

COUNCIL

Capital Programme 2023/24 – 2027/28 & Capital Strategy (Investing in the Future) 22 February 2023

Report of Cabinet

PURPOSE OF REPORT				
To present Cabinet's final budget proposals in order that the Council can approve a General Fund Capital Programme for 2023/24 to 2027/28 and a Capital Strategy 2023/24 as required by regulation.				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision				

RECOMMENDATION OF CABINET

1. That Council notes the report and approves the following:
 - (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 07 February 2023 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 investment, via the Council's reserves or borrowing, plays a key role in strategic projects and initiatives for the success of the Lancaster district, as well as transforming and optimising the Council's services to its residents.
- 2.2 The proposed Capital Programme and supporting Strategy, entitled '*Investing in the Future*' and contained at Appendix B, sets out the relevant context and a proposed framework to support the Council's approach to capital investment over the medium term.

3.0 CAPITAL PROGRAMME

Capital Investment

- 3.1 The current year's net revised programme (2022/23) now stands at £7.398M. During the next 5 years, a further gross investment of £45.289M is currently planned with external funding of £19.382M anticipated to support this investment, giving a total net investment by the Council in the district of £33.305M 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. Summary details of the current 5-year net capital programme are given at table 1 below

Table 1: Net Capital Programme

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Approved Schemes							
Communities & Environment	5,999	2,764	5,568	1,927	36	833	17,127
Economic Growth & Regeneration	861	2,527	586	1,463	513	1,080	7,030
Corporate Services	538	965	1,415	130	0	0	3,048
Schemes Under Development	0	5,100	1,000	0	0	0	6,100
Total Net Capital Programme	7,398	11,356	8,569	3,520	549	1,913	33,305

- 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. Schemes classified as Under Development 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 Assurance Group, and then by Cabinet.
- 3.3 A number of significant schemes are classified as Under Development including Canal Quarter, general fund housing schemes and investment in renewable energy development. 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.
- 3.4 Overall the programme is balanced, allowing for a gross increase in the underlying need to borrow (known as the Capital Financing Requirement (CFR), over the five year period to 2027/28. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.
- 3.5 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.

Capital Financing

- 3.6 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.

3.7 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 £98.86M to £110.04M in 2024/25 before decreasing in 2026/27 to £104.28M.

Table 2: Capital Financing Requirement

£M	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	95.24	98.86	105.96	110.04	108.78	104.28
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	0.29	3.63	7.10	4.07	-1.26	-4.51

3.8 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 £59.00M to £77.42M later in 2024/25 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 £75.34M reflecting repayments of the HRA self-financing loan. See Table 3 below

Table 3: Forecast Borrowing Position

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	61.08	60.04	59.00	73.46	77.42	76.38
Expected change in Debt	-1.04	-1.04	14.46	3.96	-1.04	-1.04
Actual/ Forecast gross debt at 31 March	60.04	59.00	73.46	77.42	76.38	75.34

- 3.9 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.
- 3.10 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

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M	£M
Interest	1.172	2.205	2.447	2.610	2.610	2.610
MRP	2.109	2.923	3.416	3.734	4.014	3.878
Total	3.281	5.128	5.863	6.344	6.624	6.488

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Actual %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	18.50	14.90	24.31	25.05	25.12	24.23
HRA	19.87	18.57	17.00	16.22	16.25	15.99

- 3.11 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 25% of the Council's annual net revenue budget. Recent benchmarking work by the Local Government Association (LGA) provided a Northwest average of circa 14%. 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.
- 3.12 As noted in paragraph 3.6, the financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, consideration also needs to be given to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

4.0 CAPITAL STRATEGY

4.1 The Prudential Code 2017 requires all Councils to adopt a Capital Strategy, and this is included as **Appendix B**. It 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 and Treasury Management Strategy.

4.2 The strategy also sets out the proposed approach to risk management as well as the monitoring and evaluation of capital projects. Capital investment decisions will reflect the priorities included within the Council Plan: Strategic Priorities and supporting strategies

- 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 Assurance Group comprising key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
- The Capital Assurance Group (CAG) 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. CAG's terms of reference are provided at **Appendix C**

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 may be needed over the next few years in order to properly encapsulate major economic development projects.

5.0 CONSULTATION

5.1 The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), where either a new or existing plan/strategy/budget is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel will have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for consideration.

5.2 Unfortunately, due a number of factors including the late conclusion of the budget process, and provision of information, the Capital Strategy 2023/24 has not been considered by Budget & Performance Panel. As the approval of the strategy is a function of Full Council all Members, including those sitting on B&PP may proposes any changes, or amendments at that meeting.

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)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health and community safety.

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.

S151 OFFICER 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 2027/28. 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.. The Constitution sets out a process should Council decide not to adopt the Cabinet proposals whereby the Leader must be informed of any objections and instructed to require the executive to reconsider the proposal, in light of those objections, within 5 working days. Council would then meet again to consider Cabinet's response and either amend, approve or adopt the proposal.

BACKGROUND PAPERS

Appendix A Capital Programme 2023-24 to 2027-28
Appendix B Capital Strategy - Investing in the Future
23-28
Appendix C: CAG Terms of Reference

Cabinet

[Agenda for Cabinet on Tuesday, 7th February 2023,
6.00 p.m. - Lancaster City Council](#)

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