
Paper C - 2024/25 General Fund Capital Budget

Executive Member(s): Cllr Liz Leyshon, Deputy Leader of the Council and Lead Member on Resources and Performance

Local Member(s) and Division: All

Lead Officer: Jason Vaughan, Executive Director – Resources & Corporate Services (s.151 Officer)

Author: Nicola Hix, Director of Finance & Performance

Contact Details: Nicola.Hix@somerset.gov.uk; ian.trunks@somerset.gov.uk

Summary

1. The Executive has the responsibility for developing the 2024/25 capital budget and recommending it to Council.
2. Somerset Council has had to carry out a review of its current capital programme during this period of austerity, with a view to reducing external borrowing and maximising external sources to fund a significant proportion of expenditure. For the current 2023/24 capital programme (at the end of December 2023), approximately 62% of expenditure was externally funded with the remaining 38% funded by capital receipts and other local resources.
3. Where expenditure is funded from local resources, this impacts the revenue budget in one of three ways:
 - a reduction in existing reserves;
 - increased capital financing costs (e.g. interest and MRP) as a result of prudential borrowing; and
 - the need for direct contributions to schemes from the revenue budget.
4. Significant work has been undertaken across the Council to review its current capital programme. This included schemes carried forward from the continuing authority Somerset County Council and the four legacy District Councils, and those approved as new schemes for 2023/24. New schemes proposed by services for 2024/25 and beyond have also been subject to review as outlined in this report.

5. This report details suggested amendments to the current capital programme for 2023/24, and a recommended capital programme for 2024/25 and beyond. Executive will be asking Full Council to approve these changes to the General Fund capital in February 2024.

Recommendations

6. That the Committee:
 - a) Review the draft capital budget proposals and makes comments on them for the Executive to consider at their meeting on 07 February 2024.

Reasons for recommendations

7. To ensure that the Council has an affordable and financially sustainable capital programme for 2024/25 and meet its statutory duties.

Other options considered

8. As this is an update report on progress in reducing the current capital programme and those capital bids submitted recommended to approve for 2024/25 to be added to the programme.

Links to Council Plan and Medium-Term Financial Plan

9. It is important the Council considers how best it can continue to meet its policy objectives within the tighter financial constraints that it now faces. This requires a level of prioritisation, and the budget plans focus on the following key policy outcomes, as set out in the Council's five-year plan.
 - A Healthy and Caring Somerset;
 - A Flourishing and Resilient Somerset;
 - A Greener, More Sustainable Somerset;
 - A Fairer, Ambitious Somerset.
10. The Council continues to maintain a significant capital programme, resulting in investment in assets to support and enable the provision of local services and delivering benefits to the economy.

Financial and Risk Implications

11. Quarterly capital budget monitoring reports will be considered at the Executive and Scrutiny Committee meetings to provide member oversight, transparency and assurance on management actions.
12. In the initial stages of any development, major capital projects will have significant uncertainties. For example, these may relate to the planning process, the views and interest of residents and stakeholders who must be consulted, ground conditions, or the costs of rectifying or demolishing existing buildings. Construction companies and developers contracting with the Council which experience financial instability, particularly an issue following Post Covid-19 pandemic pressures, Brexit and the war in Ukraine and the impact of cost inflation with as mentioned CPI at 4.0 % in December 2023.
13. Suppliers may not be able to raise sufficient finance to cash flow operations, any potential insolvency process could lead to a costly process of changing suppliers without any guarantee of remaining within overall budget. Consequently, the Council could suffer direct financial loss and any defects or other issues may not be resolvable as anticipated. To mitigate this the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.
14. Large scale capital projects can operate in environments which are complex, with a range of variables, and continually evolving. Effective risk identification and control within such a dynamic environment includes populating a project risk register. In addition, it requires amplifying the known risks so that they are not hidden or ignored, demystifying the complex risks into their more manageable sum of parts and anticipating emerging risks which can escalate rapidly are all necessary components of good capital programme risk management. Within the infrastructure and transport, and asset management team, staff with skills and expertise in project management are employed to manage the Council's major civil engineering and construction schemes.

Legal Implications

15. There are no specific legal implications arising from this report.

HR Implications

16. There are no specific HR implications arising from this report.

Other Implications:

Equalities Implications

17. The impact of setting a budget will have specific implications on those protected under the Equality Act 2010. The Council's budget planning framework is supported by the development of Equality Impact Assessments (EIAs) for the budget proposals, identifying possible disproportionate impact in relation to the protected characteristics as described within the Equality Act 2010. The EIAs will also identify potential mitigation where applicable. Individual equality impact assessments form part of the decision making on the specific proposals needed to balance the budget in February 2024.

Community Safety Implications

18. There are no direct community safety implications arising from this report.

Climate Change and Sustainability Implications

19. There are no direct climate change and sustainability implications arising from this report.

Health and Safety Implications

20. There are no direct health and safety implications arising from this report. Any specific health and safety implications will be identified within the supporting information for proposals being considered by Executive and Full Council in February 2024.

Health and Wellbeing Implications

21. There are no direct health and wellbeing implications arising from this report.

Social Value

22. There are no direct Social Value implications arising from this report. Any specific social value implications will be identified within the supporting information for included as part of the proposals being considered by Scrutiny, Executive and Full Council in February 2024.

Background

23. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential code requires local authorities to produce a capital strategy to demonstrate how capital expenditure, capital financing and treasury management activities contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability, and affordability. The Capital Strategy also includes the arrangements for capital investment in the Housing Revenue Account.

24. The Prudential Code for Capital Finance in Local Authorities was updated in December 2021. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.
25. It requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources, to ensure that decisions are made with sufficient regard to the long-term financial implications and potential risks to the authority.
26. The Council's finances have been significantly impacted by national factors outside of its control such as inflation and interest rates, as well as having to deal with the challenges of Local Government Reorganisation and bringing the five predecessor councils into one new organisation.
27. Inflation peaked at a 40-year high with CPI rising to 11.1% in October 2022, although this is now starting to decrease, to 3.9% in November 2023. The September figures are key in that they are used by Government for increases in pensions, business rates etc.
28. The 2023/24 Capital Budget was the first amalgamated capital programme for the new Somerset Council which brought together the existing capital programme from the continuing authority, Somerset County Council and the four legacy district authorities programmes. The programme was updated to include the new capital projects agreed as part of the 2023/24 Budget, Medium Term Financial Plan & Council Tax setting report to Full Council in February 2023.
29. A revised General Fund Capital Programme and HRA Capital Programme was approved at Council in September 2023. This combined the outturn position and slippage of the five legacy Councils and the Capital Programme approved in February 2023. Slippage of £59.4m was brought forward and a revised budget of £391.6m set for the General Fund as shown in Table 1.

Table 1 – Capital Programme approved in September 2023 for 2023/24 onwards

Directorate	2023/24 £'m	2024/25 £'m	2025/26 > £'m	Total All Years £'m
Children's Services	48.635	19.271	8.509	76.415
Adults Services	8.758	1.430	1.368	11.556
Community Services	24.137	11.739	1.282	37.158
Climate and Place	202.566	15.819	2.005	220.390

Resources & Corporate	32.022	3.288	0.780	36.090
Strategy, Workforce and Localities	0.235	0.135	0.136	0.506
Paused Schemes	1.687	7.690	0.139	9.516
Total Programme	318.040	59.372	14.219	391.631

30. Table 2 below shows the capital programme as at 30th December 2023 (month 9, qtr 3 of 2023/24).

Table 2 – Capital Programme as at 30th December 2023 (Qtr 3, month 9 of 2023/24)

Service/ Project	Total Budget	Forecasted Expenditure					Variance
		2023/24	2024/25	2025/26	2026/27	Total	
		>					
£m	£m	£m	£m	£m	£m	£m	
Adults and Health	11.556	7.582	2.512	1.368		11.462	(0.094)
Children's Services	77.410	42.269	17.790	9.838	6.213	76.110	(1.300)
Climate & Place - Other Services	8.920	2.774	5.058	1.088		8.920	
Climate & Place - Economy and Regeneration	123.304	49.514	53.165	19.512		122.191	(1.113)
Climate & Place - Infrastructure	95.766	72.679	22.289	0.448		95.416	(0.350)
Community Services	34.113	5.804	16.839	10.748	0.428	33.819	(0.294)
Resources & Corporate Services	37.306	18.797	11.455	2.239		32.491	(4.815)
Strategy and Workforce	0.506	0.235	0.135	0.136		0.506	
Paused Schemes	9.516	0.100	6.609	0.139		6.848	(2.668)
Total	398.397	199.754	135.852	45.516	6.641	387.763	(10.634)

31. The existing capital programme is funded by £247.634m external sources such as grants and contributions, £14.649m of internal sources such as capital receipts and reserves, with the remaining £136.114m to be funded by borrowing.

32. Table 2 above includes £9.516m for paused schemes. Details of the paused schemes can be seen in Table 3 below. These schemes were paused as part of the 2023/24 MTFP process. The slippage reported above relates to outturn carry forward approvals from 2022/23. Executive will be asked to recommend to Council for these schemes to be removed from the capital programme.

Table 3 – Paused schemes in the 2023/24 approved capital programme

Service/ Project	Total Budget £'m	Forecasted Expenditure				Variance £'m
		23/24 £'m	24/25 £'m	25/26 £'m	Total £'m	
Homes for Children with Disabilities Phase 2	1.500		1.500		1.500	
Bridgwater Library Improvements	1.391		1.252	0.139	1.391	
Wincanton Regeneration	2.668					(2.668)
Yeovil Crematorium Refurbishment	3.957	0.100	3.587		3.957	
Total Programme	9.516	0.100	6.609	0.139		(2.668)
Funded By:						
Capital Receipts	0.664					(0.664)
Borrowing	8.662	0.100	6.609	0.139	6.848	(1.814)
Reserves/ Revenue	0.190					(0.190)
Total Programme	9.516	0.100	6.609	0.139	6.848	(2.668)

33. As part of the response to the declared financial emergency and the CIPFA code, the Council has carried out a further review of its entire capital programme. The factors Officers took in account when carrying out this review were as follows:

- Somerset Council financial survival meant a high-level analysis was undertaken rather than a detailed review of the scheme
- Schemes not underway should be removed, if required in future a new bid submitted with an updated business case
- Schemes that are funded by borrowing should be curtailed in year where possible
- Approved schemes via grant or ringfenced funds should continue
- New schemes that are funded by borrowing are not approved for 24/25 unless urgent H&S requirement/ statutory requirement
- Save to invest schemes which either make savings or income returns higher than borrowing costs

34. The outcomes were used to reduce unfinanced capital expenditure, to ensure the affordability and sustainability of our capital programme in the medium term. Political desire was not one of the assessment criteria at the stage this review / challenge sessions were undertaken.

Report

Capital Programme 2023/24

35. Appendix A shows all the schemes that are recommended to be removed from the programme following the review as outlined in paragraph 33. The total schemes recommended to be removed from the programme are £56.269m for 2023/24. This includes funding for schemes still proceeding but where the allocated budget can be removed. Executive will be asked to recommend to Full Council for these to be removed from the capital programme.

Capital Programme 2024/25

36. The proposed total capital programme for 2024/25 to 2026/27 is £238.519m as summarised in Table 4. Details of the capital projects included in the programme and profiled expenditure for each scheme are included in Appendix B. Executive will be asked to recommend to Full Council for this capital programme to be approved.

Table 4- Capital Programme by Somerset Council Directorates 2024/25 to 2026/27

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	Total All Years £m
Adults Services	2.512	1.368	0	3.880
Childrens Services	21.712	8.241	5.810	35.763
Community Services	1.538	0.221	0	1.759
Climate and Place	91.402	62.510	25.311	179.223
Resources and Corporate Services	14.659	2.899	0.065	17.623
Strategy and Workforce	0.135	0.136	0	0.271
Total Programme	131.958	75.375	31.186	238.519

37. In the Financial Strategy Update to Members in November 2023, we informed Members that new capital bids totalling £227.0m had been received. If all these schemes were approved this would require new borrowing of £116.6m. This would be unaffordable and therefore work was done to reduce the recommended schemes for approval down on the basis of the review outlined in paragraph 33 above.
38. Appendix C shows a breakdown of the proposed new capital schemes suggested to be agreed for 2024/25 and beyond. A breakdown of the scheme by criteria and the values attributable to each can be seen in Table 5 below.

Table 5 – New Capital Schemes by Criteria

	2024/25	2025/26	2026/27	Total All Years
Criteria	£'m	£'m	£'m	£'m
Fully externally funded	36,921	41.162	25.311	86.520
Health and Safety / Legal Requirement	5.260	2.000	1.950	9.210
Invest to Save	0.125	0	0	0.125
Total	42.306	43.162	27.261	112.729

39. Of the £112.279m of new schemes proposed to be agreed, £109.394m is funded by external sources, with the remaining £3.335 having to be funded by borrowing.

Funding the Capital Programme

40. The overall funding for the Capital Programme is as shown below in table 6. Useable capital receipts are forecast to be used in the current year, 2023/24 but no current or projected receipts will be specifically allocated to the capital programme in 2024/25 or future years in line with the Council's Capital Strategy for 2024/25.

Table 6– Funding for the Combined Capital Programme 2024/25 to 2026/27

Financed by:	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Specific Funding:				
Grants	94.604	66.139	25.388	186.131
S106 / CIL Contributions	6.844	1.136	0	7.980
Corporate Funding:				
Borrowing	30.510	8.100	5.798	44.408
Total	131.958	75.375	31.186	238.519

41. Table 7 below shows a breakdown of all the anticipated grants and contributions. Should these grants and contributions be altered in any way, the scheme would have to be reduced accordingly or Members would have to consider increasing the Council's external debt by borrowing to ensure delivery of the scheme.

Table 7 – Capital Grants and Contributions 2024/25 to 2026/27

Scheme	Amount £m	Description / Funder
Grant Funded		
Disabled Facilities Grant Projects	2.186	Department for Health

Childrens Residential Homes	0.200	Department for Education
Children Looked After	0.260	Department for Education
Special Education Needs and Disabilities	5.356	Department for Education
Schools Basic Need Programme	1.900	Department for Education
Schools DFCG and Energy Efficiency	0.750	Department for Education
School Condition Programme	6.700	Department for Education
Bridgwater Town Deal Projects	16.234	Government Towns Fund
Bridgwater Levelling Up Projects	13.355	Government Levelling Up Fund
Glastonbury Town Deal Projects	16.050	Government Towns Fund
Firepool Development, Taunton	4.000	Government Future High Streets Fund
Chard Regeneration	0.500	Historic England
Bridges & Structures	23.448	Department for Transport
Road Structures	61.125	Department for Transport
Traffic Control	10.700	Department for Transport
Small Improvement Safety Schemes	2.500	Department for Transport
Highway Lighting	5.000	Department for Transport
Rights of Way	6.069	Department for Transport
Major Road Network	0.100	Department for Transport
A38 Chelston Link	4.610	Department for Transport
Bus Service Improvement Programme	3.743	Department for Transport
Grants to Registered Social Landlords	0.790	
IAC Staffing and Support	0.204	Department for Health
Energy Efficiency Grants	0.124	
Home Maintenance	0.114	
Prevention Grants	0.071	
Wellington Sports Centre Decarbonisation	0.042	Public Sector Decarbonisation Fund
	186.131	
Contribution Funded		
Learning Disabilities	0.043	NHS
Flood Alleviation Projects (Somerset West & Taunton Area)	4.929	SWT CIL Funds
Taunton Town Centre Regeneration	0.897	SWT CIL Funds
Active Travel Projects	1.666	SWT CIL Funds
Library Services	0.072	Bridgwater Town Council/ Other
Corporate ICT Investment	0.102	Various sources
	7.980	

Total	194.111	
--------------	----------------	--

42. The cost of borrowing to fund the capital programme is fully incorporated into the revenue budget setting process to ensure prudence and affordability. They are also reflected in prudential indicators calculated and reported as part of the Council's approved Treasury Management Strategy and in-year Treasury Management reports.
43. Only Third-Party contributions received or formally agreed are used to fund the programme. As expected contributions are received in the future, this will release the need for that level of borrowing.

Timetable

44. The Capital Strategy with MRP Policy, Treasury Management Strategy, Flexible Capital Receipts Policy was presented to the Audit Committee on the 25 January 2024 and will be considered by full Council in 20 February 2024.
45. The sequence of committee meetings for finalising the capital programme for 2024/25 for the Council to consider on 20 February 2024 is:
- 01 February 2024 - Corporate & Resources Scrutiny Committee - scrutiny review of Executive draft capital budget proposals and make any specific recommendations to the Executive to consider on 7 February 2024.
 - 07 February 2024 - Executive - review of the latest draft budget proposals for the Capital Programme and the consultation feedback and make recommendations to Council on final budget proposals.

Background Papers

2023/24 Budget, Medium-Term Financial Plan & Council Tax Setting report to Council 22 February 2023.

Medium Term Financial Strategy (MTFS) 2024/25 to 2026/27 report to Corporate & Resources Scrutiny & Executive July 2023.

Financial Strategy Update report to 09 November 2023 Corporate & Resources Scrutiny and 08 November 2023 Executive.

2024/25 General Fund Revenue & Capital Programme update to 05 December 2023, Corporate & Resources Scrutiny Committee, 06 December 2023 Executive and 20 December 2023 full Council.

Monthly Budget Monitoring reports to Executive & Corporate & Resources Scrutiny Committee

2024/25 General Fund Revenue Budget Update to Executive 15 January 2024

Appendices

Appendix A: Removed schemes from Capital Programme 2023/24

Appendix B: Capital Programme 2024/25 to 2026/27

Appendix C: New Bids for 2024/25