the capital programme will continue to ensure that essential services and public safety are maintained.

8.4. **Risk Management**

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.

<u>Interest rate risk</u>

The Council is planning to potentially borrow £104.0m for the capital programme over the next five years (£4.9m General Fund and £99.1m HRA) as set out in this Capital Strategy. Whilst this seems counter-intuitive given that the Council has a debt reduction strategy in place, nonetheless in order to deliver statutory programmes in the HRA, and to meet relevant Health and Safety requirements, some limited borrowing will need to take place.

Interest rates are variable and are forecast to increase over the next year as the Bank of England seeks to manage inflation nationally. Should the Council need to borrow, it will seek to minimize interest rate risk by opting for fixed rate borrowing with the PWLB, but will seek to avoid doing so while the current debt reduction strategy is in place.

<u>Inflation risk</u>

Construction inflation over and above that budgeted could impact on the affordability of the capital programme. For example, a rise of 1% in the cost of the overall HRA programme would increase the cost of the programme by £1.7m. Whilst this risk is mitigated through regular budget monitoring, a significant increase in building materials and construction costs may require projects to be deferred to future years or deleted.

Delivery risk

The capital programme schemes will require a focus on delivery to ensure that capital works are delivered to time, to budget and to quality. Any slippage could have significant service and financial impacts.

8.5. **Other Implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, or Impact on Looked After Children

Inevitably with any capital projects there are likely to be procurement implications, which will be considered when approval is sought for particular schemes.

9. Background Papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

None

10. Appendices to the report

Appendix 1 – Summary of the Revised Capital Programme, first Quarter 2023/24

Appendix 2 – Previously Approved Capital bids put on Hold and Excluded from the Programme

Appendix 3 – Five Year Capital Programme

Appendix 4 – Capital Schemes not yet Started, no Longer Needed

Appendix 5 – Schemes to be Removed from the Programme

Appendix 6 – Unaffected Schemes

Appendix 7 – Capital Programme Improvements

Appendix 8 – Capital Programme Financials Dashboard

Appendix 9 – Sources of Capital Funding

Report Author:

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Chief Financial Officer/S151

Finance