

## **Report to Cabinet**

**Subject:** Capital Programme and Capital Investment Strategy 2018/19 to 2020/21

**Date:** 15 February 2018

**Author:** Senior Leadership Team on behalf of the Leader

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### **Wards Affected**

Borough wide.

### **Purpose**

This report summarises:

- a) The proposed Capital Investment Strategy for 2018/19 to 2020/21; and
- b) The proposed Capital Programme for 2018/19 to 2020/21 in light of the Council's priorities and the resources available.

The Capital Investment Strategy and Capital Programme determined by Cabinet at this meeting will be referred to the Council Budget meeting on the 5 March 2018 for final approval. The detailed capital programme proposals are shown in Appendix 2 to this report.

### **Key Decision**

This is a Key Decision.

### **Background**

- 1.1 The prudential framework for Local Authority Capital Investment was introduced through the Local Government Finance Act 2003.
- 1.2 This prudential framework incorporates four statutory codes. These are:
  - The Prudential Code prepared by CIPFA
  - The Treasury Management Code prepared by CIPFA
  - The Statutory Guidance on Local Authority Investments prepared by DCLG
  - The Statutory Guidance of Minimum Revenue Provision (MRP) prepared by DCLG

- 1.3 During 2017/18 both CIPFA and DCLG have undertaken consultation on proposed changes to all of the above codes. This has been completed in recognition of the changing landscape in which Councils are now required to deliver public services, i.e. the increasing move to commercialism following the sustained period of reduced public funding. The consultations seek to ensure that the key objectives of codes remain relevant and that they can continue to be fulfilled in the context of this changing landscape and the emerging activities that local authorities are now embarking upon e.g. investment in property as a tool to generate financial returns.
- 1.4 CIPFA has consulted on, and published, updated Prudential and Treasury Management Codes which are reflected in each of the Budget Cabinet reports which appear on this agenda to ensure fully integrated revenue, capital and treasury management planning.
- 1.5 The Prudential Code underpins the systems of capital finance and planning and is the primary document which provides the framework for the development of the capital programme which is proposed in this report. The key issue addressed in the consultation process was how Councils will ensure prudence, in respect of longer term planning, the MRP, increasing commercialisation, understanding of risk and the ability to raise council tax.
- 1.6 The revised Prudential Code sets out the following key objectives, to ensure that:
- local strategic planning, asset management planning and proper option appraisal are supported;
  - The capital investment plans of local authorities are affordable, prudent and sustainable. Affordability has regard to the implications of capital expenditure for Council Tax, whilst prudence and sustainability have regard to the long term implications for external borrowing considering the actual impact, and potential impact on overall fiscal sustainability;
  - Treasury management and other investment decisions are taken in accordance with good professional practice and in the full understanding of risks involved;
  - The authority is accountable, by providing a clear and transparent framework.

To provide a clear and transparent framework authorities are now required by the Code to formulate a Capital Strategy which more closely links together two current Gedling documents i.e. the Capital Investment Strategy and the Treasury Management Strategy. The strategy will set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and their impact on priority outcomes. CIPFA recognises that a longer lead in time may be required for full implementation of the Capital Strategy and accept that this may not be available until the 2019/20 financial year. For 2018/19 the main principles of the new codes have been applied in the current strategies and an updated Capital Investment Strategy is proposed in paragraph 2.

- 1.7 The DCLG has consulted on changes to guidance for investments and the MRP with the aim of ensuring that local authorities continue to make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities and the best value duty. The primary issues raised in the consultation relate to: investment in non-core functions; the principles of prioritising security and liquidity over yield in respect of investment in non-financial assets e.g. property; the ability to borrow to finance any investment that does not deliver statutory or strategic objectives and changes to MRP guidance to ensure that prudent provisions are made for the repayment of debt. The outcome of the consultation and new guidance is still awaited so full impact is not yet known but the proposals in respect of MRP are considered to be prudent and have been applied in production of the 2018/19 budget. The main area of uncertainty relates to potential controls over borrowing to finance the acquisition of investments that are not in delivery of core functions e.g. investment property outside of the borough. However, there are currently no proposals for this type of investment.

## **Proposal**

### **2. Capital Investment Strategy**

- 2.1 The Capital Investment Strategy outlines the principles and framework that shape the Council's capital investment decisions. The principal aim is to deliver a programme of capital investment that contributes to the achievement of the Council's priorities and objectives as set out in the Gedling Plan.
- 2.2 The Strategy defines at the highest level how the capital programme is to be formulated; it identifies the issues and options that influence capital spending; and sets out how the resources and capital programme will be managed.
- 2.3 The Strategy has been updated to recognise the proposals for commercial property investment contained in the draft capital programme as detailed at paragraph 3.2(f). The Prudential Code requires details of the authority's approach to commercial activities to be included in the Capital Strategy, including:
- processes ensuring effective due diligence and defining the authority's risk appetite of these, including proportionality in respect of overall resources;
  - requirements for independent and expert advice and scrutiny arrangements;
  - Periodic re-evaluation of individual business cases to ensure current circumstances inform the overall capital strategy.
- 2.4 It is intended that commercial property investments will be governed by a Commercial Property Investment Strategy which is currently being prepared and will be presented to Cabinet for consideration at the earliest opportunity. This strategy will incorporate all of the requirements of the Prudential Code above and determine the key success criteria against which each individual property investment business case will be assessed e.g. must provide a financial return whilst ensuring an appropriate balance of risk and reward. Formal approval of the Commercial Property Investment Strategy and assessment of individual business cases will be required before any of the capital monies can be spent.
- 2.5 A copy of the proposed Capital Investment Strategy for 2018/19 to 2020/21 is attached at Appendix 1.

### 3. **Draft Capital Programme**

- 3.1 The following table summarises the proposed Capital Programme for 2018/19 to 2020/21. The full programme of schemes is presented in Appendix 2.

<b>Portfolio</b>	<b>2018/19 £</b>	<b>2019/20 £</b>	<b>2020/21 £</b>
Housing, Health and Wellbeing	760,300	0	0
Public Protection	900,000	900,000	900,000
Environment	1,723,200	589,000	205,000
Growth and Regeneration	1,890,500	0	0
Resources and Reputation	2,950,000	150,000	2,650,000
Future Equipment Replacement	150,000	150,000	150,000
Future Service Development Bids	0	100,000	100,000
<b>Total Capital Programme</b>	<b>8,374,000</b>	<b>1,889,000</b>	<b>4,005,000</b>

- 3.2 The proposed capital programme is derived from the following:

a) **Schemes already approved as part of the 2017/18 budget setting process:**

- Carlton Square Development £400,000 (an addition to this scheme of £350,000 is proposed, see development bid paragraph (e) below plus £90,000 has been re-profiled from 2017/18 as approved by Cabinet as detailed at paragraph 4, giving a total capital budget of £840,000 in 2018/19)
- Affordable Housing Scheme £120,000 (funded by S106 Contributions)

b) **Schemes re-profiled from 2017/18**

Schemes totalling **£1,430,100**, approved for deferral by Cabinet:

	2018/19	2019/20
	£	£
Affordable Housing Scheme – funded by S106	150,000	
Starter Homes, Station Road - funded by HCA	160,300	

Grant		
Calverton Soft Play Area	140,000	
Carlton Forum Gym Equipment	190,000	
Civic Centre Public Toilets	22,000	
Carlton Cemetery Expansion	273,000	
Gedling Country Park Viewing Platform	34,800	
Vehicles	58,000	12,000
Carlton Square Development	90,000	
Carlton Le Willows All Weather Pitch	300,000	
<b>Total</b>	<b>1,418,100</b>	<b>12,000</b>

c) **Ongoing Capital Programme Items (previously approved as ongoing)**

- Disabled Facilities Grants **£900,000** per annum (subject to confirmation of grant funding via Better Care Fund). This is an increase of £80,000 from the previous approved programme which is fully grant funded.
- Asset Management Fund **£150,000** per annum - used to maintain the Council's assets to a safe and usable standard.

d) **Replacement Equipment/Vehicles**

Replacement assets to ensure continuation of existing service:

	2018/19	2019/20	2020/21
	£	£	£
Vehicle Programme	999,000	577,000	205,000
Future Equipment Replacement	150,000	150,000	150,000
<b>Total</b>	<b>1,149,000</b>	<b>727,000</b>	<b>355,000</b>

e) **New resource development bids which meet the Council priorities**

The table below show schemes totalling **£1,500,500** which score 15 points and above using the Council's approved methodology as detailed in the Capital Investment Strategy (see paragraph 2 above). The approved methodology ranks schemes in accordance with the level of contribution made towards the achievement of the Council's Priorities and Improvement Plans. They are

assessed as affordable in line with the Council's Prudential Code Indicators contained within the Treasury Management Strategy and within the overall context of the Medium Term Financial Strategy.

Description	Capital Budget 2018/19	Revenue Ongoing (Full Year Effect)	Score
	£	£	
<b>Arnold Town Centre Development</b> <i>(subject to confirmation of grant funding)</i>	1,050,500	(20,000)	43
<b>Carlton Square Development Expansion</b> <i>(subject to confirmation of grant funding)</i>	350,000	0	38
<b>Haywood Road Play Area</b> <i>(subject to confirmation of £50k grant funding)</i>	100,000	600	27
<b>Total Capital Development Bids</b>	<b>1,500,500</b>	<b>(19,400)</b>	

f) **Budget Reduction Programme – Invest to Save Schemes**

The table below shows budget reduction programme schemes totalling **£5,236,400** which require capital investment. These have been scored using the Council's approved methodology as detailed in the Capital Investment Strategy and each scheme scores above the 15 points required for entrance to the capital programme. They each represent the Council's aspiration to become more commercial.

Description	Capital Budget 2018/19	Capital Budget 2020/21	Revenue Ongoing (Full Year Effect)	Score
PASC Trees/Landscaping Equipment	171,000	0	(110,000)	28
Pet Cremation Service	65,400	0	(98,400)	23
Commercial Property Investment (Note 2)	2,500,000	2,500,000	(100,000)	18
<b>Total Invest to Save Schemes</b>	<b>2,736,400</b>	<b>2,500,000</b>	<b>(308,400)</b>	

Note 1 - There are no proposals for 2019/20

Note 2 - Subject to satisfactory business cases as per paragraph 2.4.

#### 4. **Capital Resources**

##### 4.1 **Capital Receipts**

When the Council sells General Fund assets it is permitted to use this income to fund capital expenditure.

The estimated annual capital receipt generation for 2018/19 to 2020/21 is detailed in the table below and it is proposed that these are fully utilised to finance the capital programme as detailed in paragraph 3.1:

	2018/19	2019/20	2020/21
	£	£	£
Land Sales	760,000	660,000	555,000
Right to Buy & Improvement Grant Repayments	250,000	50,000	50,000
<b>Total Capital Receipt Estimate</b>	<b>1,010,000</b>	<b>710,000</b>	<b>605,000</b>

##### **Land Sales**

A major review of the revenue budget was undertaken during 2014/15 with the objective of addressing the revenue grant reductions and delivering a sustainable Medium Term Financial Plan (MTFP). As part of that review, one strategy employed to reduce the pressure on the revenue budget was the sale of surplus non-operational land holdings to generate capital receipts. The capital receipts will be used to finance the capital programme and therefore avoid previously planned borrowing which in turn reduces pressure on the revenue budget by reducing principal and interest payments.

If, for whatever reason, these capital receipts do not materialise, then prudential borrowing will need to be used as replacement funding. This is still affordable within the timeframe of the MTFP.

##### **Right to Buy Receipts and Improvement Grant Repayments**

The Council also generates capital receipts from improvement grant repayments and preserved Right To Buy (RTB) receipts. Preserved RTB receipts are those that the Council has negotiated to retain, for a period of 10 years, as part of the LSVT of housing stock. These receipts are due to finish in 2018/19 when the 10 year period has ended. Preserved RTB receipts are not subject to usual housing pooling requirements, requiring a proportion to be paid to Central Government, and are fully usable to finance capital expenditure.

## 4.2 Capital Grants and Contributions

External funds such as the Disabled Facilities Grant (DFG) and contributions from developers continue to be important in the funding of capital expenditure, and schemes financed in this way are included in the programme.

Grants and contributions estimated for financing the 2018/19 to 2020/21 programme include:

	2018/19 £	2019/20 £	2020/21 £
Disabled Facilities/Better Care Fund Grant (assumed ongoing 2018/19-2020/21)	900,000	900,000	900,000
N2 Growth Fund Arnold and Carlton Square Developments (subject to confirmation)	1,400,000	0	0
S106 Contribution for Affordable Housing Projects	270,000	0	0
S106 Contribution Gedling Country Park	34,800	0	0
WREN grant Haywood Road Play Area (subject to confirmation)	50,000	0	0
HCA Starter Home Grant for Staion Road, Carlton	160,300	0	0
<b>Total Grants and Contributions</b>	<b>2,815,100</b>	<b>900,000</b>	<b>900,000</b>

Disabled Facilities/Better Care Fund grant funding is now paid by the Ministry of Housing, Communities and Local Government to Nottinghamshire County Council for distribution. The actual allocations to each District Council are agreed by the Nottinghamshire Health and Wellbeing Board. There have not yet been any grant announcements for 2018/19 so an estimated grant amount of £900,000 is included for 2018/19 and for the future programme. Any variation will be reported to Cabinet via the usual quarterly budget monitoring process.

Expenditure in the capital programme has been grossed up and the contributions are shown in the table below as adding to the resources available to finance the programme.

## 4.3 Prudential Borrowing

The total borrowing that is required to finance the proposed 2018/19 to 2020/21 capital programme is £7.3m. This is an increase of £5.2m from that previously



estimated which is due to the inclusion of the Invest To Save projects arising from the Budget Reduction Programme as detailed in the table at 3.2(f) above. Invest to Save projects are anticipated to fund the full costs of borrowing from the revenue income generated by the schemes and this has been fully reflected in the Council's Medium Term Financial Plan. The proposed borrowing amounts are detailed in paragraph 4.4 below.

The Council's Prudential Indicators for the financial years 2018/19 to 2020/21 are contained within the Treasury Management Strategy Statement, an item elsewhere on this agenda, which will be referred to Council for approval. These Prudential Indicators, in conjunction with the calculations within the Medium Term Financial Plan, show that this level of borrowing is affordable and sustainable, subject to securing the commitment to delivering a budget reduction programme of £3.9m in the medium term i.e. £2.8m net from planned budget reductions plus £1.1m the new proposed efficiency target.

#### 4.4 Capital Resources Summary

An estimate of resources for financing the 2018/19 to 2020/21 programme is summarised below:

<b>Capital Resources</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Use of Capital Receipts	1,010,000	710,000	605,000
Capital Grants and Contributions	2,815,100	900,000	900,000
<b>Total Cash Resource</b>	<b>3,825,100</b>	<b>1,610,000</b>	<b>1,505,000</b>
Prudential Borrowing	4,548,900	279,000	2,500,000
<b>Total Financing</b>	<b>8,374,000</b>	<b>1,889,000</b>	<b>4,005,000</b>

#### **Alternative Options**

- 5 As the resources for financing the capital programme are limited there is no capacity to implement further service developments which are not funded by specific grants/ contributions or are not invest to save schemes, therefore no alternative options are available. However, depending upon the timing and value of expected capital receipts, borrowing may be utilised as a substitute for capital receipts to fund the programme in any one year, and vice versa.

#### **Financial Implications**

- 6 As detailed in the report.

## **Appendices**

- 7      Appendix 1 - Capital Investment Strategy 2018/19 – 2020/21  
Appendix 2 - Draft Capital Programme 2018/19 – 2020/21

## **Background Papers**

- Treasury Strategy 2018/19
- Gedling Plan 2016-19

## **Recommendations**

- 8      **THAT:**
- (a)      The Capital Investment Strategy 2018/19 to 2020/21 detailed at Appendix 1 is approved and referred to Council for approval on 5 March 2018.
  - (b)      The estimated capital financing available for 2018/19 to 2020/21 be noted;
  - (c)      The Capital Programme for 2018/19 to 2020/21 detailed at Appendix 2 is approved and referred to Council for approval on 5 March 2018;

## **Reasons for Recommendations**

- 7      To obtain approval of the draft Capital Programme and Capital Investment Strategy, which support the delivery of the 2016-19 Gedling Plan.

