Report to Cabinet

Subject: Capital Programme and Capital Investment Strategy 2019/20 to 2023/24

Date: 14 February 2019

Author: Senior Leadership Team on behalf of the Leader

Wards Affected

Borough wide.

Purpose

This report summarises:

a) The proposed Capital Investment Strategy for 2019/20 to 2023/24; and

b) The proposed Capital Programme for 2019/20 to 2021/22 for approval, and the indicative capital programme for 2022/23 to 2023/24, 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 on the 4 March 2019 for final approval. The detailed capital programme proposals are shown in Appendix 2 to this report.

Key Decision

This is a Key Decision.

Recommendations

Members are **recommended** to:

a) Note the estimated capital financing available for 2019/20 to 2023/24;

b) Approve the Capital Investment Strategy 2019/20 to 2023/24 detailed at Appendix 1 and refer it to Council for approval on 4 March 2019;

c) Approve the Capital Programme for 2019/20 to 2021/22 detailed at Appendix 2 and refer it to Council for approval on 4 March 2019;

d) Note the indicative Capital Programme for 2022/23 to 2023/24.

Further information on the subject of this report is available from
Alison Ball, Financial Services Manager on (0115) 9013980

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 the Ministry of Housing, Communities and Local Government (MHCLG);
- The Statutory Guidance on Minimum Revenue Provision (MRP) prepared by MHCLG.

1.3 During 2017/18 both CIPFA and MHCLG updated all of the above codes 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 updated codes ensure that the key objectives remain relevant and can continue to be fulfilled in the context of this changing landscape and the activities that local authorities are now embarking upon e.g. investment in property as a tool to generate financial returns.

1.4 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 strategy and the capital programme which are proposed in this report. The key issues addressed by the code changes relate to 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.

1.5 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 sets 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. Whilst the Code does not define ‘long term’ the Council’s current capital investment strategy proposed at Appendix 1 covers the five year period of the medium term financial plan (MTFP), 2019/20 to 2023/24, to ensure that longer term forecasts for capital expenditure, disposals and borrowing are fully considered in the revenue budget and demonstrated to be prudent and affordable.

1.6 Following lengthy consultations, the MHCLG issued revised Investment Guidance and MRP Guidance in February 2018 with the aim of ensuring that local authorities continue to make borrowing and investment decisions in a way that is commensurate with their statutory duties. All Councils are required to have regard to this guidance in their investment decisions.

The revised Investment guidance extends the definition of “investment” to include expenditure driven activity, e.g. commercial property, as well as simple treasury cash. Such activity would represent “non-treasury investments”, i.e. investment in “non-financial assets”. The revised guidance also reaffirms that borrowing may only be undertaken for investments that are made for strategic purposes, and not “purely” for financial return.

The revised MRP guidance also focuses on expenditure on non-financial investments, e.g. commercial property, making it clear that the duty to make prudent MRP extends to commercial investment property where its acquisition has been partially or fully funded by an increase in borrowing.

1.7 The requirements of each of the updated codes are fully reflected in each of the Budget Cabinet reports which appear on this agenda to ensure fully integrated revenue, capital and treasury management planning.

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 addresses the Prudential Code requirements in respect of the Council’s commercial property investment plans which are contained in the capital programme at £5m, with an estimated ongoing financial return of £0.1m included in the current efficiency plans and the medium term financial plan. 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 for this investment, 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 The Prudential Code details the indicators that Councils are required to set to demonstrate that capital plans are affordable and prudent. There is now a requirement for indicators to be set that are transparent in terms of demonstrating that commercial property investment is proportionate to the level of resources available to the authority. The required indicators are included in the Prudential and Treasury Indicators and Treasury Management Strategy Statement, an item elsewhere on this agenda, and they demonstrate that the commercial property investment plans are prudent and proportionate.

2.5 Commercial property investments will be governed by a Commercial Property Investment Strategy, which is currently being developed. This strategy will incorporate all of the requirements of the Prudential Code above, and will 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.

2.6 A copy of the proposed Capital Investment Strategy for 2019/20 to 2023/24 is attached at Appendix 1.

3. Proposed Capital Programme

3.1 The following table presents the proposed three year Capital Programme for 2019/20 to 2021/22 for approval, together with the indicative programme for a further two years to match the period of the MTFP as detailed in paragraph 1.5 above. The full programme of schemes is presented in Appendix 2.

	Proposed Programme for Approval			**Indicative Prog.**	
Portfolio	**2019/20 £**	**2020/21 £**	**2021/22 £**	**2022/23 £**	**2023/24 £**
Housing, Health and Wellbeing	419,600	0	0	0	0
Public Protection	900,000	900,000	900,000	900,000	900,000
Environment	1,283,900	372,000	1,198,000	466,000	1,178,000
Growth and Regeneration	3,140,000	0	0	0	0
Resources and Reputation	3,200,000	2,750,000	250,000	250,000	250,000
Equipment Replacement	0	70,000	70,000	70,000	70,000
Future Service Development Bids	0	100,000	100,000	100,000	100,000
Total Capital Programme	**8,943,500**	**4,192,000**	**2,518,000**	**1,786,000**	**2,498,000**

3.2 The proposed capital programme is derived from the following:

a) **<u>Schemes already approved as part of the 2018/19 budget setting process</u>**:

- Commercial Property Investment Phase 2 **£2,500,000** in 2020/21.

b) **<u>Schemes re-profiled from 2018/19</u>**

Schemes totalling **£5,604,500**, approved for deferral by Cabinet to 2019/20 and 2020/21:

	2019/20	2020/21
	£	£
Starter Homes, Station Road Carlton	160,300	
Affordable Housing Scheme (unallocated - working with partners to identify schemes)	154,300	
Gedling Country Park Viewing Platform	31,800	
Haywood Road Play Area	95,300	
Carlton Cemetery Expansion	268,800	
Civic Centre Toilets	22,000	
Vehicle Slippage	68,000	114,000
Arnold Town Centre Development	980,000	
Carlton Square Development	790,000	
Carlton le Willows All Weather Pitch	300,000	
Commercial Property Investment	2,500,000	
Asset Management Fund	120,000	
Total	**5,490,500**	**114,000**

c) **<u>Ongoing Capital Programme Items (previously approved as ongoing)</u>**

- Disabled Facilities Grants **£900,000** per annum (subject to confirmation of grant funding via Better Care Fund).

- Asset Management Fund **£80,000 2019/20**; **£150,000** per annum thereafter - used to maintain the Council's assets to a safe and usable standard.

- Future Service Development Bids **£100,000** per annum

d) **Replacement Equipment/Vehicles**

Replacement assets to ensure continuation of existing service:

	Proposed Programme			Indicative Prog.	
	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£	£	£
Vehicle Programme	512,000	258,000	1,198,000	466,000	1,178,000
IT Licencing	100,000	100,000	100,000	100,000	100,000
Equipment Replacement	0	70,000	70,000	70,000	70,000
Total	**612,000**	**428,000**	**1,368,000**	**636,000**	**1,348,000**

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

The table below show schemes totalling **£1,861,000** 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 assesses 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 2019/20	Revenue Ongoing (Full Year Effect)
	£	£
Lambley Lane Changing Room and Pitch Renovation (part funded by S106 and CIL)	95,000	0
Gedling Country Park Car Park Extension (part funded by CIL)	150,000	0
Car Park Resurfacing Arnold	15,000	0

Arnold Theatre System	35,000	3,500
Replacement Gym Equipment Redhill LC	70,000	(40,000)
Rapid Response Team Vehicle	26,000	0
Calverton Enterprise Units (subject to confirmation of grant funding)	1,370,000	(35,000)
Customer Service Improvements	100,000	0
Total Capital Development Bids	**1,861,000**	(71,400)

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 2019/20 to 2023/24 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:

	Proposed Programme			Indicative Prog.	
	2019/20	2020/21	2021/22	2022/23	2023/24
	£	£	£		
Land Sales	561,000	561,000	561,000	561,000	561,000
Improvement Grant Repayments	50,000	50,000	50,000	50,000	50,000
Total Capital Receipt Estimate	**611,000**	**611,000**	**611,000**	**611,000**	**611,000**

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 planned sale has now been secured and 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.

4.2 Direct Revenue Financing

The use of earmarked revenue reserves and revenue equipment budgets as contributions to specific capital schemes totalling **£519,100** in 2019/20 are proposed as follows:

a) £15,000 from the Asset Management Revenue Reserve for the car park resurfacing in Arnold;

b) £334,100 contribution from the Economic Development Fund and the Business Rates Pool Reserve for the Arnold Town Centre Development;

c) £150,000 contribution from the Business Rates Pool Reserve for the Calverton Enterprise Units (subject to securing grant funding for the project);

d) £20,000 ongoing contribution 2019/20 to 2021/22 from IT replacement equipment revenue budget for IT Licences.

4.3 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 capital programme include:

	2019/20 £	2020/21 to 2023/24 £
HCA Starter Homes Grant for Station Road, Carlton.	160,300	0
S106 Contribution for Affordable Housing Projects	154,300	0
Disabled Facilities/Better Care Fund Grant *(assumed ongoing 2019/20-2023/24)*	900,000	900,000 pa ongoing
S106 Contribution for Lambley Lane Project	35,000	0
CIL Contribution Lambley Lane Project	40,000	0
CIL Contribution for Gedling Country Park Car Park	100,000	0
S106 Contribution for Gedling Country Park Viewing Platform	31,800	0
WREN Grant for Haywood Road Play Area	50,000	0

N2 Growth Fund Grant for Carlton Square Development	350,000	0
ERDF/SUDS for Calverton Enterprise Units (subject to confirmation)	660,700	0
Total Grants and Contributions	**2,482,100**	**900,000**

Disabled Facilities/Better Care Fund grant funding is now paid by the MHCLG 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 2019/20 so an estimated grant amount of £900,000 is included for 2019/20 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.

4.4 Prudential Borrowing

The total borrowing that is required to finance the proposed 2019/20 to 2021/22 capital programme is £8.98m. It is currently estimated that a further £1.2m of borrowing will be required to finance the indicative capital programme for 2022/23 to 2023/24. The proposed borrowing amounts are detailed in paragraph 4.5 below.

The Council's Prudential Indicators in respect of both the proposed programme 2019/20 to 2021/22 and the indicative programme for 2022/23 to 2023/24 are contained within the Prudential and Treasury Indicators and Treasury Management Strategy Statement, an item elsewhere on this agenda. 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 £2.60m in the medium term i.e. £1.25m net remaining from the current planned efficiency programme plus £1.35m the new proposed efficiency programme.

4.5 Capital Resources Summary

An estimate of the resources for financing the 2019/20 to 2021/22 programme is summarised below:

	Proposed Programme			Indicative Prog.	
Capital Resources	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£	**£**	**£**	**£**	**£**
Use of Capital Receipts	611,000	611,000	611,000	611,000	611,000
Direct Revenue Financing	519,100	20,000	20,000	20,000	20,000
Capital Grants and Contributions	2,482,100	900,000	900,000	900,000	900,000
Total Cash Resource	**3,612,200**	**1,531,000**	**1,531,000**	**1,531,000**	**1,531,000**
Prudential Borrowing	5,331,300	2,661,000	987,000	255,000	967,000
Total Financing	**8,943,500**	**4,192,000**	**2,518,000**	**1,786,000**	**2,498,000**

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 2019/20 – 2023/24
Appendix 2 - Proposed Capital Programme 2019/20 – 2021/22 (including Indicative Programme 2022/23 to 2023/24)

Background Papers

- Prudential and Treasury Indicators and Treasury Management Strategy Statement 2019/20
- Gedling Plan 2019/20

Reasons for Recommendations

8 To obtain approval of the draft Capital Programme and Capital Investment Strategy, which support the delivery of the Gedling Plan.