

Gloucester City Council

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| Meeting: | Audit & Governance Committee | Date: | 7 March 2022 |
| | Cabinet | | 9 March |
| | Council | | 24 March 2022 |
| Subject: | Capital Strategy 2022/23 | | |
| Report Of: | Cabinet Member for Performance and Resources | | |
| Wards Affected: | All | | |
| Key Decision: | No | Budget/Policy Framework: | Yes |
| Contact Officer: | Jon Topping, Director of Policy and Resources | | |
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| Appendices: | 1. Capital Strategy 2022/23 | | |

1.0 Purpose of Report

1.1 To formally recommend that Council approves the attached Capital Strategy.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RECOMMEND** that the Capital Strategy be approved.

2.2 Council is asked to **RESOLVE** that:

(1) The Capital Strategy at Appendix 1 be approved;

3.0 Background and Key Issues

3.1 The Capital Strategy focuses on core principles that underpin the Council's five year capital programme, providing a position statement of progress (capital expenditure) and the resources available (funding). The Strategy projects the Capital programme while setting out how the programme will be achieved focusing on key issues and risks that will impact on the delivery of the Capital strategy and the governance framework required to ensure the Strategy is delivered.

3.2 The Strategy maintains a strong and current link to the Council's priorities and to its key strategy documents, notably the Treasury Management Strategy, Asset Management Strategy, Property Investment Strategy, Medium Term Financial Plan and the Corporate Plan.

4.0 Alternative Options Considered

- 4.1 The Capital Strategy is a requirement of the CIPFA Prudential Code, no alternatives considered as this is a code requirement.

5.0 Reasons for Recommendations

- 5.1 Capital Strategy is a requirement of the CIPFA Prudential Code.

6.0 Future Work and Conclusions

- 6.1 The Capital Strategy will be monitored and reviewed annually.

7.0 Financial Implications

- 7.1 There are no direct financial implications arising from this report. The Capital Strategy provides a position statement with regards to capital expenditure and the resources available in terms of funding.

8.0 Social Value Considerations

- 8.1 This report notes the Capital Strategy of the Council. This is a requirement of the CIPFA Prudential Code – ESG requirements are included within the Code.

9.0 Legal Implications

- 9.1 The Council is required to have a Capital Strategy to meet the requirements of the Local Government Act 2003, Localism Act 2011, Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020, the CIPFA Prudential Code, DLUHC Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

10.0 Risk & Opportunity Management Implications

- 10.1 The Council must have reviewed its Capital Strategy by 31st March 2022.

11.0 People Impact Assessment (PIA):

- 11.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

12.0 Other Corporate Implications

Community Safety

- 12.1 None

Sustainability

12.2 None

Staffing & Trade Union

12.3 None

Background Documents:

Local Government Act 2003
CIPFA Treasury Management Code
CIPFA Prudential Code
DLUHC MRP Guidance

Introduction

This capital strategy sets out how Gloucester City Council intend to spend capital to provide services and meet the strategic aims in the Council plan. This strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members', residents and other stakeholders understanding of these areas.

Background

The Capital Strategy demonstrates that the authority takes capital investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy also sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. Decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget for the local authority.

The Capital Strategy should also be tailored to the authority's individual circumstances and should include capital expenditure, investments and liabilities and treasury management. For Gloucester, the Treasury Management Strategy drawn up in line with the Treasury Management Code will continue to be published as a separate document and this will remain separate to differentiate between the demand and assessment of capital expenditure and the management of the investment and borrowing portfolio.

CIPFA published the revised codes on Treasury Management and Prudential Code on 20th December 2021. Formal adoption is required from 2023/24 Financial Year. Both the Capital Strategy and Treasury Management Strategy are produced in accordance with the Prudential Code.

Policy Context

The Council plan 22-24 defines the Council's vision:

“Building a greener, fairer, better Gloucester”

The priorities to support this vision are:

1. Building greener, healthier, and more inclusive communities
2. Building a sustainable city of diverse culture and opportunity
3. Building a socially responsible and empowering council

The vision and priorities are underpinned by our core values.

For full details of the Council Plan see: **Council Plan**

The Capital Strategy is an important policy document in delivering the Council's Vision in terms of maintaining and extending the Council's asset base but needs to take a longer-term view to reflect the life cycle of capital assets. The life cycle of capital assets, often known as non-current assets, will range between 5-60 years or even longer if land is acquired. Decisions made now will affect residents, business and other stakeholders for many years to come.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £6,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: Statement of Accounts 2020/21 page 21, Accounting Policies point 19 - Statement of Accounts

In 2022/23, the Council is planning capital expenditure of £27.537 as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

| | 2020/21 actual | 2021/22 forecast | 2022/23 budget | 2023/24 budget | 2024/25 budget |
|-----------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| General Fund services | 23.909 | 27.537 | 27.537 | 32.790 | 44.949 |
| TOTAL | 23.909 | 27.537 | 27.537 | 32.790 | 44.949 |

The capital programme includes a variety of projects from large regeneration to smaller individual projects, the main capital projects are detailed below:

Kings Quarter – The Forum is progressing; Council approved the project in January 2021. The project will see significant investment by the Council in both the physical, economic, and cultural redevelopment of this part of the city. The plans include retail, office, hotel and residential areas which will see this part of the City completely redeveloped. The required investment will be £107m and will be a long-term investment of up to 50 years. Significant due diligence has been undertaken with financial, property and legal advisors to confirm the projects long term viability. The development agreement was agreed late 2021 and the main contractor Keir were procured in January 2022 within the required funding envelope. Work has already commenced on phase 1,

with an expected completion September 2022, to deliver residential units and relocation of the Tesco store in Grosvenor House.

In 2021 the Council was awarded £20m 'levelling up' funding from DLUHC which will support circa £200m of investment in the City. The overall purpose of package is to 'rocket charge' the regeneration of the City Centre, hugely increasing footfall, employment, tourists and overall economic growth by bringing back into creative use two empty buildings and a vacant site. The City Centre at present predominantly serves as a centre for local shopping and services. Its localised primary catchment area has high levels of deprivation. The three projects will combine to boost local pride, visibly demonstrate greater activity, and less empty buildings/sites, fill a major gap in tourist and visitor provision, bring Higher Education courses into the City Centre for the first time and provide new secure business facilities for start-ups in growth sectors. This will in turn create much greater footfall and consumer demand and stimulate further investment, as well as an audience for more cultural events planned for Kings Square.

The projects are:

The **Fleece Hotel** located in the heart of historic Gloucester, is a derelict Grade I and II Listed building. The funding will enable Phase 1 (2,170 sqm) of a high-quality mixed-use scheme to be developed.

The **UoG** has acquired the vacant iconic former Debenhams building, which is the first time a University has done this, to create a new City Campus for teaching, learning and community partnerships in the City Centre. The LUF bid will also enable an important public role in the UoG building by creating a drop in Well Being Centre, a new digitally enabled public library and information centre.

The **Forge Digital Innovation and Incubation Centre** will provide 2,430 sqm of accommodation and support for high value added SME businesses. It will form part of the wider mixed-use Forum development which will provide a vibrant and active destination in an important gateway adjacent to the City Centre bus station and rail interchange, in the Kings Quarter area.

The redevelopment of Kings Square is due for completion in March 2022. This significant project, part of the Councils regeneration plans will open up the square as a vibrant area for cultural and leisure within the City.

The Council continues to upgrade the Kings Walk site. Anchor tenant Primark has recently taken ownership of their store, this has redesigned the outside of the centre. Future work will see improvements to the Eastgate facias as well as improvements to the Mall. This will include work on the Clarence Street and Kings Square entrances. The Council anticipates initially borrowing to facilitate this project, with borrowing costs being met by the forecast income.

Work with partners is ongoing as part of the wider regeneration plans. Redevelopment of the Railway Station will ultimately see it link to the Transport Hub and City Centre

supporting the Kings Quarter regeneration. The redevelopment work is ongoing with the project funded via the LEP.

Food Dock is due for completion August 2022 bringing additional regeneration to the Docks within the City. The Council arranged additional funding to Ladybellgate Estates to facilitate the redevelopment of the Food Dock, this will bring economic benefits to the City Centre.

Housing Projects – The purchase of St Oswald’s and approval of revised Housing Strategy will bring a number of housing projects forward. As these projects are developed any required investment for delivery will be analysed to seek affordable solutions.

Governance: The Major Projects Steering group and/or the Property Investment Board review significant projects for inclusion within the Council’s capital programme. Projects are collated by finance who calculate the financing cost (which can be nil if the project is fully externally financed). The groups appraise all bids based on a comparison of service priorities against financing costs and makes recommendations for the capital programme. The final capital programme is then presented to Cabinet and Council in February each year.

- For full details of the Council’s capital programme see: [Money Plan](#)

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

| | 2020/21 actual | 2021/22 forecast | 2022/23 budget | 2023/24 budget | 2024/25 budget |
|------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| External sources | 4.935 | 3.853 | 3.893 | 2.260 | 0.275 |
| Own resources | 0.467 | 2.000 | 0.444 | 0.330 | 0.474 |
| Debt | 1.441 | 18.056 | 23.200 | 0.000 | 00.000 |
| TOTAL | 23.909 | 27.537 | 27.537 | 30.200 | 44.200 |

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

| | 2020/21 actual | 2021/22 forecast | 2022/23 budget | 2023/24 budget | 2024/25 budget |
|--|-------------------|---------------------|-------------------|-------------------|-------------------|
|--|-------------------|---------------------|-------------------|-------------------|-------------------|

| | | | | | |
|---------------|-------|-------|-------|-------|-------|
| Own resources | 0.870 | 2.035 | 2.301 | 2.350 | 2.377 |
|---------------|-------|-------|-------|-------|-------|

- The Council's full minimum revenue provision statement is available here: [Treasury Management Strategy - MRP](#)

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £20.899m during 22/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

| | 31.3.2021 actual | 31.3.2022 forecast | 31.3.2023 budget | 31.3.2024 budget | 31.3.2025 budget |
|-----------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|
| General Fund services | 118.949 | 134.970 | 155.869 | 183.719 | 225.542 |
| TOTAL CFR | 118.949 | 134.970 | 155.869 | 183.719 | 225.542 |

Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. Gloucester City Council has a diverse estate from ancient monuments to commercial property. The asset management strategy details our approach to managing our diverse assets including our acquisitions and disposals, planned maintenance, governance and performance.

- The Council's asset management strategy can be read here: [Asset Management Strategy](#)

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2023/24. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £4.5m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

| | 2020/21 actual | 2021/22 forecast | 2022/23 budget | 2023/24 budget | 2024/25 budget |
|--------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| Asset sales | 0.192 | 0.990 | 4.500 | 1.000 | 0.500 |
| Loans repaid | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| TOTAL | 0.192 | 0.990 | 4.500 | 1.000 | 0.500 |

- The Council's Flexible Use of Capital Receipts Policy is available here: [Flexible Use of Capital Receipts Policy](#)

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.10%) and long-term fixed rate loans where the future cost is known but higher (currently 1.25 to 1.68%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

| | 31.3.2021 actual | 31.3.2022 forecast | 31.3.2023 budget | 31.3.2024 budget | 31.3.2025 budget |
|-------------------------------|---------------------|-----------------------|---------------------|---------------------|---------------------|
| Debt (incl. PFI & leases) | 129.586 | 138.004 | 155.376 | 182.726 | 224.049 |
| Capital Financing Requirement | 118.949 | 134.970 | 155.869 | 183.719 | 225.542 |

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

| | 2020/21 limit | 2021/22 limit | 2022/23 limit | 2023/24 limit |
|--|------------------|------------------|------------------|------------------|
| Authorised limit - borrowing | £130 | £230 | £225 | £220 |
| Authorised limit - PFI and leases | £35 | £35 | £35 | £35 |
| Authorised limit - total external debt | £165 | £265 | £260 | £255 |
| Operational boundary - borrowing | £120 | £215 | £210 | £205 |
| Operational boundary - PFI and leases | £30 | £30 | £30 | £30 |
| Operational boundary - total external debt | £150 | £245 | £240 | £235 |

- Further details on borrowing are in pages 11 to 15 of the treasury management strategy
Treasury Management Strategy

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

- Further details on treasury investments are in pages 16 to 21 of the treasury management strategy - Treasury Management Strategy

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Policy and Resources and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Audit and Governance Committee which is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to local service providers, businesses to promote economic growth, the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Head of policy and Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Liabilities

In addition to debt of £129.586m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £58.366m). It has also set aside £1.6m to cover risks of provisions, this mainly relates to NNDR appeals, where the

Council has estimated the costs arising from appeals by ratepayers. The Council did not have any contingent liabilities in 2020/21.

Governance: Decisions on incurring new discretionary liabilities are taken by service managers in consultation with head of Policy and Resources. The risk of liabilities crystallising and requiring payment is monitored by finance.

- Further details on provisions (page 50), liabilities and guarantees are on page 65 of the 2020/21 statement of accounts - [Statement of Accounts](#)

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

| | 2020/21 actual | 2021/22 forecast | 2022/23 budget | 2023/24 budget | 2024/25 budget |
|----------------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
| Financing costs (£m) | 0.870 | 2.035 | 2.301 | 2.350 | 2.377 |
| Proportion of net revenue stream | 14.64% | 28.02% | 28.76% | 29.28% | 29.34% |

- Further details on the revenue implications of capital expenditure are noted within the 2022/23 revenue budget - [Money Plan](#)

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Head of Policy and Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Policy and Resources is a qualified accountant with 25 years' experience, the Financial Services and Accountancy Managers are both qualified accountants with 15 and 25 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and CIMA.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Group as treasury management advisers, the Council employs property consultants on a case by case basis. This approach is more cost effective than

employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.