COUNCIL

Capital Strategy and Capital Programme 2022/23 to 2025/26
23 February 2022

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's final budget proposals in order that the City Council can approve a General Fund Capital Programme for 2022/23 to 2025/26 and a Capital Strategy 2022/23.
This report is public.

RECOMMENDATIONS:

(1) That the General Fund Capital Programme be approved, as set out at Appendix A subject to recommendation 2 below

(2) That the Capital Strategy (Incorporating the Capital Investment Strategy: Investing in the Future) at Appendix B be approved.

1.0 INTRODUCTION

1.1 Following its meeting on 08 February 2022 Cabinet has now finalised its budget framework proposals for the General Fund Capital Programme and accompanying Capital Strategy. These are all now reflected in the recommendations of this report.

2.0 BACKGROUND

2.1 Capital expenditure generally comprises the buying, construction, or improvements of physical assets such as buildings, land, vehicles, and other miscellaneous items. The expenditure can also include grants and advances which the Council pays to other bodies or individuals for capital spending purposes.

2.2 There are several funding resources available to support the Capital Programme which can include:

- Capital receipts – monies received from the sale of a capital asset.
- Revenue contributions – monies set aside in specific reserves to support and fund schemes.
- External grants and contributions – monies received from third parties to fund schemes. These monies normally include conditions on what they can be used for.
- External borrowing – the Council is free to make its own borrowing decisions according to what is affordable, sustainable, and prudent as set out in the Prudential Code.

3.0 CAPITAL PROGRAMME

Capital Investment

3.1 Through its capital programme the Council plans net investment of £33.414M to support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as well as refurbishment or replacement of existing property or facilities to deliver services, or to meet legislative requirements.

3.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. The provision will not be utilised until full business cases have been considered and approved via the relevant decision-making governance. Summary details of the current 5-year capital programme are given at table 1 below.

Table 1: Capital Programme

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Approved Schemes						
Communities & Environment	5,388	3,946	894	4,985	2,899	18,112
Economic Growth & Regeneration	4,067	1,977	641	306	306	7,297
Corporate Services	145	490	190	150	130	1,105
Schemes Under Development	0	1,650	1,200	2,550	1,500	6,900
Total Net Capital Programme	**9,600**	**8,063**	**2,925**	**7,991**	**4,835**	**33,414**

Capital Financing

3.3 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2022/23 position of £104.00M to £105.28M in 2025/26. However, it must be noted that following the review of the capital programme this represents a significant reduction from previous years.

Table 2: Capital Financing Requirement

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M	£M
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.1	33.06	32.02
Total CFR	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**

3.4 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next five years from its estimated current position of £61.08M to £70.04M later in 2021/22 to £84.00M in 2022/23 as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to reduce slightly to £80.88M reflecting repayments of the HRA self-financing loan. See table 3 below

Table: 3: Forecast Borrowing Position

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	-1.04	8.96	13.96	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**61.08**	**70.04**	**84.00**	**82.96**	**81.92**	**80.88**

3.5 This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council is being asked to formally approve the annual Treasury Management Strategy elsewhere on this agenda.

3.6 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annual as part of the Treasury Management Strategy. The current policy is based on the estimated life of each asset created as a result of the related capital expenditure. Table's 4 and 5 provide forecast levels of annual capital financing charges and its proportion of the revenue budget.

Table 4: Revenue Impact of Capital Decisions

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Interest	1.393	1.463	1.585	1.662	1.670
MRP	2.175	2.698	3.321	3.406	3.853
Total	**3.568**	**4.161**	**4.906**	**5.068**	**5.523**

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

3.7 As can be seen based on current General Fund capital programme and accompanying borrowing estimates debt financing costs within the General Fund are set to increase to around 23% of the Council's annual net revenue budget. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.

3.8 In setting the capital programme the Council must have regard to affordability and the Treasury Management Strategy sets out through a series of prudential indicators the impact of the Council's Capital Programme on its borrowing to ensure that all borrowing is affordable, prudent, and sustainable. Council is asked to approve the Treasury Management Strategy elsewhere on the agenda.

4.0 CAPITAL STRATEGY

4.1 The Prudential Code 2017 requires all Council's to adopt an annual Capital Strategy, this is document which incorporates the Capital Investment Strategy: Investing in the Future) and various elements of the Treasury Management Strategy is included as ***Appendix B***. The strategy aligns capital investment to the Council's four overall priorities and proposes a consistent 'lifecycle' for the development and delivery of capital investment activities, including the transparent, accountable democratic decision process. The strategy also sets out the proposed approach to risk management as well as the monitoring and evaluation of capital projects.

4.2 The strategy is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long-term financial sustainability of the authority.

5.0 CONSULTATION

5.1 In line with the Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), Budget & Performance Panel considered the draft Capital Strategy (Investing in the Future) at its meeting 14 December 2021. The Capital Programme and Treasury Management Strategy was considered at its meeting 02 February 2022. At both meetings the Panel noted the report with no suggested amendments.

6.0 OPTIONS AND OPTIONS ANALYSIS

6.1 Council may put forward alternative proposals or amendments to the proposed Strategy, but these would have to be considered in light of other aspects of Cabinet's budget proposals as well as legislative, professional, and economic factors, and importantly, any alternative views regarding the Council's risk appetite.

6.2 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are considered, to support informed and lawful decision- making. As such no further options analysis is available at this time

7.0 CONCLUSION

7.1 This report addresses the actions required to complete the budget setting process for capital, and for updating the Council's associated financial strategy in accordance with Prudential Code requirements.

RELATIONSHIP TO POLICY FRAMEWORK
The Council's revenue and capital budgets should represent, in financial terms what the Council is seeking to achieve through its Policy Framework.

The proposed capital programme and supporting strategy is part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability etc)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

FINANCIAL IMPLICATIONS
There are no financial implications arising directly from this report. However, the proposed levels and areas of capital investments will require borrowing and other associated costs. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications, and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate.

SECTION 151 OFFICER'S COMMENTS

Affordability of Capital Spending Plans
The s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on Council Tax for General Fund. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political, and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc.
- existing liabilities, service needs, commitments, and planned service / priority changes
- options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions).
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing.
- future years' revenue budget projections, and the scope to meet borrowing costs.
- the likely level of government support for revenue generally.

In considering and balancing these factors, the capital proposals to date are based on levels of "prudential borrowing" or CFR over the period to 2025/26. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as outlined in the Capital Programme. A minimum revenue provision is set aside each year for the repayment of debt and this reduces the CFR. The Treasury Management Strategy prudential indicators provide an assurance that the Council's borrowing is, at all times, affordable sustainable and prudent.

LEGAL IMPLICATIONS

The Council has the legal power to acquire, use and dispose of land principally under the Local Government Act 1972 and other Acts which give the Council powers to acquire land for a particular purpose. In accordance with section 120(1), Local Government Act 1972, the Council has the power to acquire any land where it is for the purposes of (a) any of its statutory functions or (b) for the benefit, improvement, or development of its area.
If the Council decides to dispose of land, there is a legal requirement to obtain best value (with very limited exceptions).

Depending on the nature of the particular type of property concerned, there may be other statutory requirements or procedures to be undertaken before any acquisition, appropriation, or disposal of land.

MONITORING OFFICER'S COMMENTS

Capital and Investment Strategies form part of the Budget Framework and their adoption is a function of Full Council.

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson
Cabinet Papers 8th February 2021 https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=297&MId=7801&Ver=4 Budget & Performance Panel 2nd February 2022 Agenda for Budget and Performance Panel on Wednesday, 2nd February 2022, 6.00 p.m. - Lancaster City Council	**Telephone**: 01524 582603 **E-mail**: pthompson@lancaster.gov.uk