

<b>Agenda</b>	
<b>Item</b>	

<b>MEETING:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>11 FEBRUARY 2020 OVERVIEW AND SCRUTINY 26 FEBRUARY 2020 CABINET 26 FEBRUARY 2020 FULL COUNCIL</b>
<b>SUBJECT:</b>	<b>CAPITAL STRATEGY AND CAPITAL PROGRAMME 2020/21 – 2022/23</b>
<b>REPORT FROM:</b>	<b>CABINET MEMBER FOR FINANCE AND HOUSING</b>
<b>CONTACT OFFICER:</b>	<b>MIKE WOODHEAD, JOINT CHIEF FINANCIAL OFFICER</b>
<b>TYPE OF DECISION:</b>	<b>COUNCIL</b>
<b>FREEDOM OF INFORMATION/STATUS:</b>	This paper is within the public domain
<b>SUMMARY:</b>	This report sets out the capital strategy, the proposed capital programme 2020/21 and the indicative capital programme 2021/22 – 2022/23. The report sets out the capital investment priorities and information on the funding of the programme.
	Cabinet is asked to: <ul style="list-style-type: none"> <li>• Approve the capital strategy 2020/21 – 2022/23</li> </ul>

<b>OPTIONS &amp; RECOMMENDED OPTION</b>	<ul style="list-style-type: none"> <li>• Approve the capital programme of £51.101m for 2020/21 and the associated funding arrangements</li> <li>• Note the addition of £1.5m to the revenue budget from 2020/21 to support borrowing for the programme.</li> <li>• Note the indicative capital programme for 2021/23 – 2022/23 and that this will be subject to decision making in future years.</li> </ul>
<b>IMPLICATIONS:</b> <b>Corporate Aims/Policy Framework:</b>	The proposals accord with the Policy Framework
<b>Statement by Section 151 Officer:</b>	Financial and risk implications are detailed in the report.
<b>Equality/Diversity implications:</b>	No
<b>Considered by Monitoring Officer:</b>	<p>Yes</p> <p>The Council has a duty under section 3(1) of the Local Government Act 2003 to determine and keep under review how much money it can afford to borrow. Section 3(5) of the Local Government Act 2003 provides that the Secretary of State may by regulations make provision about the performance of that duty. Regulations made by the Secretary of State require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA regarding the affordability of the Capital Programme.</p>
<b>Are there any legal implications?</b>	The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that particular scheme. Each scheme within the capital programme will be approved in accordance with the Council's Constitution.
<b>Staffing/ICT/Property:</b>	No
<b>Wards Affected:</b>	All

**Scrutiny Interest:**

Overview and Scrutiny Committee

**TRACKING/PROCESS**

**DIRECTOR: MIKE WOODHEAD**

Joint Executive Team	Cabinet Member/Chair	Ward Members	Partners
	Yes		
Scrutiny Committee	Cabinet	Committee	Council
11 February 2020	26 February 2020		26 February 2020

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## **CAPITAL STRATEGY 2020/21 – 2022/23**

### **1 INTRODUCTION**

- 1.1 In line with good practice, the Capital Strategy forms part of the council's strategic and financial planning framework and provides a framework within which the council's capital investment plans will be delivered. The capital strategy 2020/21 – 2022/3 has been prepared to cover a 3 year period initially though it is expected that this will be extended to a 5 year time frame in line with the council's medium term financial strategy. The current approach recognises the uncertainty, especially in relation to funding in future years.
- 1.2 The format of the Capital Strategy reflects the Prudential and Treasury Management Codes issued by CIPFA in 2017 which require councils to prepare a capital strategy and include specific information within it. The strategy therefore includes:
- A high-level, long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - An overview of how the associated risk is managed;
  - The implications for future sustainability
  - The proposed capital programme 2020/21 – 2022/23
  - Financing the capital programme
- 1.3 The Capital Strategy is prepared to ensure members are fully aware of the overall long term capital investment objectives, capital strategy requirements, governance arrangements and risk appetite. The strategy cannot be viewed in isolation and links directly to the medium term financial strategy, the treasury management strategy and the asset management plan.
- 1.4 Our commitment to an integrated approach impacts on how our capital programme is developed and priorities with an organisation-wide approach to determining our capital investment priorities, rather than being determined by individual services. This aims to ensure our scarce resources are used in the most effective way and supports our corporate priorities:
- Putting people first – using inclusive growth to improve life chances
  - Raising aspirations – investing in culture and community capacity
  - Building on strengths – Local delivery models driving public sector reform
  - Committing to carbon neutral – combatting climate change through new ways of working
  - Strengths based delivery – protecting the vulnerable and safeguarding our future through reshaping services and support
  - Being bold for Bury – Local planning for a safe, prosperous and happy place to be, throughout the borough
- 1.5 A refresh of the strategy will be carried out during 2020/21 to reflect any changes in priorities and outcomes identified as part of the Bury 2030 strategy. These will be reflected in the strategy and resulting capital programme from 2021/22 onwards. The current strategy reflects the current priorities and outcomes.

## **2 CAPITAL RESOURCES**

- 2.1 When assessing the level of planned capital investment to undertake we make a judgement about the level of capital resources that are likely to be available over the period of the programme. Our main capital resources are service specific grants, third party contributions, capital receipts, lease finance and borrowing.
- 2.2 Historically the Capital Programme has not required any additional borrowing by the Council. This is no longer considered a sustainable position and borrowing is likely to be a key source of funding for new schemes in the future. In developing the capital programme, any revenue costs needed to support potential borrowing have been identified and reflected in the council's MTFS.

### **Central Government Allocations and External Grants and Contributions**

- 2.3 Some capital projects are financed through the allocations received directly from the Government Departments or external grants and contributions which are mostly specific to projects and cannot be used for other purposes. Examples of these would include the allocations for schools, highway maintenance or Disabled Facilities grants from Central Government.
- 2.4 Grants from external organisations are a valuable source of capital finance for the Council and have enabled the Council to realise a substantial number of Capital developments in the past that would otherwise have been unable to progress.
- 2.5 The Council will continue to explore cost effective opportunities for grants from external bodies. However support through grants cannot be accurately predicted and therefore the Council recognises that it cannot depend on this source. The Council will also ensure that exit strategies are prepared in the case of on-going projects funded through external support, in the event of the support being withdrawn.

### **Capital Receipts**

- 2.6 The Council generates capital resources through the sale of surplus land and buildings. The short to medium term asset sales are forecast to be minimal and as a result, the ability of the Council to fund investment from within its own funding remains limited.
- 2.7 The Council will continue to pool both Housing and General Capital Receipts to reflect its commitment to a priority-led approach to the allocation of resources and continue to maintain a policy of not ring-fencing the use of capital receipts to fund new investment in specific schemes or service areas. However it does recognise that exceptionally there will be instances in which it will be necessary to earmark receipts to particular schemes and if earmarking is necessary then a report will be taken to the Cabinet for consideration of the specific circumstances.
- 2.9 From April 2016 the government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to

related to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings on improvements in the quality of service provision. Local authorities are only able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use the existing stock of capital receipts to finance the revenue costs of service reform. There are no proposals to use capital receipts to fund transformation at this stage though it is important that the option to do so is acknowledged.

### **Borrowing**

- 2.8 From 1 April 2004 authorities have had the discretion to borrow in line with the CIPFA Prudential Code which is known as 'Unsupported Borrowing' and outside the Government's control who will no longer support Authorities with a provision in the Revenue Budget to meet the capital financing costs that arise from this level of borrowing.
- 2.9 The Council can make use of the opportunity for the Prudential Borrowing where it is most cost effective and as long as its capital investment plans are affordable, sustainable and prudent. It hence makes a choice on whether revenue resources are used to fund direct service delivery or reserved to finance costs of borrowing for capital investment.
- 2.10 The Council will consider the use of unsupported borrowing in two particular circumstances:
- **Discretionary unsupported Schemes** – where individual services can meet the full borrowing, and other revenue, costs from within existing resources and where the related expenditure meets with Council ambitions/priorities and would not be able to proceed through and other funding source. Any such schemes must be specifically approved by the Cabinet or Council and be supported by a detailed Business Case.
  - **Invest to Save schemes** – where pump priming assistance is required but overall, costs are met from additional revenue/capital income or savings generated by the scheme. Pump priming can be funded from unsupported borrowing or from slippage/internal resources. Again, the specific approval of the executive will be needed before any such schemes proceed.

### **Revenue Contributions and Reserves**

- 2.11 The Council can also use revenue resources to fund capital projects, although revenue budgets have come under increased pressure over recent years thus limiting in a significant measure the revenue contribution resource. The propose capital programme requires borrowing and the cost of borrowing to support the 2020/21 has been factored into the 2020/21 budget. Any requirements beyond this will need to be factored into the MTFs. The Council may also finance some capital schemes from reserves such as S106 set asides.

### **Lease financing**

- 2.12 The Council has traditionally used funding by way of leases to mainly acquire or use vehicles and grounds maintenance equipment where the

revenue budget did not allow for a full capital repayment and there was a robust business case for the option of leasing to be considered. The future funding of vehicles will be considered on a case by case basis with the most cost effective method used.

- 2.13 By 2022 the Council will need to replace all of its vehicles and equipment held currently on operational leases and a strategy to cover replacement over the next seven years is being drawn up in the services involved. This is a key component of the proposed capital programme for 2020/21 with the replacement of waste vehicles an identified priority.

### 3 CAPITAL SPEND PROPOSALS

- 3.1 The council's capital programme 2020/21 – 2022/23 is set out at Appendix 1. The proposed programme takes account of the latest monitoring position on the 2019/20 capital programme including any identified slippage and schemes proposed to be carried forward into future years. In addition to this a number of new schemes are proposed for inclusion in the programme.

- 3.2 The proposed capital programme is focused around some main themes that align to the Council's objectives and outcomes including:

- Regeneration of key areas within the borough
- Sport and Leisure
- Operational Fleet
- Housing
- Highways
- Children and Young People, including schools
- ICT and Digital
- Estate Management

- 3.3 The key areas of investment proposed for 2020/21 are:

- **Replacement of the vehicle fleet.** This includes replacement of the waste management fleet as well as other vehicles used across a range of services. The programme is phased over a 3 year period during which the most suitable method of procurement will be considered. Vehicles are currently leased and are funded from revenue budgets which may be available to support any borrowing in future years should the most cost effective method be to purchase rather than lease. These revenue budget have not been considered at this stage.
- **Regeneration** A significant amount of regeneration works has been assumed covering all major sites across the council. This work includes funding brought forward from the 2019/20 financial year.
- **Highways** Continued investment in highways services. This is in line with commitment made when the 2019/20 capital programme was set.
- **Cycle Ways** The council has the opportunity to spend up to £10m of grant funded income from the Greater Manchester Combined Authority to support greater use of cycle ways and to promote greater use. Full utilisation of the funding in 2020/21 has been assumed.

- **Education** Anticipated grant income for schools related expenditure has been assumed. Final grant allocations have yet to be announced and indicative figures have been used. These will be adjusted once the final allocations have been made available.
- **Sports and Leisure** Investment in external sites, including parks, as well as leisure centre is assumed within the capital programme to promote healthier lifestyles and wellbeing.
- **Housing** Use of the housing revenue account to promote housing growth has been assumed, all of which will be funded from within the HRA.

3.4 Total expenditure in 2020/21 is planned at £51.101m however the position is likely to evolve as:

- There may be further government funding allocations announce prior to the start of the 2020/21 financial year;
- It is likely that new initiatives will be announced later in the financial year;
- There may be the opportunity to bid for additional funding;
- The council may identify other funding sources, including capital receipts, to finance additional capital expenditure.

3.5 Therefore the capital programme position will be kept under review and any new information about funding allocations will be presented to members in future reports.

3.6 In recent years the programme was based on fully funded schemes and a reduced call on Council's own resources through prioritisation methods that are under continuous development. This is no longer considered sustainability in light of the pressures on the council's finances and reduced reserves. Within the proposals is a requirement to fund £15m of investment through borrowing. In recognition of this, a total of £1.5m capital financing costs has been built into the revenue budget from 2020/21 onwards.

#### 4 Funding the Capital Programme

4.1 The draft programme is proposed to be financed as follows:

<b>Financing the Capital Programme 2020/21 – 2022/23</b>				
	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>TOTAL</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Cost	51.101	39.803	40.158	131.062
Financed By:				
Grants / External Funding	14.978	2.339	2.339	19.656
HRA Headroom reserve	9.830	10.000	10.000	29.830
Capital Receipts Reserve	0.609			0.609
Borrowing -Prudential	25.684	27.464	27.819	80.967
<b>TOTAL</b>	<b>51.101</b>	<b>39.803</b>	<b>40.158</b>	<b>131.062</b>



- 4.2 From the table above it is evident that there is reliance on a significant amount of borrowing in future years. The affordability of such borrowing will be subject to consideration at the point at which the budget for that financial year is set. The council will however work to ensure that the level of borrowing required is reduced as much as possible and that we maximise the use of capital receipts, grant and other external income and also use any existing revenue budgets that may not be needed should there be a shift away from leasing to borrowing, i.e. in the case of vehicle replacement.

## **5 PRIORITISING, MANAGING, MONITORING, REPORTING AND EVALUATING THE CAPITAL PROGRAMME**

### **Prioritising Capital Resources**

- 5.1 The Council has continued to embrace the concept of Asset Management and the need to ensure that investment within the Borough maintains and develops assets 'fit for purpose'. It will work to ensure that future investment delivers the ambitions and priorities in the Bury Plan. It has been long demonstrated that the demands for capital investment tend to exceed available resources. To alleviate this, a robust mechanism is in place to assess schemes against key criteria and assist in decision prioritisation for use of capital resources. New capital gateway processes are currently being developed and will be implemented during 2020/21.
- 5.2 The scrutiny of capital schemes proposed will take place through the combined work of members and officers, Joint Executive Team and with final decisions for budget setting being taken by the full Council in February each year.
- 5.3 The Council has in place a comprehensive capital bidding mechanism through which information on the strategic fit, partnership working, revenue consequences, funding profile, statutory drivers and critical success factors are collected for all schemes. The capital bidding mechanism ensures that new capital projects are appraised on a consistent basis and are aligned with the priorities set out in the Bury Plan.
- 5.4 Preparation of the Capital Programme is undertaken in two stages. Firstly, scheme bids are placed into the following categories:
- 100% funded schemes
  - Discretionary schemes (Invest to Save)
- 5.5 In line with the priority-led approach previously approved by Executive it is assumed that Members will wish to support the inclusion of schemes that fall into the first category, although this assumption is tested regularly and Members are free to exercise discretion over the inclusion of any scheme (or scheme funding).
- 5.6 The second stage involves assessing the extent of any resources that are available to fund new, discretionary schemes and then using a simple quantifiable scoring model that assesses the extent to which schemes reflect national and local priorities, generate revenue savings/costs and lever in additional external resources.
- 5.7 The Council's priorities form the framework for the prioritisation of capital investment for the Capital Programme. By using this prioritisation process on an annual basis to decide the Capital programme for the following year,

it allows the review of the whole 3 year rolling capital programme. This review of schemes allows the addition, withdrawal or deferral of capital investment resulting ensuring available capital resources are focused on corporate priorities.

- 5.8 Reviewing the Capital Programme is an on-going process and in the past several years available resources have been reducing constantly due to new identified funding requirements and a slowdown in available suitable for disposal surplus assets.
- 5.9 The Asset Management process provides a comprehensive and rigorous assessment of the Council's assets, their potential use and performance which assists in enhancing and strengthening the process of prioritising investments within the Council.
- 5.10 The Council is currently projecting investment gaps in the next two years and beyond. The combined processes of prioritisation, different procurement and delivery options, remain central to delivering this Capital Strategy.

## **6 Monitoring and Reporting on the Capital Programme**

- 6.1 The Capital Programme is monitored regularly throughout the year by the corporate Capital Programme Management Group, and a summary financial monitoring report is submitted quarterly to the Joint Executive Team, the Cabinet and Full Council. This report presents detail of spend, potential re-profiling of the programme and any significant changes in funding assumptions, especially the level of asset disposals which are always critical for the delivery of the Capital Programme.

## **7 PERFORMANCE MEASUREMENT AND EVALUATION**

- 7.1 The Council has for many years adopted a long-term approach to capital investment, with capital schemes and priorities often being implemented over a number of years.
- 7.2 The Council will continue to develop a monitoring and evaluation process, which will focus on the results/impact of any investment made. An outcomes focussed monitoring approach will be included in future monitoring reports.
- 7.3 All capital schemes will be managed using the Bury project management methodology and programme management will be undertaken through the Capital Programme Management Group. These processes will be updated as part of the new Gateway processes that are currently being developed and implemented from 2020/21.
- 7.4 In line with the project Management Methodology, post-completion reviews on Capital Programme projects are undertaken to assess whether the intended objectives were achieved and whether potential improvements can be identified for the future.
- 7.5 The Capital Programme Monitoring Group meets regularly to monitor the Programme and monitoring reports are considered by the Joint Executive

Team, Cabinet and Scrutiny Panels on a quarterly basis. Should intervention action be required this will be undertaken immediately and may include a moratorium on other scheme starts, facilitation of further capital receipts or the use of additional borrowing (subject to revenue resources being available).

- 7.6 Risk based parameters are incorporated into the monitoring process so that schemes of highest risk (in terms of spending against budget and/or spending profile) receive highest attention.

## **8 RISK MANAGEMENT**

- 8.1 There are three main risks recognised as inherent in the Capital Strategy recommended above:
- **Capital receipts are not realised to the level anticipated above.** This is a major risk and is one that has impacted on past programmes. To maintain this low risk it is strongly recommended that schemes reliant on capital receipts do not begin until there is a high degree of certainty that the relevant receipt will materialise.
  - **Future rise in Interest Rates.** Planning for Prudential Borrowing can be affected by rises in interest rates making the borrowing option less attractive as a funding option and putting at risk longer term large capital schemes.
  - **Schemes need re-profiling from one year to the next.** This is considered a normal feature of capital schemes and can occur for a large number of reasons. The risk can be mitigated by slipping corresponding resources between years and is not felt to be high. It is expected that the new Capital Gateway processes will improve the profiling of expenditure and also the delivery of schemes in line with expectations.
  - **Scheme costs increase.** Whilst not unusual, increased costs that can occur due to a number of factors cannot be mitigated without an impact on other schemes within the Programme or an impact on future years' resources. The risk can be reduced by the use of sound costing techniques, effective project management and monitoring schemes using a risk assessment approach.

2020/21 – 2022/23 Capital Programme						
Capital Programme						
	Slippage brought forward	New schemes 2020/21	Total Cost	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
<b>Regeneration and Economic Growth</b>						
Radcliffe	0.000	5.250	5.250	0.200	0.950	4.100
Prestwich	0.000	6.200	6.200	0.550	0.850	4.800
Ramsbottom	0.000	1.450	1.450	0.200	1.170	0.080
Bury	0.000	8.125	8.125	1.980	2.945	3.200
Bradley Fold	0.000	5.200	5.200	0.200	1.400	3.600
Refurbishment of Bury Market	0.900	0.000	0.900	0.900	0.000	0.000
<b>Sub Total</b>	<b>0.900</b>	<b>26.225</b>	<b>27.125</b>	<b>4.030</b>	<b>7.315</b>	<b>15.780</b>
<b>Sports and Leisure</b>	<b>0.000</b>	<b>6.339</b>	<b>6.339</b>	<b>2.611</b>	<b>2.306</b>	<b>1.422</b>
<b>Operational Fleet</b>	<b>0.000</b>	<b>10.000</b>	<b>10.000</b>	<b>7.000</b>	<b>2.000</b>	<b>1.000</b>
<b>ICT and Digital</b>	<b>3.041</b>	<b>3.174</b>	<b>6.215</b>	<b>5.015</b>	<b>1.200</b>	<b>0.000</b>
<b>Highways</b>						
Cycle and Walking Routes	0.000	10.000	10.000	3.000	4.000	3.000
Highways	0.000	11.662	11.662	5.296	2.682	3.684
Street Lighting	5.000	0.000	5.000	2.000	2.000	1.000
Traffic Calming and Improvement	0.517	0.000	0.517	0.517	0.000	0.000
<b>Sub Total</b>	<b>5.517</b>	<b>21.662</b>	<b>27.179</b>	<b>10.813</b>	<b>8.682</b>	<b>7.684</b>
<b>Children and Young People</b>	<b>9.322</b>	<b>9.450</b>	<b>18.772</b>	<b>8.450</b>	<b>6.800</b>	<b>3.522</b>
<b>Estate Management</b>	<b>0.000</b>	<b>4.000</b>	<b>4.000</b>	<b>1.750</b>	<b>1.500</b>	<b>0.750</b>
<b>Communities and Wellbeing</b>						

2020/21 – 2022/23 Capital Programme						
Capital Programme						
	Slippage brought forward	New schemes 2020/21	Total Cost	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£m
Older People	0.588	0.000	0.588	0.588	0.000	0.000
Disabled Facilities Grant	0.855	0.000	0.855	0.855	0.000	0.000
Other	0.159	0.000	0.159	0.159	0.000	0.000
<b>Sub Total</b>	<b>1.602</b>	<b>0.000</b>	<b>1.602</b>	<b>1.602</b>	<b>0.000</b>	<b>0.000</b>
<b>Housing Public Sector</b>	<b>0.000</b>	<b>29.830</b>	<b>29.830</b>	<b>9.830</b>	<b>10.000</b>	<b>10.000</b>
<b>TOTAL</b>	<b>20.382</b>	<b>110.680</b>	<b>131.062</b>	<b>51.101</b>	<b>39.803</b>	<b>40.158</b>

Appendix 1