

NORTH LINCOLNSHIRE COUNCIL

COUNCIL

CAPITAL INVESTMENT STRATEGY 2023/26

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1. To seek approval of the Council's capital investment strategy 2023/26.
- 1.2. To approve the £126.1m capital investment for 2023/26.
- 1.3. The Capital Investment Strategy meets the requirement of the Chartered Institute of Public Finance and Accountancy: Prudential Code for Capital Finance in Local Authorities.

2. BACKGROUND INFORMATION

- 2.1. Capital expenditure is a key enabler for the Council to fulfil its duties and for delivery of its ambitions and Council Plan priorities. Investment in the right things can underpin and support the achievement of improved outcomes for people who live in North Lincolnshire. Capital investment also contributes to efficiencies in the safe operation of the council and supports long-term financial sustainability.
- 2.2. It is a requirement for Local Authorities to publish a Capital Investment Strategy as per the Chartered Institute of Public Finance and Accountancy (CIPFA): Prudential Code for Capital Finance in Local Authorities (2021). The code was updated to introduce more contextual reporting through the requirement to produce a capital strategy, which is intended to allow individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.
- 2.3. The strategy contained within this report, and for which approval is sought, updates the strategy approved by Council last year. There are three key elements:
 - **Capital investment principles**
 - Invest in outcomes
 - Invest to save
 - Invest for yield
 - **Prudential indicators**
 - Indicators required by the Prudential Code

- **Local indicators**

- Indicators of sustainability, value for money and risk management

The Strategy also sets out the legal and regulatory framework around capital investment. The Local Government Act 2003 is the main relevant legislation and CIPFAs Prudential Code is the core of the regulatory framework

- 2.4. The Council's approach to capital investment is not just an annual process. Capital initiatives are developed and tested throughout the year, ensuring sufficient time for due-diligence and making sure that the proposed investment supports delivery of the Council Plan. The Council's Executive have responsibility for scheme approval, implementation and delivery and monitoring impact against outcomes and strategic policy. The capital investment for 2023/26 builds upon the latest approved capital programme 2022/25 and proposes an extension for 2025/26 of those schemes where government grant is anticipated and for lifecycle maintenance requirements to ensure safe operation of council assets.
- 2.5. The Council has utilised its capital investment tools to good effect over a long-term period. The Council's capital financing requirement and long-term need to borrow for capital investment purposes is expected to exceed £281m at the end of 2025/26. In balancing the need for investment with long-term affordability, it is proposed that the Council invests £9m p.a. every year from 2025/26 onwards, setting a longer-term planning horizon, in addition to externally funded investment. This provides re-prioritisation phasing options to the Council for the period and enables long-term affordable investment decisions to be taken.
- 2.6. The Capital Investment Strategy aims to explore sources of external funding and attract inward investment that benefits the place of North Lincolnshire and the lived experience of residents. We will seek to maximise funding opportunities and the Council is actively pursuing various bids. These include a successful £20m bid to the Levelling Up Fund. This fund has the following themes:-
 - Investing to support growth
 - Creating a positive context for housing growth
 - Enabling carbon reduction
 - Building capacity to protect and enable communities
- 2.7. The proposed plan for Capital Investment provides an affordable and agile approach to investment prioritisation that acts as a catalyst for investment in North Lincolnshire in support of the council plan, enhancing the quality of life for residents and ensures the safe and efficient operation of the council.

3. OPTIONS FOR CONSIDERATION

- 3.1. To consider approval of the Capital Investment Strategy 2023/26 set out in appendix 1.
- 3.2. To consider approval of the Capital Programme set out in appendix 2.

4. ANALYSIS OF OPTIONS

Affordability and Prudence

- 4.1. Appendix 2 identifies funding of £126.0m to finance the capital programme over the four-year period 2021/25. The funding is broken down as follows.
- Grant and External Funding (£76.2m)
The Council seeks to maximise external funding for its capital schemes. This funding includes Government grants, funding from external organisations such as LEP funding. Some external funding requires match funding from the Council.
 - Capital receipts (£7.0m)
The Council has an ambitious programme of asset optimisation and disposal of assets no longer required. This generates capital receipts which reduce the council's need to borrow.
 - Borrowing (£42.8m)
Further borrowing is required to support the proposed programme. The revenue cost of this borrowing, in the form of interest payments and Minimum Revenue Provision (MRP) payments are incorporated into the Medium-Term Financial Plan are presented alongside this report. Similarly, the effect on Prudential Indicators is incorporated into the Treasury Strategy report also presented alongside this report.
 - Revenue Funding (£0.0m)
On an exceptional basis, revenue funds are used to contribute towards the cost of capital schemes, primarily within schools, where it is affordable to do so.
- 4.2. The appropriate level of borrowing for the council is locally determined, considering the advice of its Chief Financial Officer. The Chief Financial Officer has determined that the prudent limit for the council's capital financing costs as a proportion of the net revenue stream should not exceed 10% with a target of 7.5%.
- 4.3. Capital resources are limited and therefore robust prioritisation is a fundamental element of the Council's stewardship of public funds. A finite programme needs to work for the Council, make a difference to the people who live in North Lincolnshire and contribute to longer term financial sustainability. In extending the capacity of the programme it is important to avoid erosion of capital funding capacity through investment in schemes which may stand up on an individual basis, but collectively do not deliver the impact they could or exposes the council to too much collective risk. Schemes need to be evaluated relative to each other as well as independently necessitating a programmed approach.
- 4.4. The Capital Investment Strategy sets out the framework for all capital investment decisions. To enable long-term financial sustainability, the Capital Investment Strategy puts in place a more business-like approach to asset management and use of capital to support delivery of the Council Plan. This report proposes an affordable level of internally funded capital resource to be made available to future projects, after taking account of the existing commitments.

- 4.5. In addition to the committed capital programme the council also recognises that additional capital investment will be needed to support its transformation plans, to meet new and existing legislation; to maintain the infrastructure required to carry out its day-to-day business effectively and efficiently, and to support the regeneration of the area. New investment needs are identified through the council's capital planning process and in line with our Capital Investment Strategy. Decisions are informed through a prioritisation process which takes account of such issues as local need, financial & social return, external funding availability and overall affordability.
- 4.6. Ongoing investment as part of lifecycle maintenance requirements is informed through asset management planning in core and infrastructure areas of the council's responsibilities; highways improvements, replacement of machinery and vehicles, replacing outdated technology and improving flood defences being good examples of where this is the case. The proposed capital investment for 2023/26 builds upon the latest approved capital programme 2022/25.
- 4.7. The Council continues to develop as an agile, responsive and enabling organisation. Our organisational development is multi-stranded, an element of which requires capital investment to achieve our goals of being sustainable, enabling and progressive. This might take the form of physical changes to council buildings or new customer focussed digital software and hardware amongst other things.
- 4.8. The medium-term financial plan considered in the revenue report requires some capital investment to support the achievement of ongoing reductions to the cost base, pending completion and approval of business cases.
- 4.9. For planning purposes, the current capital programme is prudent in terms of the internal resources currently available for the period of the plan. Grant and external funding can provide additional resource, but the potential for increased operating costs associated with assets funded in this way must be factored into our budget planning to determine affordability. The MTFP provides for the appropriate level of borrowing after taking account of grants and other external funding, and an ambitious target of capital receipts to be generated through the sale of surplus assets.

5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)

- 5.1. The capital programme must be contained within available resources, including the impact of borrowing on revenue budgets.
- 5.2. Part 1, section 3 of the Local Government Act 2003 places a duty on the council to determine an affordable borrowing limit and to keep this under review. The proposed basis for measuring what is affordable is discussed in section 4.
- 5.3. Future revenue resources are not yet certain pending the Fair Funding Review and further proposed changes to the local government finance system including the reset of the Business Rates Retention Scheme. It is important, therefore, that the council does not overcommit resources to capital investment, which has an unsustainable impact on its revenue budget.

5.4. Calls for additional internally resourced capital schemes or contributions to match funded schemes should be carefully considered against the capital investment strategy which includes consideration of ongoing revenue costs and other priorities for the revenue budget. Possible financing costs should aim for the lower end of the affordability benchmark.

5.5. Changes to the overall capital investment total, re-prioritisation or approval of new schemes against the additional investment allocation will be reported through the relevant executive decision-making processes throughout the year.

6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)

6.1. Not applicable.

7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

7.1. Individual capital schemes are subject to impact assessment as appropriate.

7.2. The Local Government Act 2003 provides the legal framework for local authorities in determining the use of capital resources and use of borrowing. The strategy has been written in line with the statutory guidance published by CIPFA: Code of Prudential for Capital Finance in Local Government.

8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

8.1. The capital strategy is part of the council's strategic and service planning. Consultation takes place on a number of these plans including the Local Transport Plan and an Asset Management Plan for schools.

8.2. These plans help the council to identify its priorities for capital investment. Plans are made with reference to professional and technical requirements and in consultation with relevant stakeholders.

8.3. The Capital Investment Strategy has been presented to Governance Scrutiny.

9. RECOMMENDATIONS

9.1. To approve the capital investment strategy outlined in Appendix 1.

9.2. To approve the capital programme set out in Appendix 2.

9.3. To confirm that, subject to the scheme of delegations to the Executive, re-prioritisation of the programme, further capital projects requiring use of internal funds or fully funded by external sources which are self-financing or which will not cause the council's capital financing costs to exceed 10% of its net revenue stream, may be added to the capital programme when known and assessed by a full business case.

9.4. To the Chief Financial Officer be delegated authority to:

- Borrow within authorised limits and the operational boundaries for external debt
- Effect movements between agreed borrowing figures and long-term liabilities, in accordance with option appraisal and the achievement of value for money for the council. Movements are to be reported to cabinet or council as appropriate at the next meeting following the change

9.5. To approve the Prudential Indicators contained in the Capital Investment Strategy, as modified by changes made to the capital programme, in accordance with Part 1, sections 3 and 5 of the Local Government Act, 2003.

9.6. To report any amendments required to Prudential Indicators during 2023/24, to Audit Committee, Cabinet or Council as appropriate.

DIRECTOR OF GOVERNANCE AND COMMUNITIES

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Background Papers used in the preparation of this report

- Local Government Act 2003
- CIPFA Code of Practice 2020-21
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition)
- Capital Investment Strategy and Revised capital programme 2021-25 (Full Council Feb 2022)
- 2022/23 Period 8 Financial Monitoring and Medium Term Financial Plan Updates (Cabinet 2022/23)
- Latest approved capital programme detail working papers

CAPITAL INVESTMENT STRATEGY

Appendix 1

See separate document

CAPITAL PROGRAMME 2023/26

Appendix 2

Proposed Programme	2023/24 £000's	2024/25 £000's	2025/26 £000's	Total £000's
Investment in Priority				
Keeping People Safe and Well	4,593	665	130	5,388
Enabling Resilient and Flourishing Communities	10,284	8,487	4,819	23,590
Enabling Economic Growth and Renewal	22,233	23,835	19,612	65,680
Running the Business Well	7,474	6,744	2,244	16,462
Total Investment	44,584	39,731	26,805	111,120
Capital Investment Allocation	1,854	6,500	6,500	14,854
Capital Investment Limit	46,438	46,231	33,305	125,974
Funding Analysis				
External & Grant Funding	25,782	29,041	21,356	76,179
Revenue Funding	0	0	0	0
Internal Funding	17,656	14,190	10,949	42,795
Capital Receipts	3,000	3,000	1,000	7,000
Total	46,438	46,231	33,305	125,974