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# Financial Year 2024/25 Quarter Two Capital Financing Performance Report

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<b>Committee considering report:</b>	Executive
<b>Date of Committee:</b>	12 December 2024
<b>Portfolio Member:</b>	Councillor Iain Cottingham
<b>Report Author:</b>	Richard Quayle
<b>Forward Plan Ref:</b>	EX4514

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## 1 Purpose of the Report

This report presents the forecasted outturn position for financial year 2024/25 against the approved capital programme and financing implications for financial year 2025/26.

## 2 Recommendation

2.1 Members are asked to note:

(a) The forecast outturn position of planned expenditure of £60.1 million against the annual budget of £64.9m, creating a forecast £4.8 million underspend.

2.2 It is recommended that the following budgetary amendments are approved:

- (a) The proposed reprofiling of planned expenditure from 2024/25 into 2025/26 of £8.1 million, detailed by service in appendix A.
- (b) The proposed transfer of council funded expenditure budget totalling £0.47 million from 2025/26 into 2024/25 for support of the Playing Pitch action plan.
- (c) £2.9 million of external funding relating to the Superfast Broad Band project is allocated and the planned project expenditure is funded accordingly.
- (d) £0.76 million of external funding (s106, CIL and DFT grant), relating to Street lighting improvements, Essential maintenance budgets, Drainage & flood risk projects and Car park improvements is allocated to cover in year expenditure.

## 3 Implications and Impact Assessment

Implication	Commentary
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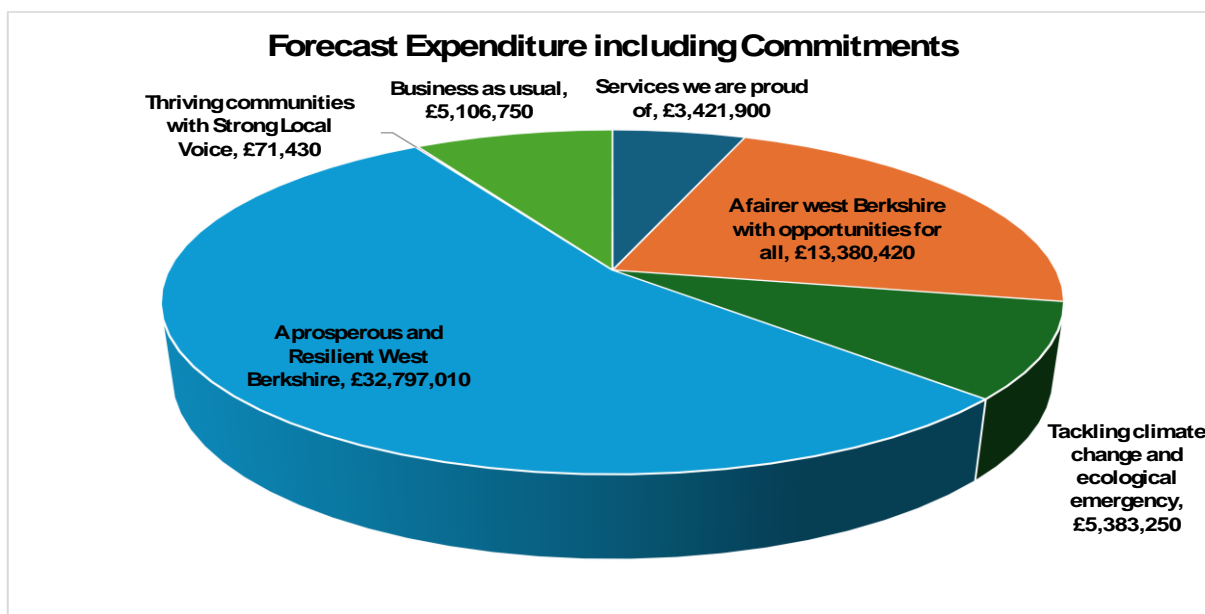
**Financial Year 2024/25 Quarter Two Capital Financing Performance Report**

<p><b>Financial:</b></p>	<p>£60.1 million has been forecasted to be spent by the end of this financial year against a revised budget of £64.9 million, resulting in an overall forecast variance of £4.8 million.</p> <p>£8.1 million from year 24-25 is proposed to be reprofiled into financial year 2025-26. Furthermore, council funded expenditure budget totalling £0.47 million is brought forward from 2025/26 into 2024/25 for the project “Playing Pitch action plan”.</p>			
<p><b>Human Resource:</b></p>	<p>Not applicable</p>			
<p><b>Legal:</b></p>	<p>There are no projects planned within the approved capital programme for 2024/25 that are purely for yield purposes. The Council is therefore protected from violating the borrowing protocols determined in the Prudential Code December 2021 that prevents Local Authorities from accessing financing in support of yield-based projects. Should an authority be found to be financing purely yield based projects, that authority would lose all access to the Public Works and Loans Board (PWLB) borrowing facility. PWLB financing underpins the Council funded element of the approved capital programme.</p>			
<p><b>Risk Management:</b></p>	<p>The Council is also exposed to inflationary cost pressures across the capital programme. Furthermore, any changes in PWLB borrowing rates will impact on any new borrowing undertaken and the Council’s weighted average cost of borrowing. Both external risks are largely outside the Council’s ability to control, although the Council will take appropriate advice from our external treasury consultants, to determine the optimum time and structure for any new borrowing to be undertaken.</p>			
<p><b>Property:</b></p>	<p>Not applicable</p>			
<p><b>Policy:</b></p>	<p>Not applicable</p>			
	<p><b>Positive</b></p>	<p><b>Neutral</b></p>	<p><b>Negative</b></p>	<p><b>Commentary</b></p>
<p><b>Equalities Impact:</b></p>		<p>X</p>		

<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
<b>Environmental Impact:</b>		X		
<b>Health Impact:</b>		X		
<b>ICT Impact:</b>		X		
<b>Digital Services Impact:</b>		X		
<b>Council Strategy Priorities:</b>		X		
<b>Core Business:</b>		X		
<b>Data Impact:</b>		X		
<b>Consultation and Engagement:</b>	Shannon Coleman-Slaughter, Deputy s151 Officer and Service Director for Finance, Property & Procurement.			

## 4 Executive Summary

4.1 The capital programme enables delivery of key Council schemes focused on supporting the approved Capital and Council Strategies. As at Quarter Two £21.4m of expenditure across capital schemes had been incurred with a further £38.7million forecast to be spent by outturn. £60.9 million of planned expenditure incurred at outturn against the approved programme budget of £64.9 million would result in a £4.8 million underspend position. Total planned expenditure by Council priority is detailed below.



- 4.2 The total forecast expenditure to be incurred of £60.1 million is split across Council funded (i.e. debt funded expenditure) of £31.2 million and externally financed expenditure of £28.9 million.
- 4.3 As part of the forecast outturn position £8.1 million of future planned expenditure is proposed to be reprofiled into financial year 2024/25. £0.47 million of Council funded expenditure budget is proposed to be brought forward from financial year 2025/26 into 2024/25 to fund completion of the Playing Pitch action plan project (the funding forms part of the approved ten-year capital programme. Capital programme reprofiling occurs for several reasons including delays with projects through third party contractors, economic conditions and reprioritisation due to unforeseen events. No capital expenditure is financed until it is incurred, protecting the capital financing budget which is funded through the revenue budget.
- 4.4 In respect of financing the capital programme, as at 31<sup>st</sup> March 2024, the Council's total level of long-term borrowing to fund capital spend stood at £206.6 million. The Council's liability benchmark (included in appendix B) identifies the Council as a long-term borrower. The approved Investment & Borrowing Strategy for 2024/25 includes provision for financing of capital expenditure incurred in financial year 2023/24 and the 2025/26 strategy for approval in March 2025 will include provision for financing of 2024/25 capital expenditure. A copy of the Council's liability benchmark based on assumed forecast expenditure at outturn is included in appendix C. The benchmark demonstrates that the Council is a borrowing authority, i.e. the capital financing requirement is externalised, and borrowing is required to support ongoing capital expenditure and delivery of the capital programme.

## 5 Supporting Information

### Introduction

- 5.1 Capital expenditure and its supporting financing have financial consequences for the Council for many years into the future. Expenditure is therefore subject to both a national regulatory framework and to local policy framework.

5.2 The Prudential Code requires authorities to look at capital and investment plans in light of overall organisation strategy and resources to ensure that decisions are made with sufficient regard to the long-term financing implications and risks to the Council. To demonstrate that local authorities have fulfilled these objectives, the code sets out a number of indicators, although the Code does not include suggested indicative limits or ratios. Local Authorities are to set their own limits and ratios, subject to controls under section 4 of the Local Government Act 2003. The Council’s capital programme is a key driver of the treasury management activity.

**Background**

5.3 The 2024/25 capital programme was agreed by Council on 29<sup>th</sup> February 2024 with a gross expenditure budget of £53.8 million split between externally funded expenditure of £28.4 million and £25.4 million of Council funded expenditure (i.e. application of capital receipts and external borrowing). The repayment of principal sums and interest on loans used to fund capital expenditure are met from the revenue budget for capital financing. During the financial year budget changes may occur, mainly as a result of budgets brought forward from prior financial years, additional grants, s106 and Community Infrastructure Levy (CIL) allocations received in year or expenditure re-profiled in future financial years. As part of the budget monitoring process, the forecast year end position of the capital projects is reviewed and proposals for unutilised budgets to be re-profiled is reviewed by Capital Strategy Group (CSG). As at quarter two, the revised capital programme budget pre proposed expenditure reprofiling into financial year 2025/26 is £64.9 million. The inflation of in year budgets relates to agreed reprofiling of expenditure from financial year 2023/24 at outturn.

5.4 At quarter two, expenditure of £60.1 million has been forecast to be incurred against the revised capital programme of £64.9 million. The capital programme is aligned to the approved Council Strategy (2024/25 -2034/35) and its key themes.

Strategy Theme		Revised Budget	Forecast Expenditure
Services we are proud of		£3,596,940	£3,421,900
A fairer west Berkshire with opportunities for all		£15,683,930	£13,380,420
Tackling climate change and ecological emergency		£8,229,190	£5,383,250
A prosperous and Resilient West Berkshire		£31,309,650	£32,797,010
Thriving communities with Strong Local Voice		£23,070	£71,430
<b>Total Planned and Forecast Expenditure</b>		<b>£58,842,780</b>	<b>£55,054,010</b>
Business as usual		£6,142,870	£5,106,750

5.5 The Council invests heavily in ensuring that West Berkshire remains an area that is prosperous, resilient and supportive of the most vulnerable. Key projects to be undertaken in year include: Investment across the education estate including basic need expansion project at the Castle School (£1.4 million), additional Special Educational Needs and mental Health provision improvements at primary school level (£2.4 million), enhancements to educational buildings across the district (£1.3 million). £5.4 million is planned to be spent in year redeveloping the dry side provision at Northcroft Leisure Centre, with further improvements to provision across the leisure estate (£648k). £3.9 million of carbon reduction and solar initiative projects are planned, including initiating provision of a solar farm in year. In excess of £12 million of

expenditure is planned on enhancements to bridges, highways and public infrastructure across the district, including on going improvements to Newbury and Theale rail stations (£2.3 million and £2.0 million respectively).

- 5.6 Alongside delivery of the key themes, investment is required to maintain and enhance business as usual activities, primarily in respect of planned enhancement of business systems. £6.1 million of expenditure has been budgeted for in the financial year against with £8 million forecast to be incurred by the yearend. Key projects planned are: replacement of aging ICT infrastructure (£1.1 million), implementation of a new social care management system (£871k), enhancement of the new HR and payroll system (£662k), investment in telephony infrastructure (£245k) and enhancements to the corporate estate (£459.7k).

### Proposals

- 5.7 At quarter two £8.1 million of expenditure is proposed to be reprofiled into financial year 2025/26, with a further transfer of a council funded expenditure budget totalling £0.47 million from 2025/26 into 2024/25 for support of the Playing Pitch action plan. Net reprofiling of £7.6 million is proposed.
- 5.8 Proposed reprofiling will result in a forecast net overspend of £3.3 million against the capital programme. However, £2.9 million of external funding in support of the Superfast Broadband project is to be built, mitigating the majority of the forecast overspend.

## 6 Other options considered

Not applicable.

## 7 Conclusion

- 7.1 All capital expenditure must be financed, The Prudential Code requires authorities to look at capital and investment plans in light of overall organisation strategy and resources to ensure that decisions are made with sufficient regard to the long-term financing implications and risks to the Council. A key indicator is the Council's Authorised Limit for external for debt, which of £382.9 million for financial year. As well as the level of borrowing needed to fund capital expenditure, the limit also allows for debt embedded in the Waste PFI contract up to a maximum of £20 million at any one time). As at 31<sup>st</sup> March 2024, the Council's total level of long-term borrowing to fund capital spend stood at £207 million (split £206.6 million from the PWLB and £0.4 million community bond).

## 8 Appendices

- 8.1 Appendix A - Proposed Reprofiling of Planned Expenditure at Quarter Two Financial Year 2024/25.
- 8.2 Appendix B – Capital Financing Requirement (CFR) and Liability Benchmark

**Subject to Call-In:**

Yes:  No:

- The item is due to be referred to Council for final approval.
  - Delays in implementation could have serious financial implications for the Council.
  - Delays in implementation could compromise the Council's position.
  - Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months.
  - Item is Urgent Key Decision
  - Report is to note only
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## Appendix A

### Proposed Reprofile of Planned Expenditure at Quarter 2

Service	Q1 Budget	Forecast Expenditure	(under)/Overspend	Reprofilng into 2025/26	Funding from 2025/26
Adult Social Care	£1,973,010	£1,902,110	(£70,900)	£348,250	£0
Children's Social Care	£35,000	£20,560	(£14,440)	£0	£0
Education & SEND	£8,533,250	£6,736,850	(£1,796,400)	£708,310	£0
Community Services	£11,462,620	£9,117,740	(£2,344,880)	£2,369,000	(£477,820)
Development & Housing	£7,494,730	£7,849,730	£355,000	£100,000	£0
Environment	£28,854,110	£24,766,100	(£4,088,010)	£4,605,800	£0
Finance, Property & Procurement	£2,216,150	£1,876,200	(£339,950)	£0	£0
Strategy, ICT & Governance	£4,416,780	£7,891,470	£3,474,690	£0	£0
Total Council	£64,985,650	£60,160,760	(£4,824,890)	£8,131,360	(£477,820)



## Appendix B

### Capital Financing Requirement (CFR) and Liability Benchmark

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

	2023	2024	2025	2026
	Actual	Actual	Projection	Projection
	£'000	£'000	£'000	£'000
Capital Financing requirement	279,896	292,870	317,560	348,393
Less other debt liabilities	-10,670	-9,807	-8,892	-7,920
Loans Capital Financing Req.	269,226	283,063	308,668	340,473
Less: Existing External Borrowing	-189,890	-248,973	-218,242	-197,732
<b>Internal (Over) Borrowing</b>	<b>79,336</b>	<b>34,090</b>	<b>90,426</b>	<b>142,741</b>
Less: Balance Sheet Resources	-100,006	-51,363	-40,885	-37,385
<b>Investments / (New Borrowing)</b>	<b>20,670</b>	<b>17,274</b>	<b>-49,541</b>	<b>-105,355</b>

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow. Councils are now required as part of in year reporting to publish the liability benchmark.

	2023	2024	2025	2026
	Actual	Actual	Projection	Projection
	£'000	£'000	£'000	£'000
Loans Capital Financing Req.	269,226	283,063	308,668	340,473
Less: Balance Sheet Resources	-100,006	-51,363	-40,885	-37,385
Net Loans Requirement	169,220	231,700	267,783	303,088
Preferred Year-end Position	10,000	10,000	10,000	10,250
<b>Liability Benchmark</b>	<b>179,220</b>	<b>241,700</b>	<b>277,783</b>	<b>313,338</b>

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