

Cabinet

28 March 2023

Capital Programme 2023/24 to 2026/27

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commercial & Capital Strategy

Local Councillor(s): Cllr Gary Suttle

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Report Status: Public

Brief Summary: This report sets out the Council's Capital programme for the period 2023/24 to 2026/27.

Recommendation:

Cabinet is asked to agree:

1. the capital strategy set out in Appendix 1 and the capital programme set out in Appendix 2
2. to note the impact on the Medium-Term Finance Plan

Reason for Recommendation:

1. The Council approved the capital strategy and a capital programme budget on 14th February 2023 and at this meeting noted that a refreshed list of capital programmes would be reported to this Cabinet.
2. Capital expenditure has an impact on the revenue budget, and so Members should be aware of the financial implications to the revenue budget when agreeing the Capital Programme.

1. Capital programme

- 1.1 Council approved Capital Strategy on 14th Feb which set out the overall totals for the capital program, noted there was a review being undertaken and that ongoing monitoring and updates to the capital programme would be reported to Cabinet. (Reference para 24.6 from the Council report)
- 1.2 This report presents the output of that review and restates the Capital programme.
- 1.3 Dorset Council's Capital programme totals £311m for the programme to 31 March 2027 with £123 million scheduled to be spent in 2023/24 and £86m due to be spent in 2024/25.
- 1.4 This document provides high-level information on the proposed capital expenditure and funding for 2023/24 and forms part of the total Plan. It gives details of the capital schemes which have previously been approved by the Council.
- 1.5 Appendix 1 gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.
- 1.6 Appendix 2 sets out a summary of the proposed capital programme.
- 1.7 This includes **new** Dorset Council funded projects totalling £80m for the whole duration of the Capital programme, £36.1m of which is to be spent in 2023/24. In addition to this there is also the successful Levelling up fund (LUF) programme totalling £22.968m which must be spent by 31st March 2025. Of the total for LUF, £3.5m is Dorset Council's match funding towards the programme. This is comprised of several schemes delivered within the LUF area. These two elements are the only aspect of the programme which needs new Cabinet approval, the remainder of the programme is already approved from previous years. Good governance would indicate that the Cabinet and Council should agree the entire programme again, including both new and existing commitments.

1.8 The headline changes can therefore be summarised as:

- 1.8.1 £80m of bids for new schemes.
 - 1.8.2 £19.468m of Levelling up fund schemes. (Note: this figure excludes the match funded £3.5m)
 - 1.8.3 Total Capital programme 2023/24 – 2026/27 of £311m, of which £123m is to be spent in 2023/24.
- 1.9 The exact size of the capital programme for 2023/24 will be subject to further amendment as there may be slippage carried over from 2022/23. As with previous years there are also likely to be further projects and programmes that arise during the year through funding from external resources. Subject to approval, these will be incorporated into the programme and reported to Cabinet each quarter.
- 1.10 This capital programme is higher than has been delivered in previous years, shown in the table below and organised by each sub-group of Capital Strategy and Asset Management Group (CSAM). Section 4 provides more information about capacity to deliver.

1.11 Previous delivery:

| Year | CSAM sub-group | | | | Total |
|---------|---|-------|----------|-------|---------------|
| | Property, assets, people and schools | ICT | Highways | Fleet | |
| 2019/20 | £26.9m | £1.2m | £21.8m | £4.2m | £54.1m |
| 2020/21 | £31.6m | £2.0m | £23.4m | £3.2m | £60.2m |
| 2021/22 | £48.6m | £1.3m | £29.6m | £6.1m | £85.6m |

1.12 Members might wish to note the proposals to continue with a capital contingency budget and a minor works budget. Details of the programme of work are available separately.

1.13 The capital programme is significant and careful consideration therefore needs to be given to affordability of financing costs in the revenue budget.

- 1.14 The two components of capital financing that impact on the revenue budget are minimum revenue provision (MRP) and the interest charges on borrowing.
- 1.15 If the new bids for capital funding are approved, it will cause a longer-term financing pressure for the revenue budget.
- 1.16 As part of refreshing the Capital programme these assumptions have also been updated to reflect a rolling capital programme. MRP now increases by £1.8m and interest payable increases by £3m over the period 2023/24 – 2026/27.
- 1.17 The effect of both changes is a total increase of £4.8m by 2026/27. This is within the recommended “prudent addition of £1m per year to MRP and a further £1m per year to the budget for the lifetime of the MTFP” which was reported to Council when setting the 2022/23 budget in 2022. (Council 15th Feb 2022, Page 93, Item 9, Para 21.11)
- 1.18 This increase is based on delivering a continued capital programme, therefore incurring new MRP & interest payable charges each year in line with the level of Capital spend incurred.
- 1.19 The exact capital financing costs incurred in the year varies for several reasons. Principally, the Council has had a relatively high level of cash balances available in recent years. This cash would be the first call for investment funding before any borrowing was required.

2. Current schemes & funding sources

- 2.1 The current capital programme is as follows.

| Capital Plan 2023/24 - 2026/27 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
|--------------------------------|----------------|---------------|---------------|---------------|----------------|
| Externally funded | 18,288 | 7,555 | - | - | 25,843 |
| Partially externally funded | 25,878 | 21,716 | 13,538 | 12,946 | 74,078 |
| Dorset Council funded | 79,229 | 56,552 | 50,066 | 25,164 | 211,011 |
| Total expenditure | 123,395 | 85,823 | 63,604 | 38,110 | 310,932 |

- 2.2 **Fully funded schemes** are ones which are delivered as a result of successfully securing external funding through grants and other means to cover the full costs of the project. New schemes are added to the Capital programme once funding has been confirmed.

2.3 **Partially funded schemes** are ones which are delivered as a result of successfully securing external funding through grants and other means which contribute towards part of the costs of the project. New schemes are added to the Capital programme once funding has been confirmed & Cabinet approval has been received for the Dorset Council portion of the funding.

2.4 **Dorset Council funded schemes** are delivered through self-financing. These projects are funded through a combination of borrowing and capital receipts. Some schemes are self-financing as a result of delivering ongoing revenue savings or increased income which cover the financing costs incurred.

2.5 Appendix 2 contains the full list of capital projects and shows the forecast profiled spend over the Capital programme.

3. Rolling Capital programme

3.1 The Capital programme in this report sets out a 4-year plan. Given the multi-year nature of delivering a capital programme, it is important to note that this is a 'live' plan which will be refreshed and updated quarterly in line with delivery. The latest forecasts will be reported to Cabinet quarterly as part of the regular budget monitoring reporting.

3.2 Given the scale and variety of work within the capital programme it's prudent to expect the size of the capital programme across the 4 years to expand and contract based on how each of the relative projects progresses.

4. Feasibility

4.1 There are two key aspects to the feasibility of delivering a capital programme.

4.1.1 Financial

4.1.2 Capacity

4.2 This report sets out a capital programme which is feasible to deliver financially and one which is within an affordable financial envelope.

4.3 As part of developing the capital programme officers have also considered the capacity required to deliver it. This covers both internal officers, but also capacity within the market to deliver the work. The Senior Leadership Team have committed to reviewing the capacity

required to deliver the capital programme & also to ensure the appropriate oversight and governance remains in place to provide assurances around delivering the projects themselves whilst also delivering value for money.

5. Opportunities for new projects

5.1 Given the finite resources, both in terms of financial resources as well as capacity within staff/contractor resources the Capital programme over the short term is essentially fully committed.

5.2 However, there are opportunities to deliver additional projects through exploring the following options:

5.2.1 **Self-funding** – projects which deliver future reduced costs or generate income that are at least equal to the financing costs of the delivery are able to be added to the programme without putting further pressure on central financing costs. Examples of this could include housing projects where the cost of spot purchasing short term temporary accommodation is more expensive than the fixed financing costs and ongoing property management costs.

5.2.2 **Increased capital receipts** – the capital programme assumes £12.1m of receipts over the 4-year plan. In the event that additional capital receipts are realised, this can be used to fund further capital delivery without incurring additional interest costs.

5.2.3 **Changes to interest rates** – The UK is currently experiencing much higher interest rates than have been seen in recent years. If interest rates were to reduce, this would reduce the financing costs associated with capital programmes thus meaning the current budgets for interest payable, would be able to afford higher levels of capital spend.

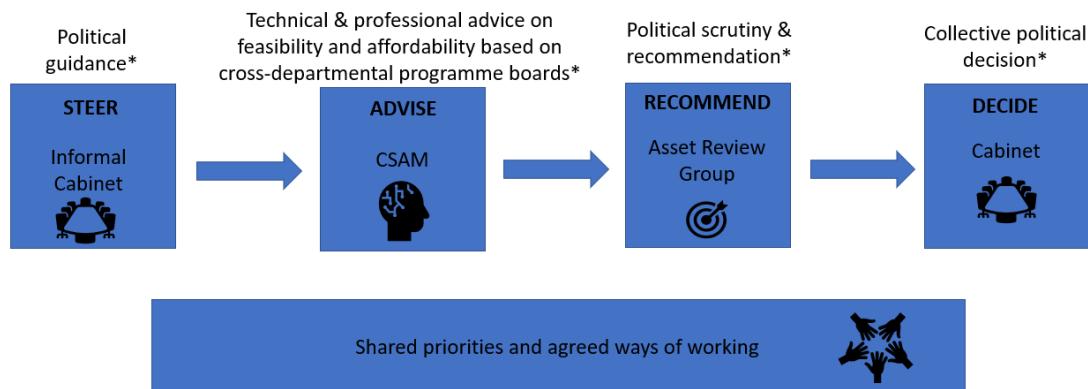
5.2.4 **External contributions** – projects which are fully or partially funded by external contributions (grants, S106/CIL, developers contributions etc.) all have reduced financing costs as these external contributions reduce the amount of money required to be borrowed to deliver the scheme.

6. Governance of the Capital programme

Approval

- 6.1 As a unitary council, Dorset Council delivers a huge number of varied services. With a limited amount of funding available, it can be difficult to make choices between competing priorities.
- 6.2 The key stages in the Council's prioritisation and approval process are as follows:

Governance



* supported by compliance with Green Book methodology including Strategic Outline Case, Outline Business Case, Full Business Case proportionate to relevant Gateway

- 6.3 The Corporate Director presents the strategic outline case (SOC) for consideration of Informal Cabinet.
- 6.4 If Informal Cabinet support the SOC then the officer Capital Strategy & Asset Management group (CSAM) will oversee the formation through to Full Business Case (FBC) stage.
- 6.5 Following the review with CSAM the FBC will be presented to the Asset Review Group who will make the final recommendation to Cabinet.
- 6.5.1 If a scheme is to be funded from a capital allocation previously approved by the Cabinet, the scheme will be approved as stated in the approval or, if the approval process not stated, by the relevant Executive Director in consultation with the relevant Cabinet Portfolio holder and Section 151 officer and progressed when funding confirmed or,

- 6.5.2 If new (confirmed) external funding is to be used for a scheme to be funded by, say, a specific grant and if the scheme is supported by the Chief Executive, in consultation with the Cabinet Portfolio holder for Finance and Section 151 Officer, it will be reported to Cabinet.
- 6.5.3 If funding has been allocated by Cabinet to a service without individual schemes being identified at the time of approval (such as a general allocation to schools for ongoing or rolling programmes of work), individual schemes within that allocation are subject to approval by the relevant Executive Director in consultation with the Section 151 officer.
- 6.6 Where no prior approval has been granted such as new proposals for invest to save or self-financing schemes (usually financed from prudential borrowing) these will require approval from Cabinet. This will be considered via the governance route shown above, ultimately being recommended to Cabinet for approval.
- 6.7 Any recommendations for schemes to be approved by Cabinet will be included in the following quarterly budget monitoring report as part of the Capital programme Update Report.
- 6.8 Schemes that do not require financial support but include the use of Council assets as a Council contribution to a scheme will also be subject to Dorset Council's approval process.
- 6.9 Where there is a proposal to transfer capital resources from a previously approved scheme to a new scheme and there is a change of "policy", the new scheme will be approved by Cabinet.
- 6.10 Where a specific approval process has been set up and approved by Cabinet that process will apply.

7. **Ongoing oversight and reporting**

- 7.1 **CSAM** – The Capital Strategy and Asset Management Group (CSAM) - monitors progress against the current capital programme and deals with the pre-Cabinet governance arrangements for managing the bidding and financing process for all capital expenditure proposals to Cabinet. This officer group ensures appropriate scrutiny for each part of the capital programme including reviewing the level of risk for each project and tracking delivery against key milestones within the agreed

budget. CSAM also provides highlight reports to the Senior Leadership Team on matters that need escalation.

7.2 **The Senior Leadership Team** receive regular updates on the financial forecasting for the Capital programme and receive quarterly reports on the delivery and performance of the capital programme as part of its performance management responsibility. It considers any highlight reports from the CSAM.

7.3 Finance business partners routinely report to Directorate Leadership Teams each month and the S151 Officer meets weekly with the Lead Member for Finance, Commercial and Capital Strategy.

7.4 Any recommendations for amendment to the Capital programme are made to the Cabinet.

7.5 **Audit and Governance** – receives quarterly reports on the capital programme as part of its budget monitoring responsibility. It holds the Cabinet to account for its performance and, as such, can make recommendations for amendments.

7.6 **Cabinet** – considers any recommendations from the Audit and Governance and/or Senior Leadership Team and makes decisions about any changes to the capital programme accordingly. For decisions which would be outside the Budget and Policy Framework, it make recommendations to the Council.

7.7 **Council** – Agrees the capital programme when setting the Council's budget for each financial year.

8. Financial Implications

8.1 Where capital work requires borrowing to be undertaken there will be ongoing revenue costs of servicing the finance costs. The Council sets an operational boundary as well as a maximum authorised limit for its borrowing.

8.2 A number of capital projects will incur revenue costs as a result of the ongoing costs of servicing, repairing and maintaining any assets created or improved as part of the works.

8.3 A number of capital programmes have also been identified as having the ability to ‘self-finance’ through delivering revenue savings which will cover the financing costs (MRP & interest payable) in the event that these savings do not materialise, there could be increased pressure on the in-year revenue position and/or MTFP budget gap.

9. Environmental Implications

9.1 The Capital programme includes a range of schemes which will have a positive impact on the Council’s prioritise in respect of natural environment, climate and ecological.

10. Well-being and Health Implications

10.1 The Capital programme includes a range of schemes which will have a positive impact on the Council’s duties in improving well-being and health through schemes closely linked to delivering improved social care as well as improved community facilities.

11. Other Implications

11.1 Nothing specific

12. Risk Assessment

12.1 Having considered the risks associated with this decision; the level of risk has been identified as:

Current Risk: Medium

Residual Risk: Medium

12.2 There is a moderate risk due to the level of cost price inflation affecting the delivery of capital work nationally.

12.3 This risk is managed for new bids through the provision of up to date estimates and quotes, however this may impact previously approved schemes which are now seeing costs increase.

12.4 There is a capital contingency included within the previously approved capital programme which could be utilised.

13. Equalities Impact Assessment

13.1 The budget is a framework for the Council to achieve its priorities and the requirement to achieve a balanced budget is delivered through a number of key assumptions, and the delivery of programmes of transformational change.

13.2 The overall budget framework has not been the subject of a separate equality impact assessment but the programmes and changes upon which delivery of the budget will depend will themselves be assessed.

14. Appendices

14.1 Appendix 1 – Capital Strategy

14.2 Appendix 2 – Capital programme 2023/24 to 2025/26

15. Background Papers

15.1 Quarterly financial management reports to Cabinet

15.2 Budget strategy and medium-term financial plan to Council 14th February 2023

15.3 Budget strategy report to Council 14th February 2023