

Introduction

This 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 CIPFA Prudential Code.

Policy Context

The Council plan 2022-24 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 2023/24, the Council is planning capital expenditure of £61.358 as summarised below:

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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund services	23.968	17.994	61.358	10.791	1.707
TOTAL	23.968	17.994	61.358	10.791	1.707

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 continues to progress since 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. The White Friars apartments part of phase 1 of the project were completed in 2022 and are now on the market, as these are part of the development programme, once sold will fund continued Forum development. Phase

1 has also seen Grosvenor House demolished with Tesco relocated to a new unit. Phases 2 and 3 of the project are now underway and progressing.

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 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 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 Kings Square fascias as well as improvements to the shopping area (Mall). This will include work on the Clarence Street and Kings Square entrances. The costs of these works are being met by the Council's development partner. Works on the Mall and the elevations around Kings Square will commence in early 2023

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.

The Food Dock is due for completion May 2023 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.

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 Major Projects Steering group/Property Investment Board 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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	2.521	1.081	5.676	1.316	1.277
Own resources	0.236	0.000	0.482	0.275	0.230
Debt	21.211	16.913	55.200	9.200	0.200
TOTAL	23.968	17.994	61.358	10.791	1.707

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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Own resources	1.983	2.406	2.466	2.499	2.181

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

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 £52.734m during 23/24. 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

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
General Fund services	138.185	152.703	205.426	212.127	225.542
TOTAL CFR	138.185	152.703	205.426	212.127	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 £4.36m of capital receipts in the coming financial years as follows:

Table 5: Capital receipts in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Asset sales	0.000	0.366	0.000	1.500	2.500
Loans repaid	0.000	0.000	0.000	0.000	0.000
TOTAL	0.00	0.366	0.000	1.500	2.500

- 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 4.0%) and long-term fixed rate loans where the future cost is known but higher (currently 4.66% for 50years).

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

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Debt (incl. PFI & leases)	128.852	140.059	192.793	199.494	197.513
Capital Financing Requirement	138.185	152.692	205.426	212.127	210.146

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

	2022/23 limit	2023/24 limit	2024/25 limit	2024/25 limit
Authorised limit - borrowing	£185	£225	£230	£225
Authorised limit - PFI and leases	£35	£35	£35	£35
Authorised limit - total external debt	£220	£260	£265	£260
Operational boundary - borrowing	£170	£210	£215	£210
Operational boundary - PFI and leases	£30	£30	£30	£30
Operational boundary - total external debt	£200	£240	£245	£240

- 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 Director 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 Director 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 £128.852m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £44.570m). 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 2021/22.

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

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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	1.983	2.406	2.466	2.499	2.181

Proportion of net revenue stream	21.02%	22.16%	21.31%	21.58%	20.41%
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- Further details on the revenue implications of capital expenditure are noted within the 2023/24 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 Director 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.