

## Capital Strategy and Capital Programme 2021/22 to 2024/25

24 February 2021

### 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 2021/22 to 2024/25 and a Capital Strategy 2021/22.

**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 Portfolio Holder for Finance be given delegated authority to update the capital programme and associated documents to reflect the outcome of the current external funding bid.
- (3) That the Capital Strategy at Appendix B be approved.

#### 1.0 INTRODUCTION

- 1.1 Following its meeting on 09 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.

#### 2.0 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

- 3.1 The proposed General Fund investment programme for the period to 2024/25 is included at **Appendix A** and summarised in table 1 below.

Table 1

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	Total £M
Approved Schemes	11.968	9.518	3.227	0.755	2.021	27.489
Development Pool	0.298	33.820	22.523	6.900	5.065	68.606
<b>Total</b>	<b>12.266</b>	<b>43.338</b>	<b>25.750</b>	<b>7.655</b>	<b>7.086</b>	<b>96.095</b>

- 3.2 The current year's revised net programme now stands at £12.266M. During the next 4 years, a further £83.829M of investment is currently planned, giving a total net 5-year programme from 2020/21 to 2024/25 of £96.095M.
- 3.3 Recent changes to Public Works Loan Board (PWLb) borrowing have had significant implications for the Capital Programme, with investment primarily for yield now being constrained. These changes may require a different approach to capital investment, and while, given the social motives of the Council, the majority of the planned schemes appear eligible, further work is being undertaken to ensure the alignment of the programme with the new criteria. Should any revisions to the programme, or supporting strategies be required these will be brought forward for approval in line with the Council's constitutional requirements.
- 3.4 Development pool schemes provision is included where work is being undertaken to develop schemes, but the provision will not be dispersed until full business cases have been considered and approved via the relevant decision-making governance
- 3.5 A number of significant schemes are included in the development pool including Canal Quarter, general fund housing schemes, Heysham Gateway development as well as investment in solar and renewable energy. All 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.
- Public Sector Decarbonisation Scheme (PSDS)
- 3.6 In November 2020, officers submitted a high-level £6.8M bid to SALIX under the PSDS to install air source heat pumps (ASHP) at Salt Ayre Leisure Centre along with retrofit glazing improvements to improve the thermal efficiency of the building. The bid also included an optimized solar farm and battery on the adjacent disused

landfill to provide electricity to the leisure centre via a direct wire. Such a scheme would be expected to generate significant CO2 reductions.

- 3.7 Funding of £6.8M has initially been offered and Cabinet authorisation to formally accept this funding, subject to outstanding due diligence checks being carried out was obtained 09 February 2021. Officers aim to conclude their checks shortly and report their finding to members of Executive Team.
- 3.8 Within the capital programme there is provision for the Council to “self fund” the scheme should the bid be unsuccessful, or the accompanying terms and conditions be disadvantageous or prohibitive. It is the adjustments to these areas that is reflected in the recommendation.
- 3.9 Overall the capital programme is balanced, allowing for a decrease in the underlying need to borrow (known as the Capital Financing Requirement or CFR), over the period to 2024/25. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.
- 3.10 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.

#### **4.0 CAPITAL STRATEGY**

- 4.1 The Prudential Code 2017 requires all Council's to adopt a Capital Strategy and this is included as **Appendix B**. 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.
- 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 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 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 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 to district to thrive and grow. Further development of the Capital Programme is needed in order to properly encapsulate these major local development projects. An Economic Prosperity 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 its assessment. Similarly other strategies under development in the coming months which have capital expenditure implications will also be considered by the group.

## **5.0 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 2021/22 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.

## **6.0 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 levels of "prudential borrowing" or CFR over the period to 2024/25. 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.

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of COVID-19 and Brexit. Current spending plans are sustainable in the short term through prudential borrowing. However, in the medium term based on current projections they are not, and it is of the utmost importance that Members and Officers work together to support the Council's Funding the Future Strategy and start to deliver tangible financial returns on many of its significant capital investments. Outcomes Based Resourcing is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit which will in turn assist in the affordability of its capital investments.

#### **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**

Cabinet 09/02/2021  
Budget & Performance Panel 16/02/2021

**Contact Officer:** Paul Thompson  
**Telephone:** 01524 582603  
**E-mail:** [pthompson@lancaster.gov.uk](mailto:pthompson@lancaster.gov.uk)