

CAPITAL STRATEGY

Submitted by: Executive Director – Resources and Support Services

Portfolio: Finance, ICT and Customer

Ward(s) affected: All

Purpose of the Report

For Cabinet to consider the recommendations of the Special Council meeting held on 27 January 2016 following their consideration of the report of the Assets Policy Committee entitled “Capital Programme Funding Framework and Programme for the Disposal of Surplus Assets”. This report is concerned with the two recommendations that relate to the Council’s Capital Strategy. A separate report on your agenda considers the recommendations in respect of the Council’s Asset Management Strategy.

Recommendations

That Cabinet considers the following 2 recommendations of the Special Council meeting Held on 27 January 2016 in relation to the Capital Strategy:

- a.) That Cabinet reaffirms its decision taken in October 2014 that the Council, as a first resort, will seek to fund its future known capital programme needs through the annual asset management process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal.***
- b.) That provision is made in future revenue budgets for prudential borrowing.***

Reasons

To ascertain if any changes are required to the current Capital Strategy following the work undertaken by the Assets Policy Committee and the recommendations made at the Special Council meeting held on 27 January 2016.

1. Background

- 1.1 The current Capital Strategy was approved by Council on 25 February 2015 and covers the period 2015 to 2019.
- 1.2 The purpose of the Capital Strategy is to set out how the Council proposes to deploy its capital resources in order to achieve its corporate and service objectives. It takes into account other relevant Council strategies, policies and plans and the views of partners and stakeholders with whom the Council is involved. It also takes account of the resources which are likely to be available to the Council to fund capital investment and the effect of that investment on the Council’s revenue budget. It serves as a useful point of reference when determining or reviewing the Council’s Capital Programme.

2. Issues

- 2.1 The underlying strategy, reflecting Council policies, which is set out in the document has not changed since it was approved and it is not intended to propose any amendments. The revenue and capital budgets report considered by Cabinet at its last meeting on 20 January 2016 reflected the changes to the expenditure programme planned for 2016/17.

- 2.2 In respect of funding the capital programme, the strategy concluded that the only realistic option to meet investment needs is a systematic programme of surplus land disposal, which will also enable the Council to deliver its policy objective of bringing forward more affordable and social housing by the release of some of its land holdings. Accordingly Cabinet resolved at its meeting of 15 October 2014 – which was endorsed by full Council at its meeting on 25 February 2015 when approving the Capital Strategy – ***“That Cabinet agrees with the principle that the Council, as a first resort, will seek to fund its future known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal”.***
- 2.3 At the Council meeting on 25 November 2015 a resolution was made to establish an Assets Policy Committee (APC) with the principle aim of preparing a new Assets Policy for consideration by Council and then subsequently by the Cabinet. Part of the terms of reference agreed by the APC were:
- i.) To review the Council’s current and anticipated future capital expenditure requirements; and
 - ii.) To consider options to fund these future capital expenditure requirements.

These both have relevance to the Capital Strategy.

- 2.4 At its meeting on 16 December 2015 the APC considered two reports from the Executive Director – Resources and Support Services, namely:

- 2.4.1 The Council’s Planned Capital Expenditure
- 2.4.2 Funding Options for the Council’s Capital Programme

2.5 **The Council’s Planned Capital Expenditure**

Members of the APC were provided with an update in respect of the “Newcastle Capital Expenditure Programme” identifying investment of £16.5m required over the next four years, and noted the report.

2.6 **Funding Options for the Council’s Capital Programme**

- 2.6.1 Members of the APC were provided with an outline of the options available to fund the Council’s capital investment programme and concluded that the Council has two main options to fund its capital programme – capital receipts from the sale of assets and borrowing.

- 2.6.2 The APC agreed two recommendations which formed part of their report to the Special Council meeting on 27 January 2016. The two recommendations were:

- i.) The Committee reaffirmed the decision of Cabinet taken in October 2014 “that the Council as a first resort, will seek to fund its known capital programme needs through the annual asset management planning process by the identification of land or property in its ownership that is capable of, and appropriate for, disposal”.
- ii.) The Committee recommends to full Council that provision is made in future revenue budgets for prudential borrowing.

- 2.7 At the Special Council meeting on 27 January 2016 both of the above recommendations were agreed to be put forward to the Cabinet.

3 Financial and Resource Implications

- 3.1 The data in relation to the ongoing need for capital investment in areas such as operational equipment and property both operational and income earning, demonstrates the continuing need for resources sufficient to finance such investment. If, for whatever reason, the planned programme of disposals does not deliver the required amount then there will be no options other than to curtail investment, which may be difficult or counter-productive, or to meet the shortfall by either temporary borrowing or prudential borrowing.
- 3.2 Part of paragraph 12.8 of the current Capital Strategy states “if significant sales of assets cannot be achieved within the timescales the Council may have to review its stance with regards to borrowing, if this proves to be the only practical means of funding necessary investment”.

4 Earlier Cabinet / Committee Resolutions

- 4.1 Cabinet 5 February 2014 – “Newcastle Capital Investment Programme”
Cabinet 15 October 2014 – “Funding the Council’s Capital Programme”
Council 25 February 2015 – “Capital Strategy 2015 to 2019”
Council 25 November 2015 – Resolution to establish an Assets Policy Committee
Assets Policy Committee 16 December 2015 – “The Council’s Planned Expenditure”
Assets Policy Committee 16 December 2015 – “Funding Options for the Council’s Capital Programme”
Special Council 27 January 2016 – “Report of the Assets Policy Committee – Capital Programme Funding Framework and Programme for the Disposal of Assets”