

**NEWCASTLE
UNDER LYME**
BOROUGH COUNCIL

Capital Strategy 2020 to 2030



Contents

Introduction	3
Key Objectives and Priorities	4
Factors Influencing the Capital Programme	5
Links with Other Strategies, Policies and Plans	5
External Influences, Partners and Consultation with Other Interested Parties	8
Resources Available to Finance Capital Investment	9
Revenue Implications	11
Appraisal of Investment Proposals	12
Monitoring Arrangements and Project Management	12
Statutory Framework	13
Prudential Indicators	14
Procurement	15
Future Capital Programme	15
<u>Annexes</u>	19
Annex A: Definition of Capital Expenditure	
Annex B: Capital Investment Programme 2020/21 to 2029/30	

Introduction

The purpose of the Capital Strategy is to set out how the Council proposes to deploy its capital resources in order to assist it to achieve its corporate and service objectives. It takes into account other relevant Council strategies, policies and plans and the views of partners and interested parties 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 will serve as a useful point of reference when determining or reviewing the Council's Capital Programme.

The Council's current detailed capital investment plan is contained in its approved Capital Programme. A Capital Programme totalling £5,606,298 was approved for 2019/20 on 20 February 2019. Of this total £4,606,298 relates to the total cost of new schemes for 2019/20 together with £1,000,000 for schemes funded by external sources (Disabled Facilities Grants). In addition £1,341,573 slippage was incurred in 2018/19, resulting in a total Capital Programme of £6,947,871 for 2019/20. This takes account of slippage coming forward from 2018/19 and is summarised below, showing the constituent categories of projects:

Project Categories	Planned Expenditure £m
Improving Housing in the Borough	1.075
Investing in Community Facilities	2.910
Investing for the Future	0.195
Vehicles, Plant and Equipment	1.768
Capital Contingency	1.000
Total	6.948

Full Council will consider a capital programme to continue investment beyond 2019/20 on 19 February 2020.

The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances. At the same time, the Council's own resources available to finance capital projects have reduced to a low level and will need replenishing before any substantial further capital investments can be made. As a result the Council is considering and consulting upon a programme of asset disposals to address this situation. In addition the Council has also produced a Commercial Strategy with the aim to generate income through commercial activities which can then be reinvested in local priorities.

Key Objectives and Priorities

The Council's Priorities contained in the Council Plan are:

Local Services that work for Local People
Growing our People and Places
A Healthy, Active and Safe Borough
A Town Centre for All

Capital investment projects will be included in the Council's Capital Programme on the basis that they address issues arising from one or more of these Priority Areas. An indication is shown against each project in the Programme of the area or areas it addresses.

New proposals for capital investment will be assessed against the corporate priorities to ensure that they will contribute towards achieving the aims expressed. This assessment will be carried out as part of the appraisal process for new projects.

The Council will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary. Repair or improvement works arising from such surveys will be carried out subject to the availability of resources and consideration of the role the building plays in service delivery and the need to continue the relevant service in order to contribute to meeting corporate priorities. If a building is no longer required for service delivery, it will either be considered for alternative use by the Council or its partners or disposed of and the proceeds made available for future capital investment in priority areas. All property assets are held to either (i) provide Council services, (ii) provide an investment return or (iii) to further regeneration projects.

A Capital Review Group is in place and chaired by the Cabinet Portfolio Holder for Finance and Efficiency. This Group keeps the Council's capital investment strategy under continuous review, including the prioritisation of projects for inclusion in future capital investment programmes over the medium term. Regular reviews of the property portfolio will be carried out by the group to identify properties or land which could potentially be disposed of, following a consultation process in the case of significant proposals, and a capital receipt obtained from the sale.

Where suitable "Invest to Save" projects can be identified the Council will actively pursue such projects as it recognises the benefits, in the form of reduced costs falling on the General Fund Revenue Account, that can result from such investment.

The Council will seek, where practicable and economically justifiable, to develop its investment projects having regard to principles of sustainability, for example in relation to materials used and environmentally friendly modes of operation once in use, following construction or purchase.

Factors Influencing the Capital Programme

Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised diagrammatically as follows:

<u>INTERNAL</u>	<u>EXTERNAL</u>
Corporate Priorities, as set out in the Council Plan	Government sponsored programmes, e.g. Disabled Facilities Grants
Investment identified in Strategies, Policies and Plans	Unforeseen Emergency Works
Work needed to maintain Property Assets	Works required to comply with legislation, e.g. re disabled access, health and safety
Vehicles, Plant and Equipment replacement needs	Projects resulting from Partnership Activity
ICT Investment and Replacement	Availability of External Funding
Invest to Save Projects	Public expectation that works should be carried out

These are discussed in greater detail in sections below:

Links with Other Strategies, Policies and Plans

As well as the Council's Plan and the Capital Programme the Capital Strategy has clear links to many other strategies, policies and plans, the most significant of which are shown in the following table:

Key Strategies:
Economic Development Strategy
Health and Wellbeing Strategy
Stronger and Safer Communities Strategy

Other Strategies:
Asset Management Strategy
Investment Strategy
Medium Term Financial Strategy
Flexible Use of Capital Receipts Strategy
Service and Financial Plans
Procurement Strategy
North Staffs Green Spaces Strategy
Private Sector Housing Renewal Strategy
Housing Strategy
Arts and Cultural Strategy
Customer Access Strategy
Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan
Treasury Management Strategy
Sustainable Community Strategy

An important link is to the Asset Management Strategy (AMS) in that many capital investment projects are related to the Council's fixed assets, such as its stock of buildings. Needs and priorities identified in the AMS will require consideration for inclusion in the Council's Capital Programme and have wider financial consequences. Equally important is the opportunity to generate capital receipts from the disposal of land/property where there is no current or likely future operational need.

The Investment Strategy sets out the Council's policies and practices in relation to commercial investments, for example investments in property and will include information about any such proposals, including funding the expenditure and the effect upon the revenue budget. Expenditure relating to commercial investments will be capital and will be included in the capital programme.

The Medium Term Financial Strategy will take account of the revenue effect of capital investment.

The Flexible Use of Capital Receipts Strategy sets out the conditions and arrangements in place to flexibly use Capital Receipts for qualifying expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

Appraisal, procurement and management of capital projects needs to be carried out with regard to the objectives, methodologies the principles and practices set out in the Procurement Strategy.

The various service based strategies will inform the Council's capital investment process through their identification of areas for action and of priorities within individual service areas.

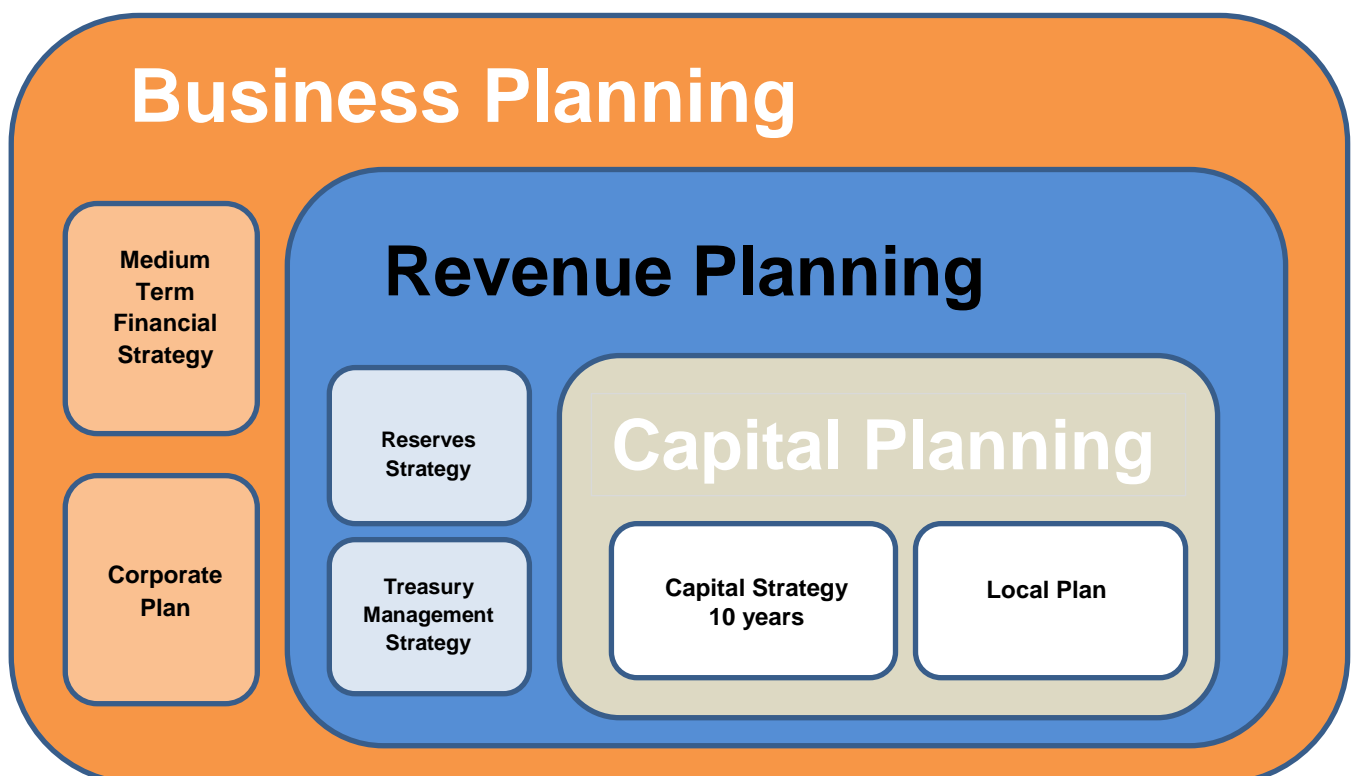
The Treasury Management Strategy needs to reflect planned capital spend, particularly with regard to setting limits for tying up money over the longer term and the limits relating to the amount of permitted borrowing.

In addition the Capital Strategy will be influenced by the results of any Service Reviews which have been carried out by the Council, either as part of the budget preparation process or as one-off exercises. Where these reviews identify areas of service which are to be discontinued, this may give rise to assets which will be available for disposal and possibly generate a capital receipt which will be available for funding further capital investment. Alternatively reviews may identify areas for investment, including potential “invest to save” projects, some of which may be capital investment.

The Council plans to set up a Revolving Investment Fund to assist in the generation of capital receipts and help fund future capital investments. A revolving fund is a fund or account that remains available to finance an organisation’s continuing operations without any fiscal year limitation, because the organisation replenishes the fund by repaying money used from the account from additional revenues or savings generated from investments. The Council proposes to set up a fund with an initial value of £1m which will be used to fund projects which will have an investment return. There are many different project areas which this fund could be applied to such as:-

- Digital Delivery Programme
- Asset Disposal
- Economic Growth
- Housing Growth Programme

Simple Business Planning Model



External Influences, Partners and Consultation with Other Interested Parties

The Council's capital investment plans are influenced by a number of external parties and factors: central government and its agencies, legislation requiring capital works, partner organisations, businesses, developers and by the needs and views of other interested parties, particularly those of Borough residents

Government sponsored initiatives and programmes will influence the projects which the Council will include in its capital investment plans. In particular, its Housing Investment Programme in which the Council participates with regard to Disabled Facilities Grants, this is a major area of investment where funding is provided by Government to meet a proportion of the costs of some of these activities. This funding currently consists mainly of grant payments to partially meet the cost of disabled facilities grants payable to eligible applicants.

Where it may be required by legislation to carry out works of a capital nature, such as to comply with the Disablement Disability Act or Health and Safety requirements, or anti-pollution regulations, the Council will consider the most effective way to discharge its obligations and appropriate provision will be made in its Capital Programme once it has determined that it shall carry out the necessary work and that this should be capitalised.

The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities. Relationships with partners, including those concerning capital matters, will be governed by the Council's Partnerships Code of Practice. Wherever possible the Council will seek to work in partnership with others to deliver its capital investment programme in order to provide facilities which meet its own and partners' needs. When working with the private sector, the objective will be to maximise the benefits to the Council and the community from any projects, both in terms of outputs and in relation to obtaining funding for the project.

The Council is a participant in the Local Strategic Partnership (LSP) and will have regard to the content of its Sustainable Community Strategy together with any other elements of the partnership which relate to capital investment and may be able to use the capital programme as a means of fulfilling some of its obligations to the LSP.

Projects for consideration for inclusion in the Capital Programme may arise from the Council's participation in the Staffordshire and Stoke on Trent Local Enterprise Partnership (LEP) or similar sub-regional partnerships which seek to stimulate economic growth.

The Council has established a Town Centre Partnership, together with relevant parties such as representatives of retailers and businesses in the town centres of Newcastle and Kidsgrove. The partnership may identify proposals for town centre improvements which could place demands upon future

capital programmes where such works align with the Council's economic development objectives. It may also present an opportunity for costs to be shared between the parties likely to benefit from their implementation.

The availability of external funding will also influence the projects which the Council will include in its capital investment plans. This is referred to in the following section of the Strategy.

Regard will be given to the Council's obligations under Disabled Access requirements in putting forward proposals for capital investment and in the design of any facilities which are proposed.

Wherever possible the principles of financial and environmental sustainability will be incorporated into any capital projects.

Resources Available to Finance Capital Investment

The following diagram shows the main sources of funding which are available to the Council to finance its capital investment. Individual projects may be financed solely by one of these or by a combination of a number of them.

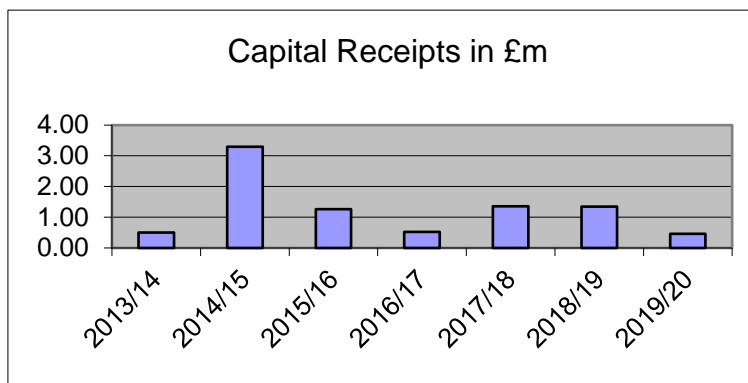
<u>INTERNAL</u>	<u>EXTERNAL</u>
Capital Receipts in Hand	Government Grants
Reserves	Other Grants, e.g. Heritage Lottery Fund
New Capital Receipts from Asset Sales	Contributions from Partners
Revenue Contributions	Other Contributions
	Borrowing

More details of these funding sources are given in the following paragraphs:

Capital Receipts have been the major source of funding for the Capital Programme in recent years. The amount of useable capital receipts in hand at 1 April 2019 was £2m. The majority of capital receipts are committed to finance the currently approved Capital Programme. Additional capital projects may be financed from capital receipts obtained by asset sales or other new capital streams.

A previously significant source of capital receipts has been the Council's continuing right to a share of receipts arising from tenants of Aspire Housing under the Right to Buy legislation. However, Right to Buy sales have diminished from historically high levels, both because of the present depressed property market and there being fewer potential purchasers as time goes by. Future sales income is projected to be in the range of £0.3m to £0.5m per annum.

Capital receipts from sales of land and property (including covenant release payments) have been relatively modest in recent times.



The Asset Management Strategy sets out expected sales over the next ten years. It is anticipated that receipts from sales will increase in the medium term, enabling some increase in financing of capital investment from this source. The Capital Review Group meets on a bi-monthly basis and is responsible for the formulation of strategies in respect of income generation relating to asset disposals.

The ICT Development Fund is specifically earmarked for meeting the costs of ICT development, both capital and revenue. The balance on the Fund at 1 April 2019 was £0.49m. This balance is fully committed to financing projects included in the current ICT Development Programme plus certain ongoing revenue costs. Accordingly, the revenue budget provides for an annual contribution of £0.05m to be made to the Fund in order to replenish it. There are no other reserves currently available to finance capital investment.

The use of capital receipts and reserves to finance new capital projects has an effect upon investment income receipts and hence the General Fund Revenue Account. At current investment interest rates of around 0.5%, every £100,000 of such capital receipts or reserve balances used will cost £500 to the revenue account on an ongoing basis. The use of capital receipts and reserves to finance the Capital Programme 2019/20 was taken account of in the Medium Term Financial Strategy and in the 2019/20 Revenue Budget. Any receipts generated from the sale of assets will be invested until they are required to finance capital expenditure.

Wherever Government grants are available to meet all or part of the cost of capital projects the Council will ensure that these are applied for and used to maximise the amount of investment which can be made and the benefit which will result from that investment.

Funding will be sought towards the cost of capital projects from external parties wherever possible and appropriate. These will include property developers, central government and government agencies, funding bodies such as the National Lottery or the Football Foundation and partner organisations that may join with the Council to bring forward particular projects of mutual benefit. In the current climate, however, the Council may find such sources of funding to be limited.

As a result of changes to the treatment of business rates collected by councils (as implemented by the Local Government Finance Act 2012), which allow part of the amount collected to be retained by them, a Stoke on Trent and Staffordshire Business Rates Pool has been established to pool retained rates relating to a number of Staffordshire authorities, including Newcastle Borough Council. This has benefits with regard to maximising the total amount retained, with the additional amount gained by pooling being available to participating authorities in a number of ways. One of the features of the pooling arrangement is the establishment of an investment fund to finance projects which will contribute to economic regeneration within the areas of the participating authorities.

The Council is presently debt free, having no long term loans outstanding. Its current policy, expressed in its Treasury Management Strategy for 2019/20, approved by Council on 20 February 2019, is:

“Previously borrowing has not been used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure. There will be a requirement to fund some capital expenditure by means of borrowing during the interim period before a permanent means of finance becomes available, for example whilst awaiting a capital receipt. Projections of the need for capital investment in projects necessary to ensure operational continuity over the next few years, together with projections of likely capital receipts arising from asset sales and the availability of reserves to finance this expenditure indicate that there will be an adverse gap between expenditure and resources to finance it. This increases the likelihood of borrowing being used, particularly as an interim measure to bridge the gap between expenditure being incurred and funds from asset sales being realised.”

The capital investment programme set out in Annex B will require a significant amount of borrowing if it is to be carried out in its entirety.

There is no intention to charge any capital investment directly to the General Fund Revenue Account.

The Council does not presently intend to consider the use of Private Finance Initiative type arrangements or tax increment financing to meet the cost of capital investment.

The Executive Director (Resources and Support Services) will prepare estimates of the resources which are presently in hand plus those likely to be available in future to finance capital investment. She will keep these estimates up to date and periodically report upon them to Cabinet and Council, particularly when the Capital Programme is being considered. The Council will decide on the appropriate form of financing for projects included in the Capital Programme based on advice from the Executive Director as to availability and the consequences and costs of use of the various options.

The need to have available liquid funds to be used to pay for capital projects will be considered when drawing up the Council’s Treasury Management Strategy. An appropriate limit will be placed on long term investments based on predictions of the capital spending profile over the period covered by the Strategy so that there are likely to be enough readily available easily cashable investments to meet requirements.

Revenue Implications

The impact, if any, upon the General Fund Revenue Account arising from capital investment proposals will be calculated and considered at the time projects are placed before Cabinet or Full Council for inclusion in the Approved Capital Programme or for specific approval. Such impact may be in the form of reduced interest receipts, where projects are to be financed from capital receipts or reserves, borrowing costs, if loan finance is to be employed, or additional running costs arising from the provision of a new or altered facility. Offset against these costs will be any savings which might accrue, for example from “invest to save” projects.

The Council will always have regard to the affordability of its proposed capital investments, in terms of the revenue implications arising.

The revenue implications of the capital programme will be taken account of in the Council’s Medium Term Financial Strategy.

Appraisal and Prioritisation of Investment Proposals

In accordance with the Council's Financial Regulations proposals for new capital investment estimated to cost more than £20,000 will be subject to an appraisal process, whereby a business case will be made out for the proposal, considering its contribution towards meeting corporate objectives and service priorities, its outputs and milestones, its cost and sources of and its effect, if any, upon the revenue budget in future years. Less significant projects costing below £20,000 will be subject to a simplified process. All new capital investment proposals must be considered by the Capital Programme Review Group prior to specific Cabinet approval being requested. Before any project may be commenced Specific Cabinet approval must be obtained and the project will only be included in the approved Capital Programme, after considering its priority relative to other proposed projects and the overall level of resources available to fund the Capital Programme as a whole.

Work is being undertaken to develop the project prioritisation process further during 2019/20 in order to provide a robust, transparent and impartial basis for determining the relative merits of individual projects proposed for inclusion in the capital programme. No projects should be considered in isolation. They must be required to be measured against all other competing projects to determine which should go forward. This process should also apply to any projects which are proposed subsequent to the approval of the programme, to ensure that only those projects with a high priority are proceeded with and funds are not diverted to projects of a lesser priority.

A Risk Assessment, in the approved corporate format, will be completed for capital projects over £20,000.

Monitoring Arrangements and Project Management

Progress in relation to individual projects will be monitored through the Council's arrangements for the monitoring of capital projects, which entail quarterly monitoring reports to be received by the Cabinet. The Capital Programme Review Group will also review project progress and corrective action will be initiated where projects fall behind schedule, appear likely to overspend or otherwise give cause for concern. Individual Project Forms will be maintained in respect of each project by the Executive Director (Resources and Support Services) which will track the progress of projects and be available to officers and members with an interest in reviewing progress of those projects.

All projects will be assigned to a named officer who will be responsible for overseeing the project, including project monitoring and control and implementing exception reports and, where appropriate, corrective action if the project deviates from its planned progress or cost.

Where complex major projects are to be carried out, consideration will be given to employing the Prince2 project management methodology.

All capital projects will be subject to Internal Audit review to ensure correct procedures have been followed and sums have been paid out in accordance with Financial Regulations and Standing Orders as they relate to contracts. Where projects have received funding from government or quasi-governmental sources, the expenditure will also be subject in many cases to external audit. European Union funded projects may also be subject to audit by auditors on behalf of that body. Where monitoring returns or claims for reimbursement of expenditure are required to be sent to funding bodies, these will

be completed and forwarded promptly to the relevant body in compliance with any deadlines laid down by them.

All capital investment proposals and project progress and management are subject to the Council's scrutiny arrangements.

Statutory Framework

The Council's capital investment is carried out within the statutory framework laid down by the Local Government Act 2003 and regulations under that Act. Accordingly, only expenditure which fits the definition of capital expenditure contained in the Act or Regulations pursuant to it will be capitalised.

Capital expenditure is defined by the 2003 Act as that which falls to be capitalised in accordance with proper practices, which means in accordance with the Code of Practice on Local Authority Accounting, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), applicable to all local authorities. Annex A sets out a summarised version of the definition provided by the Code. In addition there are a number of other types of expenditure that have been defined by Regulations as being treatable as capital in nature. Generally these do not apply to this Council.

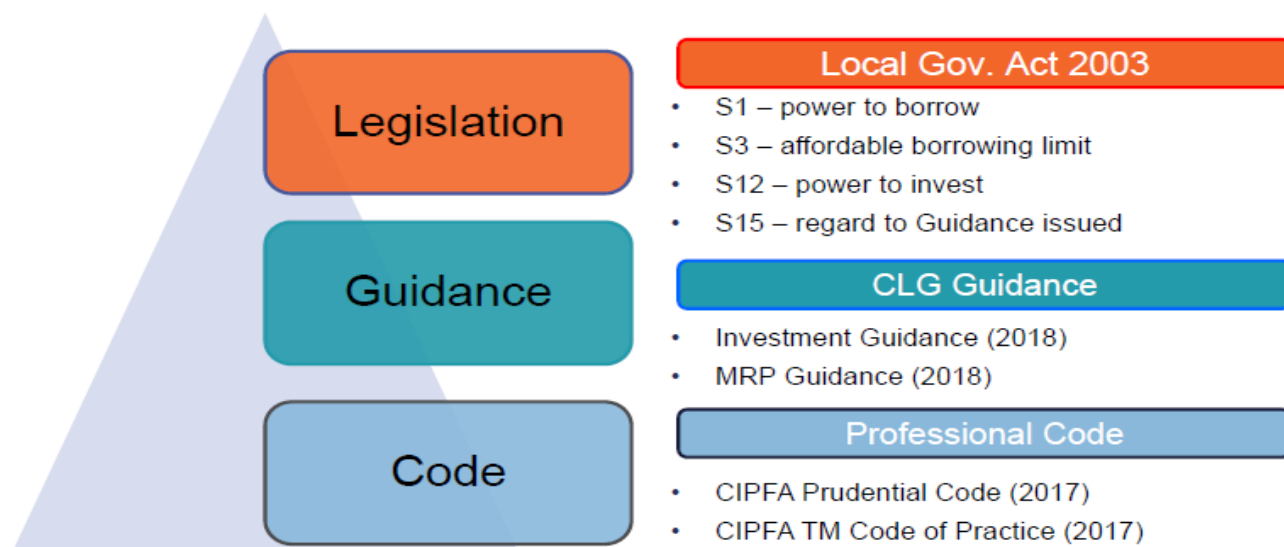
It should be noted that the Act and Regulations are framed in a permissive way, allowing local authorities to capitalise expenditure which fits the definition but not forcing them to capitalise such expenditure. The Council will decide, therefore, whether to include a project meeting the capital definition in its capital programme or to meet its cost from a revenue account.

The Council does not set a minimum amount for the capitalisation of expenditure (*de minimis* level). Accordingly, any expenditure complying with the above definition may be capitalised.

Capital Finance Regulations stipulate that amounts of less than £10,000 may not be treated as capital receipts. Accordingly, any such sums received, although otherwise capital in nature will be credited to a revenue account.

The Council will consider the flexible use of capital receipts as announced by the Chancellor of the Exchequer in the 2015 Spending Review. The government will allow local authorities to spend up to 100% of their fixed asset receipts (excluding Right to Buy receipts) on the revenue costs of reform projects to allow local authorities to deliver more efficient and sustainable services. The Flexible Use of Capital Receipts Strategy provide further details.

Legal and Regulatory Requirements



Prudential Indicators

The Council shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the Council's overall fiscal sustainability. The Council's prudential indicators (shown in Annex C) are as follows:-

- Estimates of capital expenditure

The Council will make reasonable estimates of the total of capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years.

- Actual capital expenditure

After the year end, the actual capital expenditure incurred during the financial year will be recorded.

- Estimates of capital financing requirement

The Council will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.

- Actual capital financing requirement

After the year end, the actual capital financing requirement will be calculated directly from the Council's balance sheet.

- Ratio of financing costs to net revenue streams

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

- Authorised limit on external borrowing

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

- Operational boundary for external debt

This indicator refers to the means by which the authority manages its external debt to ensure it remains within the statutory authorised limit. It differs from the authorised limit in as far as it is based on the most likely scenario, in terms of capital spend and financing during the year.

- Gross debt and capital financing requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy.

Procurement

Regard will be given to the contents of the Council's Procurement Strategy when considering the delivery of capital projects.

Where estimated project contract costs exceed the relevant statutory threshold, the appropriate EU or other tendering procedures will be followed.

Standing Orders relating to contracts will apply to all contracts proposed to be let in relation to capital projects, together with Financial Regulations and the provisions of the Council's scheme of Delegation.

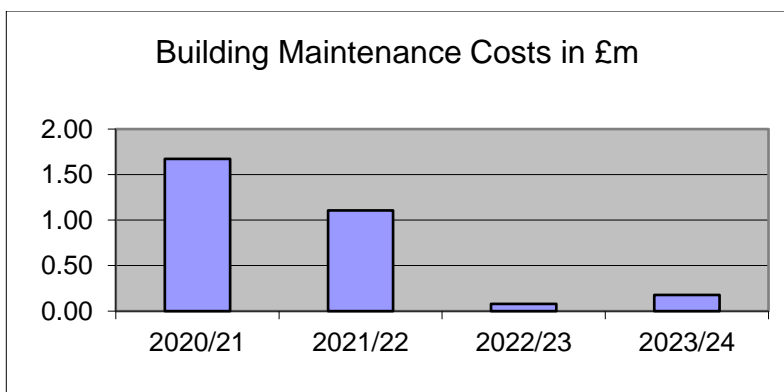
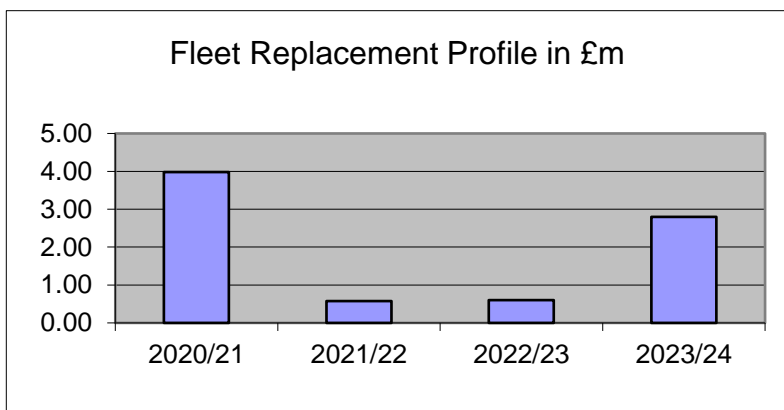
The achievement of Value for Money will be a guiding principle in the procurement of capital works and services and in managing contracts.

Future Capital Programme

Capital investment needs have been assessed over a ten year period (2020/21 to 2029/30) and are set out in Annex B.

During this period, there will be a need for some items of capital investment to be made in order to ensure continued service delivery or to comply with statutory requirements or to ensure health and safety of staff and public. Examples of these include: operational building repairs and maintenance; replacement of vehicles, plant and equipment required to deliver services; disabled facilities grants.

The following charts illustrate the scale of expenditure which the Council will need to fund over the next few years, in respect of fleet replacement, where existing items reach the end of their allotted life and in respect of operational building maintenance works, based on stock condition surveys carried out.



It may be possible to extend the lives of some of the vehicles, if they are in a fit condition when their replacement date is reached. Similarly some of the maintenance/improvement works to the Council's operational properties may be capable of being deferred; periodic stock condition surveys will inform any decisions in this regard. Additionally, some properties may be deemed surplus to operational requirements and eligible for disposal in their current condition.

In addition to the essential works outlined above, there are significant amounts of expenditure which need to be incurred:

- in respect of the commercial portfolio in order to keep properties in a state of repair such as to continue to obtain a reasonable rental income
- to maintain various engineering structures such as walls, bridges, drains, and reservoirs to ensure safety to the public

- to enable agreed actions in relation to approved policies and strategies to be progressed and to meet other Council commitments.

Over the period 2020/21 to 2029/30 it is estimated that £3.6m (commercial properties), £2.4m (engineering structures) and £62.6m (in respect of policy and strategy commitments or similar) need to be spent.

Funding will depend on capital receipts from asset sales. There will be insufficient capital receipts arising from these planned sales to meet all of the costs of the investment programme. Accordingly, it is estimated that around £14.716m of expenditure will have to be funded from borrowing over the ten year period if the programme is to be delivered in its entirety.

In addition, £15.182m of fleet replacement costs will need to be financed, either by leasing or prudential borrowing. For the purposes of completeness, Annex B assumes that these costs will be funded from prudential borrowing. However, this will be subject to a detailed appraisal to determine the most cost effective financing method.

The £15.182m of fleet replacement costs for the 10 year period are shown in the table below:-

Description	20/21 £m	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	29/30 £m	Total £m
Pest Control Vans					0.054					0.063	0.117
Leisure Vehicle					0.018					0.021	0.039
Facilities Management Vehicle					0.018					0.021	0.039
Mayors Car							0.080				0.080
Streetscene Vans	0.100	0.260	0.120		0.018	0.060	0.304	0.264		0.021	1.147
Streetscene Mowers	0.144			0.017	0.180				0.203	0.020	0.564
Streetscene Sweepers			0.124	0.392	0.152	0.157	0.140	0.440			1.405
Streetscene Tractors								0.335			0.335
Streetscene Tools	0.075	0.075			0.019	0.025	0.159	0.041			0.394
Streetscene Trailers			0.007		0.007	0.007		0.008		0.008	0.037
Waste Refuse Fleet	0.015	0.174		2.390		0.414		0.207		2.855	6.055
Waste Recycling Fleet – New Service	2.140						2.560				4.700
Waste JCB Diggers						0.085	0.088				0.173
Waste Van	0.018					0.079					0.097
Total	2.492	0.509	0.251	2.799	0.466	0.827	3.331	1.295	0.203	3.009	15.182

There will be a consequent cost to the revenue budget which will have to be included in the MTFS projections. Based on the expenditure shown in Annex B and forecasts of the amount and timing of receipts and current capital financing costs, the additional costs to the revenue budget will be around £8.171m over 10 years, with the costs in each year 2020/21 to 2029/30 being as shown below.

Year	Total £m
2020/21	0.04
2021/22	0.29
2022/23	0.59
2023/24	0.85
2024/25	1.07
2025/26	1.09
2026/27	1.10
2027/28	1.13
2028/29	1.15
2029/30	0.88
Total	8.17

A capital programme for 2020/21 to 2022/23 totalling £24.624m will be recommended to Full Council on 19 February 2020, consistent with the detail shown in Annex B. The prudential indicators that will apply for this 3 year period are set out at Annex C.

Funding for 2020/21 expenditure is likely to be available from the following sources:

- Further capital receipts from asset sales
- Right to Buy capital receipts
- Government grants
- Other external contributions
- Borrowing/Leasing

All of the above funding sources are likely to be limited so the programme only includes affordable projects.

As described earlier, current estimates of the amount required to be invested in projects to ensure continued service delivery and meet commitments compared with forecasts of likely receipts from asset sales and other available resources indicate that there will be insufficient resources available to fund all of these requirements. If forecast receipts from sales of assets cannot be achieved within this timeframe, the Council may have to review its stance with regard to borrowing, if this proves to be the only practical means of funding necessary investment, particularly if a major unforeseen item of capital expenditure were to materialise, for example major repairs to enable an operational building to continue to be used or new legislation requiring capital spending.

DEFINITION OF CAPITAL EXPENDITURE INCLUDED IN THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM

All expenditure that can be directly attributed to the acquisition, creation or enhancement of items of property, plant and equipment or the acquisition of rights over certain longer-term intangible benefits is accounted for on an accruals basis and capitalised as a non-current asset. It must be probable that the future economic benefits or service potential associated with the item will flow to the Council - the Council does not have to own the item but it must be more than likely that it has gained the right to use the item in the provision of services or to generate cash from it. In addition it must be possible to measure the cost of the item reliably.

Expenditure that should be capitalised will include expenditure on the:

- Acquisition, reclamation or laying out of land
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- Acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels

In this context, the definition of enhancement contained in the previous Code of Practice (SORP) is still applicable and means the carrying out of works which are intended to:

- Lengthen substantially the useful life of the asset, or
- Increase substantially the market value of the asset, or
- Increase substantially the extent to which the asset can or will be used for the purpose or in conjunction with the functions of the local authority concerned.

Under this definition, improvement works and structural repairs should be capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance should be recognised in the revenue account as it is incurred. Expenditure on existing fixed assets should be capitalised in three circumstances:

- Enhancement - see above
- Where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life is replaced or restored
- Where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by the authority and have already been reflected in depreciation

Assets acquired on terms meeting the definition of a finance lease should be capitalised and included together with a liability to pay future rentals.

Where an asset is acquired for other than cash consideration or where payment is deferred the asset should be recognised and included in the balance sheet at fair value.

2020/21 to 2029/30 Capital Programme

Annex B

CAPITAL PROJECTS	2020/21 to 2029/30 Proposed Programme										
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	TOTAL
	£	£	£	£	£	£	£	£	£	£	£
PRIORITY - Local Services that work for Local People											
Service Area - Council Modernisation	380,000	506,000	110,000	102,000	15,000	653,000	40,000	29,000	15,000	550,000	2,400,000
Total	380,000	506,000	110,000	102,000	15,000	653,000	40,000	29,000	15,000	550,000	2,400,000
PRIORITY - Growing our People and Places											
Service Area - Housing Improvements	1,070,000	1,080,000	2,615,000	2,625,000	2,675,000	2,775,000	2,975,000	3,500,000	5,125,000	3,125,000	27,565,000
Service Area - Managing Property & Assets	131,531	101,500	410,846	14,922	2,135	2,804	0	216,174	273,525	0	1,153,437
Total	1,201,531	1,181,500	3,025,846	2,639,922	2,677,135	2,777,804	2,975,000	3,716,174	5,398,525	3,125,000	28,718,437
PRIORITY - A Healthy, Active and Safe Borough											
Service Area - Environmental Health	10,000	0	0	60,000	0	12,000	0	0	0	0	82,000
Service Area - Streetscene and Bereavement Services	295,600	1,170,600	1,265,600	990,600	735,600	220,600	165,600	95,600	55,600	70,600	5,066,000
Service Area - Recycling and Fleet	3,766,000	609,500	351,000	2,899,500	565,500	1,026,500	3,431,000	1,395,000	303,000	3,109,000	17,456,000
Service Area - Leisure	3,682,000	331,000	687,000	17,000	17,000	150,000	0	0	0	0	4,884,000
Service Area - Museum	95,000	240,000	40,000	0	0	0	0	0	0	0	375,000
Service Area - Managing Property & Assets	55,547	40,456	273,403	220,498	89,622	819,395	215,754	219,340	329,716	0	2,263,731
Service Area - Engineering	165,873	140,193	806,287	1,287,105	0	0	0	0	0	0	2,399,457
Total	8,070,020	2,531,749	3,423,290	5,474,703	1,407,722	2,228,495	3,812,354	1,709,940	688,316	3,179,600	32,526,189
PRIORITY - A Town Centre for All											
Service Area - Managing Property & Assets	1,702,553	1,110,383	81,126	183,250	20,800	144,920	159,198	165,229	65,777	10,000	3,643,235
Total	1,702,553	1,110,383	81,126	183,250	20,800	144,920	159,198	165,229	65,777	10,000	3,643,235
CONTINGENCY/FEASIBILITY STUDIES	1,100,000	100,000	100,000	0	0	0	0	0	0	0	1,300,000
TOTAL	12,454,103	5,429,631	6,740,262	8,399,875	4,120,657	5,804,219	6,986,552	5,620,343	6,167,619	6,864,600	68,587,861
FUNDING											
Capital Receipts C/Fd from 2019/20	2,062,506										2,062,506
Flexible Use of Capital Receipts	-400,000										-400,000
Capital Receipts	4,330,000	500,000	500,000	500,000	8,000,000	8,000,000	8,000,000	8,000,000	500,000	500,000	38,830,000
External Contributions	2,065,000	2,765,000	1,015,000	1,025,000	1,015,000	1,025,000	1,015,000	1,015,000	1,025,000	1,015,000	12,980,000
ICT Development Fund	50,000	50,000	50,000	50,000	15,000	50,000	40,000	29,000	15,000	50,000	399,000
Borrowing/Leasing	4,346,597	2,114,631	5,175,262	6,824,875	-4,909,343	-3,270,781	-2,068,448	-3,423,658	4,627,619	5,299,600	14,716,355
TOTAL	12,454,103	5,429,631	6,740,262	8,399,875	4,120,657	5,804,219	6,986,552	5,620,343	6,167,619	6,864,600	68,587,861

Annex C – Prudential Indicators

Capital Prudential Indicators

Actual and Estimate of Capital Expenditure

31/03/19 Actual (£000's)	31/03/20 Estimate (£000's)	31/03/21 Estimate (£000's)	31/03/22 Estimate (£000's)	31/03/23 Estimate (£000's)
2,980	7,250	12,454	5,429	6,740

The Capital Financing Requirement (The Councils Borrowing Need)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR projections are below:

31/03/19 Actual (£000's)	31/03/20 Estimate (£000's)	31/03/21 Estimate (£000's)	31/03/22 Estimate (£000's)	31/03/23 Estimate (£000's)
4,405	4,405	8,752	10,867	16,042

The amounts shown above from 2020/21 onwards allow the Council to borrow during those years to finance capital expenditure which cannot be funded from other revenue or capital resources. However, the likelihood of individual schemes, the timings and the amounts involved cannot be assessed with certainty at this point.

The sale of Council assets for capital receipts will have a significant impact upon the CFR, if sales are made the Council's borrowing requirement will be reduced, if not the Council's borrowing requirement will be greater.

Affordability Prudential Indicators

Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream

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.

Financing Costs comprise the aggregate of: interest payable, interest receivable and investment income; the amount charged as MRP; depreciation and impairment charges that have not been reversed out of the revenue account.

Net Revenue Stream is defined as the 'amount to be met from government grants and local taxpayers'. This is the Council's 'budgetary requirements' figure shown in the General Fund Revenue Budget, being the net expenditure for the year before deducting government grants (Revenue Support and Business Rates Retention) and adjusting for the Collection Fund surplus/deficit. The relevant figures for this Council are set out in the table below:

	2018/19 Actual (£000's)	2019/20 Estimate (£000's)	2020/21 Estimate (£000's)	2021/22 Estimate (£000's)	2022/23 Estimate (£000's)
Net Revenue Stream	13,327	13,050	13,311	13,577	13,849
Financing Costs	(78)	12	140	386	688
Ratio	(0.59%)	0.09%	1.05%	2.85%	4.97%

Treasury Indicators

Limits to Borrowing Activity

The Local Government Act 2003 requires each local authority to determine and keep under review how much money it can afford to borrow. This is to be determined by the calculation of an affordable borrowing limit which Regulations to the Act specify should be calculated with regard to the CIPFA Prudential Code.

Previously borrowing has not been used to fund the capital programme because the Council has had sufficient reserves and useable capital receipts to finance capital expenditure from these sources.

The Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed.

Operational boundary	2020/21 Estimate (£000's)	2021/22 Estimate (£000's)	2022/23 Estimate (£000's)	2023/24 Estimate (£000's)
Borrowing	75,000	75,000	75,000	75,000
Other long term liabilities	0	0	0	0

The Authorised Limit for External Borrowing

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

The Council is asked to approve the following authorised limit:

Authorised limit	2020/21 Estimate (£000s)	2021/22 Estimate (£000's)	2022/23 Estimate (£000's)	2023/24 Estimate (£000's)
Debt	85,000	85,000	85,000	85,000
Other Long Term Liabilities	0	0	0	0

Limits on Interest Rate Exposures (fixed and variable interest rates)

The following limits will apply in relation to the Council's interest rate exposure. They relate to interest on both borrowings and investments. These limits are intended to reduce the risk of the Council suffering unduly from significant adverse fluctuations in interest rates.

Limit on Fixed Interest Rate Exposures (as a percentage of total borrowings / investments)

	Borrowing		Investments	
	Upper	Lower	Upper	Lower
2019/20	100%	0%	100%	0%
2020/21	100%	0%	100%	0%
2021/22	100%	0%	100%	0%
2022/23	100%	0%	100%	0%

Limit on Variable Interest Rate Exposures (as a percentage of total borrowings/ investments)

	Borrowing		Investments	
	Upper	Lower	Upper	Lower
2019/20	100%	0%	100%	0%
2020/21	100%	0%	100%	0%
2021/22	100%	0%	100%	0%
2022/23	100%	0%	100%	0%

In relation to both borrowing and investing fixed rate investments and loans may be anything between 0% and 100% of the total, with the same proportions being permitted for variable rate loans – in effect there is no limit on each type. This enables maximum flexibility to be afforded to take advantage of prevailing interest trends to obtain the best deal for the Council.