

Cabinet Minutes, 9 February 2021 – Appendices A & B Capital Budget

Appendix A Capital Strategy 2021/22 to 2025/26

1 Purpose

- 1.1 The purpose of this Capital Strategy is to outline the Council's approach to capital investment, and how the Council ensures that capital investment is prudent, affordable and directed to the Council's Corporate Priorities.
- 1.2 The Capital Strategy is a partner document to the Medium-Term Financial Plan (MTFP), the Broadland and South Norfolk – "Our Plan" 2020-2024, the ICT Strategy, the Commercialisation Strategy, the Council's Annual Delivery Plan, the Council's Budget (Revenue and Capital), the Treasury Management Policy and the Annual Investment Strategy.

2 Vision for the District

- 2.1 This strategy seeks to deliver our vision for the district as set out in the Broadland and South Norfolk – "Our Plan" 2020-2024. Our ambitions are:
 - Growing the Economy
 - Supporting Individuals and empowering communities
 - Protecting and improving the natural and built environment, whilst maximising quality of life
 - Moving with the times, working smartly and collaboratively.

3 Definition of Capital Expenditure

- 3.1 Capital expenditure is defined in Section 16 of SI 2003/3146 as:
 - Expenditure that results in the acquisition, construction or enhancement of fixed assets (tangible and intangible)
 - Expenditure fulfilling one of the definitions specified in regulations made under the Local Government Act 2003
 - Expenditure which has been directed to be treated as capital by the Secretary of State (for example, grants made to third parties for the purpose of capital expenditure).

4 Requirement for a Capital Strategy

- 4.1 The Local Government Act 2003 requires local authorities to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Prudential Code "requires local authorities to have regard to wider management processes (option appraisal, asset management planning, strategic planning and achievability) in accordance with good professional practice".
- 4.2 As part of the Prudential Code authorities are required to produce a capital strategy and are also required to estimate their capital expenditure over the next three financial years, which will form a part of the budget setting process each year.

- 4.3 The capital strategy helps address the strategic long-term purpose of investment and therefore stretches for many years.
- 4.4 The strategy provides the starting point for the capital programme and a framework for the effective use of the Council's resources and will influence the direction of treasury management. The Prudential Code permits the Council to determine the appropriate level of capital investment to deliver quality public services, subject to affordability.

5 Priorities

- 5.1 This Capital Strategy focuses investment to deliver the Council's corporate priorities, while also contributing to the Council's financial sustainability by supporting opportunities to develop more efficient service delivery and to generate additional income.
- 5.2 The current capital expenditure priorities are set out in the Capital Programme.
- 5.3 This strategy is a living document which evolves over time to incorporate ongoing capital liabilities which will need to be met in the future alongside other investment decisions. In order to determine future liabilities, the Council will need to commission condition surveys for Council assets. The Capital Strategy will also need to be developed in line with the asset management plan. The Capital Strategy is a corporate document and requires a cross-Council approach to be effective.

6 Capital Assets

- 6.1 The main council buildings are likely to present the greatest ongoing capital liability for the Council over the next 20 years.
- 6.2 An accommodation review will be carried to consider the long-term accommodation strategy.
- 6.3 In addition to these assets, capital expenditure will need to be incurred on the upgrade of IT equipment and improvements to the IT Infrastructure.

7 Capital Financing

- 7.1 The Council can finance its capital programme from various sources as follows:
- Revenue.
 - Revenue Reserves
 - Capital Receipts from asset disposals
 - Grants
 - Tax Increment Financing (TIF).
 - Private Finance Initiative/Public Private Partnership
 - CIL
 - Borrowing.

- 7.2 Over the next few years, the total amount of investments and cash will fall as cash is spent on the capital programme and earmarked reserves are spent.
- 7.3 The proposed total resources available to finance the current capital programme going forward from 2021/22 and slippage from 2020/21 will be in the region of £24.6 million as set out below:

Resources	£million
Capital Receipts	2.4
Grants	14.2
Revenue Reserves	8.0
Borrowing Requirement	0
Total	24.6

- 7.4 The use of reserves means that the Council's cash is projected to reduce in the short term. This reduction means that further capital expenditure in this period would need to be funded from generating additional resources or external borrowing.

8 Borrowing

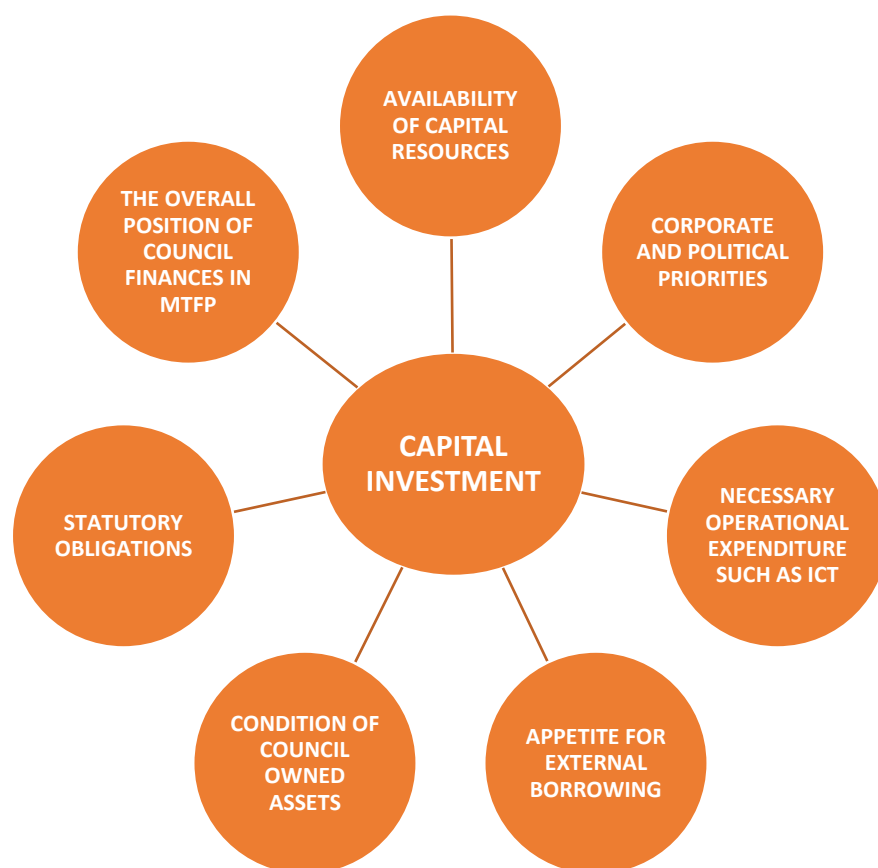
- 8.1 Under the Prudential Code, Councils determine how much they will borrow as long as any borrowing is affordable and prudent, thus clearly linking the financing of capital with the Treasury Management Strategy and the revenue budget.
- 8.2 The consequence of the funding position is that the Council will be required to borrow to finance any additional capital expenditure in the coming period. However, any borrowing must be affordable in line with the requirements of the prudential code.
- 8.3 Under the Prudential Code, Councils are not permitted to borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any Council's commercial investments will be within the District and intended to deliver economic and housing regeneration and growth as well as a financial return.
- 8.4 The need to borrow is not based on our levels of investment balances/reserves but on the Council's capital financing requirement (CFR).
- 8.5 The total amount of debt that the Council can take on needs to be affordable. Affordability will be kept under review as part of the Treasury Management Strategy and when setting revenue and capital budgets It will reflect the need for prudence along with the risk appetite of the Council.
- 8.6 There are many sources of borrowing available to the Council and it is likely that the Council will utilise a mix of these to spread the risk around loan maturities and future interest rates. Sources include:
- Public Works Loan Board (PWLb)
 - Borrowing from other local authorities

- Borrowing via the Municipal Bonds Agency (MBA)
- Borrowing from institutions such as the European Investment Bank and directly from commercial banks
- Borrowing from the money markets
- Local Authority stock issues and bills
- Commercial paper
- Structured Finance.

8.7. Government has issued Operational Circular 162 which took effect from 26 November 2020, setting out the PWLB lending arrangements that will apply to any loans arranged from that date. Government's intention, as stated in the Guidance, is "to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets primarily for yield". As such the PWLB will not lend to a local authority that plans to buy investment assets primarily for yield anywhere in their capital plans, regardless of whether the transaction would notionally be financed from a source other than the PWLB. BNC has no such projects in its Capital Programme.

9 Priorities for the Capital Programme / Option Appraisal

9.1 The need for capital investment is driven by a number of factors both internal and external to the council. The diagram below illustrates a number of these.



9.2 Within the funding constraints outlined above, it is necessary to set clear priorities for capital expenditure. All expenditure proposals require a clear

business case to justify the expenditure. The policy on capitalisation is included in the Council's annual accounts. Capital expenditure is authorised by Cabinet and Full Council through the budget setting process and monitored on a quarterly basis through reports to Cabinet.

- 9.3 Potential proposals should be assessed in line with the Council priorities. The table below highlights capital expenditure that is already planned or could be undertaken to meet the Council's priorities:

Growing the Economy	Supporting individuals and empowering communities	Protecting and improving the natural and built environment, whilst maximising quality of life	Moving with the times, working smartly and collaboratively
Contribution to Food Hub Project	Disabled Facilities Grants	Development/Purchase of Low Cost/Affordable Housing	Delivering the ICT Strategy and Digital Transformation
Property Development	Warm Homes Grants	Investment in Refuse Services	Improvements to the Council's operational buildings
Strategic Economic Developments to boost growth	Green Homes Grants	Wheeled Bin Purchases	
		Street Lighting Replacement Programme	

10 Partnerships

- 10.1 Partnership working is certain to continue and is likely to assume greater significance given the state of public finances so this strategy needs to ensure that any capital requirements identified through partnership work can be considered alongside other bids for capital funds.
- 10.2 Broadland District Council's collaborative working with South Norfolk District Council is likely to create a wide number of opportunities to work jointly on capital projects that will benefit both authorities. If the expectation is that the nature of the projects are large scale, significant capital expenditure is likely. Managers of capital projects should be encouraged to adopt or at least make reference to this Capital Strategy, affirming that the project(s) are in line with current priorities and vision moving forward
- 10.3 The Council is a member of the Greater Norwich Growth Board (GNGB). Expenditure, both capital and revenue, is directed by the Greater Norwich Business Plan, reviewed and updated annually by the Board and supports the delivery of growth over the GNGB area which comprises Broadland, Norwich and South Norfolk Councils, Norfolk County Council and the Local Enterprise Partnership.

11 Equalities

- 11.1 Capital projects must give consideration to the Equalities Act 2010.
- 11.2 Promoting equality and diversity is vital for tackling discrimination and social exclusion.

12 Risk Management

- 12.1 As part of the project business case, capital projects should be risk assessed. Any mitigation actions should be included in the project business case. With diversity of partnership working, including joint venture working as described above, local authorities' assessment of risk management becomes increasingly important.
- 12.2 The main financial risk is associated with actual performance against expected. Excessive costs incurred due to unforeseen circumstances and project slippage can lead to increased pressure on future year's budgets. This can be mitigated by having robust business cases and monitoring through the life of the project.
- 12.3 The risk around borrowing is managed by use of Prudential Indicators that are calculated annually as part of the budget setting process and revisited at each year's actual outturn and a decision on how much the council can afford to borrow.

13 Advice of the Section 151 Officer

- 13.1 The Section 151 Officer is specifically required to report on the deliverability, affordability and risks associated with the capital strategy.
- 13.2 Deliverability is underpinned through the embedding of capital expenditure within the business planning process and use of specialist advice where required, for example, in assessing the plans to deliver commercial property investments.
- 13.3 The prudential indicator of net financing costs to net revenue income stream from taxation and central government provides a view of financial sustainability. This is set out in the Treasury Management Strategy elsewhere on this agenda.
- 13.4 The key risks in this strategy are as follows:
 - **Economic** – Changes in the economy could mean that investments undertaken in line with the strategy do not deliver the anticipated benefits or returns. Prudent assumptions have been made on the level of returns that can be expected.
 - **Timing** – Delays incurred during the implementation phase of particular projects could impact on the returns in the short term. Effective project management and monitoring is undertaken to mitigate this risk.
 - **Interest Rates** – It has been assumed that interest rates will stay at their current low levels. The exact timing of borrowing will determine the exact interest rates on external debt incurred as part of this strategy. The interest rate outlook is kept

under review so that the strategy can be changed should rises in interest rates become probable.

- **Government Policy** – The strategy is aimed to deliver quality services and to improve the sustainability of the Council. Should government policy change in a way that prevents parts of the strategy being implemented, increases its cost or reduces the expected benefits, then the strategy would need to be revised.

14 Conclusion

- 14.1 This Capital Strategy represents a prudent and affordable approach to investment in the Council's assets to support service delivery and to contribute to the Council's financial sustainability over the next five years

Appendix B – Broadland District Council Capital Programme

SCHEME	Team	Provisional Projects - i.e. those requiring a business case and/or Member approval to progress	Estimate 2021/22 £	Estimate 2022/23 £	Estimate 2023/24 £	Estimate 2024/25 £	Estimate 2025/26 £	Total
Resources								
Investment	-	Y	2,000,000					2,000,000
Thorpe Lodge Refurbishment	Facilities		379,600	78,000	31,000	31,000	31,000	550,600
IT - Annual Replacement Programme	ICT and Digital		100,000	75,000	75,000	75,000	75,000	400,000
IT - Website / Digital	ICT and Digital		45,000					45,000
IT - System Replacement Programme	ICT and Digital	Y	485,250	350,000	350,000	350,000	350,000	1,885,250
Place								
Play Areas	Economic Growth							0
Woodlands	Economic Growth							0
Street Lighting	Economic Growth		310,000	34,800	35,300	38,300	38,300	456,700
Bure Valley Railway	Economic Growth	Y	310,000	90,000	90,000	90,000	30,000	610,000
Food Hub Project	Economic Growth	Y	8,880,000	500,000				9,380,000
Contingency for Food Enterprise Zone	Economic Growth	Y	420,000					420,000
Car Park Resurfacing	Economic Growth		50,000					50,000
Public Conveniences	Economic Growth		50,000					50,000
Historic Buildings Grants / Buildings at Risk	Planning		15,000	15,000	15,000	15,000	15,000	75,000
People & Communities								
Refuse services	Waste	Y	3,000,000					3,000,000
Brown Recycling Bins	Waste		35,000	35,000	35,000	35,000	35,000	175,000
Domestic Waste Bins	Waste		90,000	90,000	90,000	90,000	90,000	450,000
Disabled Facilities Grants	Housing		885,000	885,000	885,000	885,000	885,000	4,425,000
Minor Improvement Grants	Housing		30,000	30,000	30,000	30,000	30,000	150,000
Warm Homes Fund	Housing		500,000					500,000
Total			17,584,850	2,182,800	1,636,300	1,639,300	1,579,300	24,622,550
FINANCING								
Grants			10,265,000	1,260,000	885,000	885,000	885,000	14,180,000
Revenue Reserves			6,699,250	674,800	463,050	128,300	68,300	8,033,700
Capital Receipts			620,600	248,000	288,250	626,000	626,000	2,408,850
Borrowing			-	-	-	-	-	-
Total			17,584,850	2,182,800	1,636,300	1,639,300	1,579,300	24,622,550