

COUNCIL

Capital Programme 2023/24 – 2032/33 & Capital Strategy (Investing in the Future) 28 February 2024

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 2032/33 and a Capital Strategy as required by regulation				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision				8 ^h December 2023

RECOMMENDATION OF CABINET

That Council notes the report and approves the following:

- (1) The General Fund Capital Programme, as set out at Appendix A subject to recommendation 2 below
- (2) The Capital Strategy (Incorporating the Capital Investment Strategy: Investing in the Future) as set out at Appendix B

1.0 INTRODUCTION

1.1 Following its meeting on 20 February 2024 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 CAPITAL PROGRAMME

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*' sets out the relevant context and a proposed framework to support the Council's approach to capital investment and use of its assets over the medium term.

2.3 The proposed net investment programme for General Fund for the period to 2032/33 is included at **Appendix A** and summarised in table 1 below

Table 1: Capital Programme 2023/24 – 2032/33

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Approved Schemes	6.209	6.470	9.266	1.916	1.757	2.481
Schemes Under Development	0	0.200	4.000	0	0	0
Total	6.209	6.697	13.266	1.916	1.757	2.481

		2029/30	2030/31	2031/32	2032/33 £M	Grand Total
Approved Schemes		5.866	0.481	0.329	0.207	35.009
Schemes Under Development		0	0	0	0	4.200
Total		5.866	0.481	0.329	0.207	39.209

- 2.4 The current year's net revised programme (2023/24) now stands at £6.209M. During the next 10 years, a further gross investment of £68.955M is currently planned with external funding of £29.746M anticipated to support this investment, giving a total net programme from 2023/24 to 2032/33 of £39.209M.
- 2.5 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 (CAG), and then by Cabinet. In addition, depending certain factors such as the complexity of the project, the level of investment required (c£1.5M) etc the full business cases will be subject to independent third-party review, with the results forming part of the CAG and Cabinet submission.
- 2.6 Two of the schemes that are classified as Under Development are fully funded by external grant. The third scheme, Burrow Beck Solar will require significant capital expenditure and borrowing but the business case will have to show that income arising from the capital investment can cover all borrowing costs and deliver a positive return to the Council's revenue budget.
- 2.7 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 2028/29. The Council makes a revenue provision for the repayment of borrowing known as Minimum Revenue Provision (MRP) which reduces the CFR.
- 2.8 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.

Capital Financing

- 2.9 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.

- 2.10 The Council's 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 fluctuate from the current estimated 2023/24 position of £101.04M rising to £112.54M in 2025/26 before reducing slightly to £101.88M in 2028/29, to reflect current planned levels of capital expenditure
- 2.11 The CFR does not increase indefinitely as a statutory annual charge to revenue known as Minimum Revenue Provision (MRP), approximately reduces the borrowing need in line with each asset's life.
- 2.12 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next three to five years from its estimated current position of £63.97M to £80.88M (2025/26) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to decrease slightly to £77.76M (2028/29).
- 2.13 Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 2 and 3 below.

Table 2: Capital Financing Requirement

	2022/23 Act £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m	2026/27 Est £m	2027/28 Est £m	2028/29 Est £m
Capital Financing Requirement							
CFR – Non Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Movement in CFR							
Non Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	3.46	2.34	2.48	9.03	-3.77	-3.86	-3.03

Movement in CFR represented by							
Net financing need for the year (above) re Non Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	3.46	2.34	2.48	9.03	-3.77	-3.86	-3.03

Table 3: Borrowing Projections

	2022/23 Act £m	2023/24 Est £m	2024/25 Est £m	2025/26 Est £m	2026/27 Est £m	2027/28 Est £m	2028/29 Est £m
External Debt							
Debt at 1 April	60.05	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	-1.04	4.96	7.96	8.95	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Actual gross debt at 31 March	59.01	63.97	71.93	80.88	79.84	78.80	77.76
The Capital Financing Requirement	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Under Borrowing	-39.69	-37.07	-31.59	-31.66	-28.93	-26.11	-24.12

- 2.14 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.
- 2.15 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: Forecast MRP Charges

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Interest	1.568	1.541	2.098	2.106	2.114	2.123
MRP	2.638	3.01	3.194	4.653	4.567	3.474
Total	4.206	4.551	5.292	6.759	6.681	5.597

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

- 2.16 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Benchmarking by the Local Government Association (2022) suggested a regional and national average of c14% for the General Fund and so with potential percentage rates close to 25%, care and consideration must be taken with future capital investment.

3.0 CAPITAL STRATEGY

3.1 The Council is required 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 elements of the Treasury Management Strategy.

3.2 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 in accordance with the Treasury's 5 case model. These will be reviewed by the Capital Assurance Group comprising of key Officers alongside the Finance Portfolio Holder and Chairs of Budget and Performance Panel and Overview and Scrutiny Committee.
- Revisions to the Capital Programme will be restricted to October/ November committee cycle to align with the Treasury Management Mid-Year reporting schedule and prevent unnecessary or duplication of work.
- 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**

3.3 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 such as The Eden Project and Canal Quarter

4.0 DETAILS OF CONSULTATION

4.1 Consultation has been undertaken with the Council's external Treasury Management Advisors, Link Group, and in line with the Council's constitution Budget & Performance Panel considered the strategy at its meeting 14 February 2024. No comments or observations were made requiring reconsideration by Cabinet.

5.0 OPTIONS AND OPTIONS ANALYSIS

5.1 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.

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 considered, to support informed and lawful decision- making. As such no further options analysis is available at this time

6.0 OFFICER PREFERRED OPTION (AND COMMENTS)

6.1 To approved Cabinets General Fund Capital Programme for 2023/24 to 2032/33 and a Capital Strategy as required by regulation.

7.0 CONCLUSION

- 7.1 This report addresses the actions required to complete the budget setting process for its Capital Programme and Capital Strategy.
- 7.2 If Council changes its Capital Programme from that which is proposed in this report, then this would require a change in the prudential indicators which are part of the Treasury Management Strategy.

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.

S151 OFFICER COMMENTS

The s151 Officer has authored this report and his comments are reflected within.

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

Appendix A Capital Programme 2023-24 to 2032-33
Appendix B Capital Strategy - Investing in the Future
Appendix C: CAG Terms of Reference

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