

Report to Cabinet

Subject: Capital Programme and Capital Investment Strategy 2020/21 to 2024/25

Date: 13 February 2020

Author: Senior Leadership Team on behalf of the Leader

Wards Affected

Borough wide.

Purpose

This report summarises:

- a) The proposed Capital Investment Strategy for 2020/21 to 2024/25; and
- b) The proposed Capital Programme for 2020/21 to 2022/23 for approval, and the indicative capital programme for 2023/24 to 2024/25, 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 5 March 2020 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 2020/21 to 2024/25;
 - b) Approve the Capital Investment Strategy 2020/21 to 2024/25 detailed at Appendix 1 and refer it to Council for approval on 5 March 2019;
 - c) Approve the Capital Programme for 2020/21 to 2022/23 detailed at Appendix 2 and refer it to Council for approval on 5 March 2019;
 - d) Note the indicative Capital Programme for 2023/24 to 2024/25.
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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 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 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 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), 2020/21 to 2024/25, 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 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 the 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 in total (£0.9m 2019/20 and £4.1m 2020/21), 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 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 are governed by the Commercial Property Investment Strategy which was approved by Council on 24 April 2019. This strategy incorporates all of the requirements of the Prudential Code above, and outlines 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.

2.6 A copy of the proposed Capital Investment Strategy for 2020/21 to 2024/25 is attached at Appendix 1.

3. **Proposed Capital Programme**

3.1 The following table presents the proposed three year Capital Programme for 2020/21 to 2022/23 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.

Portfolio	Proposed Programme for Approval			Indicative Programme	
	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Housing, Health and Wellbeing	212,300	0	0	0	0
Public Protection	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Environment	1,500,700	1,198,000	466,000	1,161,000	580,000
Growth and Regeneration	3,303,600	0	0	0	0
Resources and Reputation	5,209,000	483,000	383,000	250,000	250,000
Future 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	11,225,600	2,851,000	2,019,000	2,581,000	2,000,000

3.2 The proposed capital programme is derived from the following:

a) **Schemes already approved as part of the 2019/20 budget setting process:**

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

b) **Schemes re-profiled from 2019/20**

Schemes totalling **£5,634,600** approved for deferral by Cabinet to 2020/21:

	2020/21
	£
Burton Road - Affordable Housing	12,000
Station Road - Temporary Accommodation and Affordable Housing	165,300
Arnold Leisure Centre - Replacement Theatre System	35,000
Vehicle Replacement Programme	131,000
PASC – Second Tree Team and Landscaping Service Equipment	83,000
Carlton Cemetery Expansion	278,900
Redhill Community Garden (funded by a developer contribution)	10,000
Gedling Country Park - Outdoor Seating Area	107,800
Lambley Lane Changing Rooms and Pitch Renovation	95,000
Calverton Enterprise Units (subject to securing funding approval)	1,370,000
IT Licences	12,000
Customer Service Improvements	100,000
Commercial Property Investment	1,600,000
Hazelford Way - Drainage	51,000
Manifesto Pledges	
Arnold Market Town Centre Improvements	983,600
Carlton Square Improvements	600,000
Total	5,634,600

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

- Disabled Facilities Grants **£1,000,000** per annum (subject to confirmation of grant funding via Better Care Fund).
- Future Service Development Bids **£100,000** per annum 2021/22-2024/25.

d) **Replacement Equipment/Vehicles and Asset Maintenance**

Replacement assets and maintenance to ensure continuation of existing service:

	Proposed Programme			Indicative Programme	
	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Vehicle Programme	372,000	1,198,000	466,000	1,161,000	580,000
IT Licencing	100,000	100,000	100,000	100,000	100,000
Equipment Replacement	0	70,000	70,000	70,000	70,000
Asset Management and Maintenance	746,000	283,000	283,000	150,000	150,000
Total	1,218,000	1,651,000	919,000	1,481,000	900,000

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

The table below show schemes totalling **£973,000** 2020/21-2021/22 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.

A number of the development bids have been introduced to implement the Manifesto Pledges as detailed below:

- Play Area Development - to target investment of £333,000 for improving parks and play areas and maximise their use within the community (subject to securing external grant funding).
- Carbon Reduction Initiatives – Develop and implement a carbon reduction plan investing £200,000 over a two year period to enable carbon efficient improvements over 2020/21-2021/22
- Provision of public toilets – an investment of £90,000 to review and develop the availability and quality of Council public toilets across the borough

Description	Capital Budget 2020/21 £	Capital Budget 2021/22 £	Revenue Ongoing (Full Year Effect) £
Hazelford Way Industrial Unit Extension (business case)	350,000	0	(17,500)
Manifesto Pledges:			
Provision of Public Toilets	90,000	0	0
Carbon Reduction Initiatives	100,000	100,000	(10,000)
Play Area Development (subject to securing external funding approval)	333,000	0	0
Total Capital Development Bids	873,000	100,000	(27,500)

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 2020/21 to 2024/25 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 Programme	
	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Land Sales	561,000	560,900	560,100	560,900	0
Improvement Grant Repayments	50,000	50,000	50,000	50,000	50,000
Total Capital Receipt Estimate	611,000	610,900	610,100	610,900	50,000

4.2 Direct Revenue Financing

The use of earmarked revenue reserves and revenue equipment budgets as contributions to specific capital schemes totalling **£1,321,200** in 2020/21 are proposed as follows:

- a) £150,000 contribution from the Business Rates Pool Reserve for the Calverton Enterprise Units extension (subject to securing grant funding for the project);
- b) £739,200 contribution from the Economic Development Fund and the Business Rates Pool Reserve for the Arnold Market Development;
- c) £135,000 contribution from the Asset Management Car Park Reserve for Car Park maintenance.
- d) £100,000 contribution from the Economic Development Fund for the Carlton Square development;
- e) £180,000 contribution from the Transformation Fund Revenue Reserve for maintenance works;
- f) £12,000 contribution 2020/21 from IT replacement equipment revenue budget for IT Licences deferred from 2019/20.
- g) £5,000 contribution from the Asset Management Revenue Reserve for the Station Road Affordable Housing scheme deferred from 2019/20.

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:

	2020/21 £	2021/22 to 2024/25 £
HCA for Affordable and Temporary Housing, Station Road, Carlton.	160,300	0
S106 Contribution for Affordable Housing Projects	12,000	0
Disabled Facilities/Better Care Fund Grant (<i>assumed £1m per annum ongoing 2020/21-2024/25</i>)	1,000,000	1,000,000
S106 Contribution for Lambley Lane Project	30,000	0
CIL Contribution Lambley Lane Project	45,000	0
S106 Contribution for Gedling Country Park Outdoor Seating Area	107,800	0
Developers Contribution for Community Garden in Redhill	10,000	0
Private Contributions for Road Resurfacing	8,700	0
Grant Contributions for Play Area Development (assuming successful grant bids)	300,000	0
N2 Growth Fund Grant for Carlton Square Development	350,000	0
Private Contribution for Carlton Square Development	150,000	0
LEP for Calverton Enterprise Units (subject to confirmation)	660,700	0
Total Grants and Contributions	2,834,500	1,000,000

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 2020/21 so an estimated grant amount of £1,000,000 is included for 2020/21 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 2020/21 to 2022/23 capital programme is £8.10m. It is currently estimated that a further £1.92m of borrowing will be required to finance the indicative capital programme for 2023/24 to 2024/25. The proposed borrowing amounts are detailed in paragraph 4.5 below.

The Council's Prudential Indicators in respect of both the proposed programme 2020/21 to 2022/23 and the indicative programme for 2023/24 to 2024/25 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 £1.924m in the medium

term i.e. £1.674m net remaining from the current planned efficiency programme plus £0.250m from the new proposed efficiency programme.

4.5 Capital Resources Summary

An estimate of the resources for financing the 2020/21 to 2022/23 programme is summarised below:

Capital Resources	Proposed Programme			Indicative Programme	
	2020/21	2021/22	2022/23	2023/24	2024/25
	£	£	£	£	£
Use of Capital Receipts	611,000	610,900	610,100	610,900	50,000
Direct Revenue Financing	1,321,200	0	0	0	0
Grants and Contributions	2,834,500	1,000,000	1,000,000	1,000,000	1,000,000
Total Cash Resource	4,766,700	1,610,900	1,610,100	1,610,900	1,050,000
Prudential Borrowing	6,458,900	1,240,100	408,900	970,100	950,000
Total Financing	11,225,600	2,851,000	2,019,000	2,581,000	2,000,000

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 2020/21 – 2024/25
Appendix 2 - Proposed Capital Programme 2020/21 – 2022/23 (including Indicative Programme 2023/24 to 2024/25)

Background Papers

- Prudential and Treasury Indicators and Treasury Management Strategy Statement 2020/21
- Gedling Plan 2020/21-2022/23

Reasons for Recommendations

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