

Report to Cabinet

Subject: Capital Programme and Capital Investment Strategy 2021/22 to 2025/26

Date: 11 February 2021

Author: Senior Leadership Team on behalf of the Leader

Wards Affected

All

Purpose

This report summarises:

- a) The proposed Capital Investment Strategy for 2021/22 to 2025/26; and
- b) The proposed Capital Programme for 2021/22 to 2023/24 for approval, and the indicative capital programme for 2024/25 to 2025/26, 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 2021 for final approval. The detailed capital programme proposals are shown in Appendix 2 to this report.

Key Decision

This is a Key Decision because the proposals will have a significant impact on all wards in the borough and include financial implications that are above the threshold of £0.5m determined by Council for decisions to be regarded as a Key Decision.

Recommendations

Members are recommended to:

1. Note the estimated capital financing available for 2021/22 to 2025/26;
2. Approve the Capital Investment Strategy 2021/22 to 2025/26 detailed at Appendix 1 and refer it to Council for approval on 4 March 2021;
3. Approve the Capital Programme for 2021/22 to 2023/24 detailed at Appendix 2 and refer it to Council for approval on 4 March 2021;
4. Note the indicative Capital Programme for 2024/25 to 2025/26.

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 undertaking 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), 2021/22 to 2025/26, 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 Prudential Code details the indicators that Councils are required to set to demonstrate that capital plans are affordable and prudent. - - The required indicators are included in the Prudential and Treasury Indicators and Treasury Management Strategy Statement, an item elsewhere on this agenda.

Over recent years, there has been a significant rise in commercial property investment by local authorities, generally financed by large amounts of PWLB borrowing. The level of this indebtedness for commercial reasons had become a major concern for HM Treasury and accordingly it undertook a consultation with local authorities with a view to tightening the rules. The outcome of this consultation was published in November 2020. HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is primarily to generate an income stream (i.e. debt for yield). This restriction is on a whole plan basis – i.e. even if the Council intends to buy investments assets primarily for yield at any point in the plan and to finance them other than by borrowing or alternative funding sources, the PWLB will not lend to it

The Commercial Property Investment Strategy (CPIS) was approved by Council in April 2019 and makes clear that its objectives are to invest in property to generate a return. Following the outcome of the HM Treasury consultation with local authorities the (CPIS) was reviewed and it was concluded that commercial property investment primarily for generation of a financial return was no longer possible in light of HM Treasury restrictions meaning to do so would preclude the Council from accessing any PWLB borrowing for its service and operational requirements. In addition to the above issues, the Covid-19 pandemic has emphasised the risks of property investment, and the ease with which Councils can expose themselves to unacceptable levels of risk. The current economic conditions simply do not make commercial property investment a prudent option. At its meeting on 28 January 2021, Cabinet supported a proposal to withdraw the CPIS for referral to full Council and approved the removal of the related budget from the capital programme.

2.4 Based on the recommendation to Council all reference to the Commercial property Investment Strategy has been removed from the capital strategy.

2.5 A copy of the proposed Capital Investment Strategy for 2021/22 to 2025/26 is attached at Appendix 1.

3. **Proposed Capital Programme**

3.1 The following table presents the proposed three year Capital Programme for 2021/22 to 2023/24 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	
	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Housing, Health and Wellbeing	2,587,500	1,323,500	0	0	0
Public Protection	1,720,000	1,000,000	1,000,000	1,000,000	1,000,000
Environment	1,440,500	1,079,000	1,161,000	580,000	759,000
Growth and Regeneration	4,195,300	0	0	0	0
Resources and Reputation	925,000	450,000	250,000	250,000	250,000
Future Equipment Replacement	0	70,000	70,000	70,000	70,000
Future Service Development Bids	0.00	100,000	100,000	100,000	100,000
Total Capital Programme	10,868,300	4,022,500	2,581,000	2,000,000	2,179,000

3.2 The proposed capital programme is derived from the following:

a) **Schemes already approved as part of the 2020/21 budget setting process:**

- Carbon Reduction Initiatives **£100,000** in 2022/23. Part of this will be used to implement: the Bee/Pollinator Action Plan as approved at Council on 27 January 2021; and the development of a 'green lung' for residents improving connectivity via a walking route between Gedling Country Park and Digby Park.

b) **Proposed additions to existing schemes in the current approved capital programme:**

- An additional **£30,000** for the Provision of Public Toilets.

c) **Schemes re-profiled from 2020/21**

Schemes totalling **£5,367,800** approved for deferral by Cabinet to 2021/22:

Schemes Re-profiled from 2020/21	2021/22 £
Arnold Market	2,350,300
Calverton Enterprise Units	1,370,000
Hazleford Way Industrial Units	350,000
Vehicle Replacement Programme	342,000
Civic Centre Window Replacement	200,000
Lambley Lane Changing Rooms and Pitch Renovation	160,000
Provision of Public Toilets	90,000
Play Area Development	111,000
Carlton Square Development	100,000
Customer Service Improvements	100,000
Play Area Development - Onchan Park	74,500
Hazelford Way - Drainage	60,000
Arnold Leisure Centre - Replacement Theatre System	35,000
Carlton Square Service Yard	25,000
Total	5,367,800

d) **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 2022/23-2025/26.

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

Replacement assets and maintenance to ensure continuation of existing service:

	Proposed Programme			Indicative Programme	
	2021/22	2022/23	2023/24	2024/25	2025/26
	£	£	£	£	£
Vehicle Programme	553,000	1,079,000	1,161,000	580,000	759,000
IT Licencing	100,000	100,000	100,000	100,000	100,000
Equipment Replacement	0	70,000	70,000	70,000	70,000
Civic Centre Fire Alarm	100,000	0	0	0	0
Arnot Hill House Fire Safety works	70,000	0	0	0	0
Civic Centre Lift Refurbishment	75,000	0	0	0	0
Leisure Management System	75,000	0	0	0	0
King George V Pavilion Refurbishment	50,000	0	0	0	0
General Asset Management	0	150,000	150,000	150,000	150,000
Total	1,023,000	1,399,000	1,481,000	900,000	1,079,000

The Leisure Management system will have an £18,000 ongoing revenue requirement.

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

The table below show schemes totalling **£4,671,000** 2021/22-2022/23 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 in the table below and details are as follows:

- Temporary Accommodation - to target investment of £1,154,000 to enable the Council to meet its statutory requirements in respect of Homelessness whilst reducing reliance on Bed & Breakfast accommodation and reducing the overall cost and improving the quality of provision. A separate report will be presented to Cabinet for approval of the detailed scheme delivery and final business case prior to scheme progression;
- Burton and Station Road Developments – an investment of £2,647,000 over 2021/22 and 2022/23 (partially funded by external grants and contributions) to Design and Build 17 units of accommodation to meet the objectives of the Housing Strategy to deliver social housing and temporary accommodation. A separate report will be presented to Cabinet for approval of the detailed scheme delivery and final business case prior to scheme progression;
- Green Homes Grants Scheme £720,000 – Grants to eligible households to enable energy efficiency and carbon reduction works (subject to a successful grant bid);
- Sand Martin Bank and Bird Hide – Construction of two Bird Hides at Gedling Country Park of £60,000 to provide a sustainable nesting habitat for Sand Martins, creating a recreational space for the local community and educational groups to appreciate wildlife at a closer level and encourage interest in the environment (Externally funded by Grant & Contributions);

- Flood Alleviation Scheme – Investment of £50,000 as a contribution to a larger multi-agency scheme, which aims to progress works to alleviate the risk of flooding in some of the higher risk flood areas in the Borough. It is anticipated that further development bids will come forward in future years for the delivery of further flood alleviation works in conjunction with partners;
- Cemetery Plant Safe - £20,000 to provide a secure unit to store plant and equipment at Carlton Cemetery;
- Honour our Heroes Memorial - £20,000 contribution towards a Gedling Borough permanent memorial to honour NHS and Key Workers and pay tribute to the victims of the Covid-19 pandemic.

Description	Capital Budget	Capital Budget	Revenue Ongoing
	2021/22	2022/23	(Full Year Effect)
	£	£	£
Temporary Accommodation	1,154,000	0	(15,800)
Burton Road Development	778,500	778,500	(7,000)
Station Road Development	545,000	545,000	(11,000)
Green Homes Grant Scheme	720,000	0	0
Sand Martin Bird Hide	60,000	0	0
Arnold Flood Alleviation	50,000	0	0
Cemetery Plant Safe	20,000	0	0
Honour our Heroes Memorial	20,000	0	0
Total Capital Development Bids	3,347,500	1,323,500	(33,800)

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 2021/22 to 2025/26 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	
	2021/22	2022/23	2023/24	2024/25	2025/26
	£	£	£	£	£
Land Sales	560,900	560,100	560,900	0	0
General Capital Receipts	50,000	50,000	50,000	50,000	50,000
Total Capital Receipt Estimate	610,900	610,100	610,900	50,000	50,000

4.2 Direct Revenue Financing

The use of earmarked revenue reserves and revenue equipment budgets as contributions to specific capital schemes totalling **£1,139,200** in 2021/22 are

proposed as follows:

- a) £794,200 contribution from the Business Rates Pool Reserve for the Arnold Market Development;
- b) £150,000 contribution from the Business Rates Pool Reserve for the Calverton Enterprise Units extension (subject to securing grant funding for the project);
- c) £25,000 contribution from the Economic Development Fund for the Carlton Square service Yard;
- d) £100,000 contribution from the Economic Development Fund for Carlton Square Development;
- e) £70,000 from the asset management revenue reserve for the maintenance works at Arnot Hill House.

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:

	2021/22	2022/23 to 2025/26
	£	£
Disabled Facilities/Better Care Fund Grant (assumed £1m per annum ongoing 2021/22-2025/26)	1,000,000	1,000,000
S106 Contribution for Affordable Housing Projects on Station and Burton Road	789,000	0
Green Homes Grant Funding (subject to a successful grant bid)	720,000	0
LEP for Calverton Enterprise Units (subject to successful funding bid)	660,700	0
HCA for Affordable and Temporary Housing, Station Road, Carlton.	176,000	0
FCC Communities Foundation Grant Contributions for Play Area Development (subject to successful funding bid)	174,500	0
S106 Contribution for Lambley Lane Pitch & Changing Rooms Project	30,000	0
CIL Contribution Lambley Lane Pitch and Changing Rooms Project	45,000	0
Football Foundation Grant Funding for Lambley Lane Pitch and Changing Rooms Project (subject to a successful bid)	70,000	0
Seven Trent Community Fund for Sand Martin Bank Bird Hide	41,200	0
S106 Contribution for Sand Martin Bank Bird Hide	18,800	0
Total Grants and Contributions	3,725,200	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 2021/22 so an estimated grant amount of £1,000,000 is included for 2021/22 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 2021/22 to 2023/24 capital programme is £8.775m. It is currently estimated that a further £2.08m of borrowing will be required to finance the indicative capital programme for 2024/25 to 2025/26. The proposed borrowing amounts are detailed in paragraph 4.5 below.

The Council's Prudential Indicators in respect of both the proposed programme 2021/22 to 2023/24 and the indicative programme for 2024/25 to 2025/26 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 the proposed budget reduction and efficiency programme detailed in the Medium Term Financial Plan, included in the Revenue Budget report, an item elsewhere on this agenda.

4.5 Capital Resources Summary

An estimate of the resources for financing the 2021/22 to 2023/24 programme is summarised below:

	Proposed Programme			Indicative Programme	
Capital Resources	2021/22	2022/23	2023/24	2024/25	2025/26
	£	£	£	£	£
Use of Capital Receipts	610,900	610,100	610,900	50,000	50,000
Direct Revenue Financing	1,139,200	0	0	0	0
Grants and Contributions	3,725,200	1,000,000	1,000,000	1,000,000	1,000,000
Total Cash Resource	5,475,300	1,610,100	1,610,900	1,050,000	1,050,000
Prudential Borrowing	5,393,000	2,412,400	970,100	950,000	1,129,000
Total Financing	10,868,300	4,022,500	2,581,000	2,000,000	2,179,000

Alternative Options

- 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.

6. Financial Implications

As detailed in the report.

7. Legal Implications

Legal Implications, the Capital Strategy and Programme is prepared to ensure compliance with the Local Government Finance Act 2003 and the Codes introduced thereunder.

8. Equalities Implications

The Council has a duty under the Equality Act 2010 to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups (such as disabled people or ethnic minority groups) when considering proposed new or changing policies, services or functions, including decisions on funding for services.

Service Managers have been asked to assess the equalities impact of the proposals for service changes contained in this report. It is not anticipated that there will be any significant cumulative impact on any protected group arising from these budget proposals.

Where appropriate, individual Equality Impact Assessments will be carried out in relation to specific proposals identified in this report. Any equality issues arising will be brought to the attention of the decision maker when the decisions on those proposals are made.

9. Carbon Reduction/ Environmental Sustainability Implications

There are three scheme mentioned in the report above which are specifically aimed at Carbon Reductions and Environmental Sustainability as detailed below:

1. Carbon Reduction Initiatives – a previously approved investment of £100,000 to identify and implement modification which will reduce the carbon footprint of the Council's operational buildings, and enable investment in community initiatives;
2. Green Homes Grants – An investment of £720,000 grant funding to domestic dwellings , which is targeted at the least energy efficient housing to help towards the cost of energy efficient improvements to their homes.
3. Flood Alleviation schemes - £50.000 investment towards a multi-agency programme to alleviate flooding in the borough's highest risk areas.

10. Appendices

1. Capital Investment Strategy 2021/21 – 2025/26
2. Proposed Capital Programme 2021/22 – 2023/24 (including Indicative Programme 2024/25 to 2025/26)

11. Background Papers

- Prudential and Treasury Indicators and Treasury Management Strategy Statement 2021/22
- Gedling Plan 2020-23

12. Reasons for Recommendations

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

Statutory Officer approval:

Approved by: Chief Financial Officer

Date: 2 February 2021

Approved by: Monitoring Officer

Date: 1 February 2021