

## **Report to Cabinet**

**Subject:** Capital Programme and Capital Investment Strategy 2022/23 to 2026/27

**Date:** 17 February 2022

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

### **Wards Affected**

All

### **Purpose**

This report summarises:

- a) The proposed Capital Investment Strategy for 2022/23 to 2026/27; and
- b) The proposed Capital Programme for 2022/23 to 2024/25 for approval, and the indicative capital programme for 2025/26 to 2026/27, 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 3 March 2022 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:

1. Note the estimated capital financing available for 2022/23 to 2026/27;
2. Approve the Capital Investment Strategy 2022/23 to 2026/27 detailed at Appendix 1 and refer it to Council for approval on 3 March 2022;
3. Approve the Capital Programme for 2022/23 to 2024/25 detailed at Appendix 2 and refer it to Council for approval on 3 March 2022;
4. Note the indicative Capital Programme for 2025/26 to 2026/27.

## 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 Department for Levelling Up, Housing and Communities (DLUHC);
- The Statutory Guidance on Minimum Revenue Provision (MRP) prepared by DLUHC.

1.3 Following two consultations, CIPFA issued a new edition of the Prudential Code in December 2021. CIPFA made it clear that the new Code applies with immediate effect, but authorities may defer introducing revised reporting requirements until the 2023/24 financial year. The ongoing principle that an authority must not borrow primarily for financial return continues.

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, 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), 2022/23 to 2026/27, 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 a consultation exercise, CIPFA issued a new edition of the Treasury Management Code in December 2021. Unlike the Prudential Code there is no reference to an effective date, as the Treasury Management Code has no statutory underpinning. The Code includes some updates to Treasury Management Practices, particularly a strengthening of Treasury Management Practice (TMP) 10 on knowledge and skills. The new edition of the Treasury Management Code also makes clear that treasury management reporting should set out service and commercial investment risk, especially where this is supported by borrowing.
- 1.7 The Investment Guidance and MRP Guidance aim to ensure that local authorities 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 Investment Guidance defines “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”. It 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.

- 1.8 The requirements of the codes and guidance 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.
- 2.4 A copy of the proposed Capital Investment Strategy for 2022/23 to 2026/27 is attached at Appendix 1.

### 3. Proposed Capital Programme

3.1 The following table presents the proposed three year Capital Programme for 2022/23 to 2024/25 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	
	2022/23 £	2023/24 £	2024/25 £	2025/26 £	2026/27 £
Housing, Health and Wellbeing	2,633,800	0	0	0	0
Public Protection	1,065,000	1,000,000	1,000,000	1,000,000	1,000,000
Environment	1,782,500	1,161,000	580,000	759,000	895,000
Growth and Regeneration	350,000	0	0	0	0
Resources and Reputation	629,000	460,000	260,000	260,000	260,000
Future Equipment Replacement	0	70,000	70,000	70,000	70,000
Future Resource Development Bids	0	100,000	100,000	100,000	100,000
<b>Total Capital Programme</b>	<b>6,460,300</b>	<b>2,791,000</b>	<b>2,010,000</b>	<b>2,189,000</b>	<b>2,325,000</b>

3.2 The proposed capital programme is derived from the following:

a) **Schemes totalling £1,323,500 already approved as part of the 2021/22 budget setting process:**

- Burton Road Affordable Housing **£778,500** (2022/23)
- Station Road Affordable Housing **£545,000** (2022/23)
- Essential Window Replacement/Maintenance - Civic Centre (Phase 2) **£200,000** (2023/24)

b) **Schemes re-profiled from 2021/22**

Schemes totalling **£2,437,300** approved for deferral by Cabinet to 2022/23:

Schemes Re-profiled from 2021/22	2022/23 £
Leisure Management System	75,000
Burton Road Affordable Housing	740,300
Station Road Affordable Housing	495,000
Hazleford Way Industrial Units	350,000
Hazleford Way Drainage	60,000
Vehicle Replacement Programme	272,000
Essential Window Replacement/Maintenance – Civic Centre	200,000
Civic Centre Fire Alarm	100,000
Civic Centre Lift Refurbishment	75,000
Arnot Hill House Fire Safety Works	70,000
<b>Total</b>	<b>2,437,300</b>

Cabinet on 5 August 2021 agreed to remove the Calverton Enterprise Units (£1,370,000) scheme from the 2021/22 capital programme and defer this to a future year to allow a viable business case to be produced and opportunities for external funding to be pursued. Cabinet will be requested to approve the inclusion of such a scheme in the capital programme if these conditions can be met.

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 2023/24-2026/27.

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

Replacement assets and maintenance to ensure continuation of existing service:

	Proposed Programme			Indicative Programme	
	2022/23	2023/24	2024/25	2025/26	2026/27
	£	£	£	£	£
Vehicle Replacement Programme	1,150,500	1,161,000	580,000	759,000	895,000
IT Licencing	110,000	110,000	110,000	110,000	110,000
Equipment Replacement	0	70,000	70,000	70,000	70,000
General Asset Management	14,000	150,000	150,000	150,000	150,000
<b>Total</b>	<b>1,274,500</b>	<b>1,491,000</b>	<b>910,000</b>	<b>1,089,000</b>	<b>1,225,000</b>

Note: The proposed Vehicle Replacement Programme for 2022/23 after totalling the sums in (b) and (d) amounts to £1,422,500.

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

The table below show schemes totalling **£425,000** included in the proposed capital programme for 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:

- CCTV Developments (£65,000) – The provision of three CCTV cameras with final locations to be assessed and determined as part of ongoing work to reduce crime and disorder, protect assets and assist with the prevention and detection of crime.

- Colwick Rectory Play Area Refurbishment (£100,000) – A refurbishment of the play area to ensure a quality, safe and accessible facility is provided for children and families funded by external grant.
- St Mary’s Play Area Refurbishment (£100,000) – A scheme to refurbish a play area subject to securing suitable external funding.
- Car Park Resurfacing (£65,000) – A combination of resurfacing and fencing works to improve the condition of the Hallams Lane car park in Arnold and the Haywood Road South car park in Mapperley.
- Holocaust Memorial and Cherry Tree Memorial & Reflection Circle (£35,000) – The provision of a space in Gedling Country Park to allow residents to reflect upon the impact of the Holocaust and provide a Memorial & Reflection Circle to allow residents to remember Gedling borough residents who have lost their lives.
- Flood Alleviation Works (£60,000) – Schemes to address flooding issues in the Bentwell Avenue lagoon and to refurbish Colwick Meadow pumps.

#### 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 2022/23 to 2026/27 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	
	2022/23	2023/24	2024/25	2025/26	2026/27
	£	£	£	£	£
Land Sales	560,900	560,900	0	0	0
General Capital Receipts	50,000	50,000	50,000	50,000	50,000
<b>Total Capital Receipt Estimate</b>	<b>610,900</b>	<b>610,900</b>	<b>50,000</b>	<b>50,000</b>	<b>50,000</b>

##### 4.2 **Direct Revenue Financing**

The use of earmarked revenue reserves and revenue equipment budgets as contributions to specific capital schemes totalling **£135,000** in 2022/23 are proposed as follows:

- £65,000 contribution from the Asset Management Reserve to meet the cost of car park resurfacing;
- £70,000 from the Asset Management Reserve for the fire safety 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:

	2022/23	2023/24 to 2026/27
	£	£
Disabled Facilities/Better Care Fund Grant (assumed £1m per annum ongoing 2022/23-2026/27)	1,000,000	1,000,000
S106 Contribution for Affordable Housing Projects on Station and Burton Road	789,000	0
Homes England grant towards Affordable Housing on Burton Road, Gedling	176,000	0
FCC Communities Foundation grant contribution for Colwick Rectory Play Area refurbishment	100,000	0
FCC Communities Foundation Grant Contribution for play area refurbishment (subject to successful funding bid)	89,000	0
<b>Total Grants and Contributions</b>	<b>2,154,000</b>	<b>1,000,000</b>

Disabled Facilities/Better Care Fund grant funding is now paid by the Department for Levelling Up, Housing and Communities 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, as yet, been any grant announcements for 2022/23 so an estimated grant amount of £1,000,000 is included for 2022/23 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 2022/23 to 2024/25 capital programme is £5.700m. It is currently estimated that a further £2.414m of borrowing will be required to finance the indicative capital programme for 2025/26 to 2026/27. The proposed borrowing amounts are detailed in paragraph 4.5 below.

The Council's Prudential Indicators in respect of both the proposed programme 2022/23 to 2024/25 and the indicative programme for 2025/26 to 2026/27 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 2022/23 to 2024/25 programme is summarised below:

	Proposed Programme			Indicative Programme	
Capital Resources	2022/23	2023/24	2024/25	2025/26	2026/27
	£	£	£	£	£
Use of Capital Receipts	610,900	610,900	50,000	50,000	50,000
Direct Revenue Financing	135,000	0	0	0	0
Grants and Contributions	2,154,000	1,000,000	1,000,000	1,000,000	1,000,000
<b>Total Cash Resource</b>	<b>2,899,900</b>	<b>1,610,100</b>	<b>1,050,000</b>	<b>1,050,000</b>	<b>1,050,000</b>
Prudential Borrowing	3,560,400	1,180,100	960,000	1,139,000	1,275,000
<b>Total Financing</b>	<b>6,460,300</b>	<b>2,791,000</b>	<b>2,010,000</b>	<b>2,189,000</b>	<b>2,325,000</b>

#### 5. **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**

There are no legal implications arising from this report

#### 8. **Carbon Reduction/ Environmental Sustainability Implications**

Whilst there are no specific schemes in the proposed 2022/23 capital programme specifically targeted at carbon reduction and environmental sustainability initiatives, there is an uncommitted sum of £73,100 in the 2021/22 capital programme for Carbon Reduction Initiatives that could if remaining unspent at year end, subject to approval, be carried forward and included in the 2022/23 capital programme when the 2021/22 outturn is presented to Cabinet.

#### 9. **Appendices**

Appendix 1 - Capital Investment Strategy 2022/23 – 2026/27

Appendix 2 - Proposed Capital Programme 2022/23 – 2024/25 (including Indicative Programme 2025/26 to 2026/27)

## 10. Background Papers

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

## 11. 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:**

**Approved by:** Monitoring Officer

**Date:**