

## Capital Strategy and Capital Programme 2020/21 to 2023/24

26 February 2020

### Report of Cabinet

#### PURPOSE OF REPORT

To present Cabinet's final budget proposals in order that the City Council can approve a Capital Strategy and General Fund Capital Programme for 2020/21 to 2023/24

**This report is public.**

#### RECOMMENDATIONS:

- (1) That the General Fund Capital Programme be approved, as set out at Appendix A.
- (2) That the Capital Strategy at Appendix B be approved.

#### 1. INTRODUCTION

- 1.1 Following its meeting on 11 February Cabinet has now finalised its budget framework proposals for the General Fund Capital Programme. These are all now reflected in the recommendations of this report.

#### 2 STRATEGIC OVERVIEW FROM CABINET

- 2.1 In strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially.
- 2.2 This year we undertook a strategic review of the Council's existing priorities and services, including performance, as well as looking at options to innovate and modernise. The Council Plan and its Strategic Priorities, were updated and approved by Council 29 January 2020 providing the following priorities and cross cutting themes:

##### Priorities

- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Healthy and Happy Communities
- A Co-operative, Kind and Responsible Council

#### Cross Cutting Themes

- Climate Emergency
- Community Wealth-Building
- Community Engagement

### **3 CAPITAL PROGRAMME**

- 3.1 The proposed General Fund investment programme for the period to 2023/24 is included at **Appendix A** and summarised in the table below.

	2019/20	2020/21	2021/22	2022/23	2023/24
Approved Schemes	1,797	8,472	2,024	1,935	424
Development Pool	15,022	24,687	27,306	27,285	22,608
<b>Total</b>	<b>16,819</b>	<b>33,159</b>	<b>29,330</b>	<b>29,220</b>	<b>23,032</b>

- 3.2 The current year's revised programme now stands at £16.82M. During the next 4 years, a further £114.74M of investment is currently planned, giving a total 5 year programme from 2019/20 to 2023/24 of £131.56M.
- 3.3 Development pool schemes have had strategic outline business cases approved in principle by the Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Strategy Group, and then by Cabinet.
- 3.4 A number of significant schemes are included in the Development Pool including Canal Quarter, general fund housing schemes, Heysham Gateway development and investment property acquisitions. All of these schemes will require significant capital expenditures and borrowing but each business case will have to show that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council's revenue budget.
- 3.5 Overall the programme is balanced, allowing for a gross increase in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the five year period to 2023/24. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.
- 3.6 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.

### **4 CAPITAL STRATEGY**

- 4.1 The Council is required to adopt a Capital Strategy and this is included as **Appendix B**. The strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. It incorporates the Capital Programme, Asset Management Plan, Property Investment Strategy and Treasury Management Strategy.
- 4.2 The Capital Strategy sets out core principles that underpin the Capital Programme. These are

- Capital investment decisions will reflect the priorities included within the Council Plan: Strategic Priorities and supporting strategies including Funding the Future, the Property Investment Strategy and the Asset Management Plan.
- Schemes to be added to the Capital Programme will be subject to a gateway process following completion of a capital bid which will be scored against criteria set to measure strategic, economic, financial, commercial and management criteria. These will be reviewed by a corporate Capital Strategy Group comprising key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
- The Capital Strategy Group will also oversee capital financing in order to ascertain that all capital expenditure is affordable, prudent and sustainable as set out in the Treasury Management Strategy.

4.3 The Council recognises that it will play a pivotal role in key projects which will enable the district to thrive and grow. Further development of the Capital Programme is needed over the next few years in order to properly encapsulate these major economic development projects. An Economic Growth Plan is currently being developed by the Director of Economic Growth and Regeneration setting out an overarching coherent medium term plan for the district. As the plan develops individual capital schemes contributing to its delivery will be identified and brought forward to Capital Strategy Group for assessment.

4.4 In addition capital bids will come forward in respect of property investments and asset management rationalisations. For such bids, accompanying business cases should be able to show that the revenue costs relating to capital expenditure are covered by income arising out of investment and/or reductions in premises net expenditure.

## **5 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

### **5.1 Capital Investment and Programming**

For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2020/21 must balance.

5.2 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 taken into account, to support informed and lawful decision-making.

## **6 CONCLUSION**

6.1 This report addresses the actions required to complete the budget setting process for capital, and for updating the Council's associated financial strategy.

**RELATIONSHIP TO POLICY FRAMEWORK**

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

**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**

As set out in the report

**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 a substantial net increase in the Council's Capital Financing Requirement (CFR) for General Fund over the period to 2023/24, with the bulk of this relating to commercial investments and schemes to support the Council's Strategic Priorities. 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**

Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

Equality Impact Assessments for budget proposals.

**Contact Officer:** Paul Thompson

**Telephone:** 01524 582603

**E-mail:** [pthompson@lancaster.gov.uk](mailto:pthompson@lancaster.gov.uk)