

CAPITAL FINANCING STRATEGY 2023/24



INTRODUCTION AND CONTEXT

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas. It is a requirement of the amendments implemented in the 2018 Treasury Management Code of Practice Guidance that all Local Authority's will need to produce a Capital Strategy each year.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

The strategy will provide an overarching policy framework for the Council's capital programme and planning, and will form part of a suite of strategies which provide a holistic view of the Council's financial planning framework. With this in mind this document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

CAPITAL FRAMEWORK

The Council updated the Plymouth Plan 2014-2034 on 25 January 2021 which sets out the strategic direction for the city.

The Plan identifies specific strategic outcomes for the Council and its partners for the medium and longer-term; these outcomes align to those set in the Plymouth and South West Devon Joint Local Plan.

Performance is measured towards the delivery of the agreed outcomes and reported against on an annual basis.

In February 2022 the Council approved a budget which contained an uplift to the revenue budget of £0.81m to meet some of the increased costs associated with borrowing requirements to fund the capital programme. The current MTFP contains proposals to further increase this sum in 2023/24. The MTFP sets out a summary of schemes that the Council wishes to support and an indicative level of Council financial support which will assist in the delivery of those schemes which all deliver towards the city's outcomes.

GOVERNANCE

The Financial Regulations detail how capital projects are approved and added into the capital programme.

All new schemes must be fully financed and receive relevant approval by Section 151 Officer; up to £0.200m, or by the Leader when above this threshold.

Each scheme will need to detail:

- the aim of the project and any other ways of achieving it
- how it will be funded

- if there are any future revenue implications from the project e.g. building maintenance
- effects on staffing
- legal, contractual and prudential borrowing code implications
- if the Council is acting through an agent or partnership, legal advice must be sought on whether it has the power to act this way
- if it is a key decision, any comments made during consultation and the Council's response
- the estimated amount and timing of any capital and revenue spending.

All proposed new schemes will need to demonstrate how they meet the requirements of the City by presenting a Business Case for approval and detail which of the City's outcomes are being achieved and how the scheme will address this need.

Due diligence is carried out on all new proposals to determine whether the scheme is deemed suitable.

Once accepted, all new schemes, which will require both finance and legal sign-offs, are published in the Executive Decision along with the Leaders decision.

As part of Finance department restructure an updated governance process to establish projects onto the capital programme is being developed to support the programme approval process. This will provide members with further confidence that the schemes meet the expected requirements in line with the strategic direction of the city.

The Capital Financing Strategy is agreed annually with the Capital programme as part of the annual budget setting process. Variations to the Capital programme or in-year additions, subject to delegation, will be agreed by Cabinet through the presentation of quarterly Capital programme monitoring.

CAPITAL PLAN

The Capital Plan is the collective term which defines two key elements; the Capital Programme as approved by the Leader or S151 Officer and the Capital Pipeline which refer to possible future funding that may be available for future projects yet to be approved.

The Capital Programme is the list of schemes which have a confirmed funding source and have been approved for capital investment by the Leader following consideration of a robust, evidence-based business case.

"The Capital Pipeline" is the term used to refer to funding that the Council hopes to receive in the future but has not yet been approved. These consist of both ringfence and unringfenced resources.

Ringfenced resources are essentially those that can only be applied to a specific purpose and include specific grants and S106 contributions etc. Unringfenced resources can be applied to any project and include unringfenced grants and corporate borrowing etc.

CAPITAL PROGRAMME

Once approved, schemes are added to the capital programme for delivery.

The table below details the Capital Programme as at 30 September 2022 reported to Cabinet in November 2022, including, amongst others, the following schemes:

- Future High Streets Fund Civic Centre/Guildhall - £14.424m (total £14.497m)
- Corporate Property/Accommodation strategy - £8.074m
- Heat Sourcing in Corporate buildings - £3.286m (£4.787m)

- Better Places Programme - £14.738m (total £17.959m)
- Forder Valley Link Road – £11.310m (total £52.901m)
- Forder Valley Interchange - £4.246m (total £10.641m)
- Woolwell to the George - £33.763 (total £36.841m)
- Morlaix Drive access improvements - £3.796 (total £4.928m)
- Transforming Cities Fund – £44.854m (total £51.164m)
- Redevelopment of Plymouth Train Station – £29.962m (total £36.497m)
- Highway maintenance and essential engineering – £9.335m
- Street lighting & traffic signals - £9.882m
- Plymouth Crematorium - £23.175m (total £29.381m)
- Property Regeneration Fund - £70.140m

Any adverse variance to approved schemes are required to seek further approval, with identified funding, to enable authorisation for increased expenditure providing details of the variance.

Five Year Capital Programme by Directorate

| Directorate | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
|---|----------------|----------------|---------------|--------------|--------------|----------------|
| | £m | £m | £m | £m | £m | £m |
| People | 9.010 | 7.643 | 3.668 | 0.132 | 0 | 20.453 |
| Place - Economic Development | 22.073 | 92.161 | 12.926 | 4.530 | 0.053 | 131.743 |
| Place – Strategic Planning and Infrastructure | 94.649 | 37.197 | 16.804 | 2.484 | 0 | 151.134 |
| Place – Street Services | 23.168 | 5.573 | 2.377 | 0 | 0 | 31.118 |
| Customer & Corporate Services | 7.852 | 6.424 | 0.582 | 0 | 0 | 14.858 |
| Office for Director of Public Health | 9.823 | 10.682 | 2.670 | 0 | 0 | 23.175 |
| Total | 166.575 | 159.680 | 39.027 | 7.146 | 0.053 | 372.481 |
| Financed by: | | | | | | |
| Capital Receipts | 5.636 | 4.735 | 0.443 | 3.000 | 0.053 | 13.867 |
| Grant funding | 83.250 | 29.560 | 2.625 | 1.803 | 0 | 117.238 |
| Corporate funded borrowing | 34.064 | 44.398 | 18.621 | 2.259 | 0 | 99.342 |
| Service dept. supported borrowing | 31.714 | 78.951 | 11.950 | 0.026 | 0 | 122.641 |
| Developer contributions | 10.443 | 2.036 | 5.388 | 0.058 | 0 | 17.925 |
| Other contributions | 1.468 | 0 | 0 | 0 | 0 | 1.468 |
| Total Financing | 166.575 | 159.680 | 39.027 | 7.146 | 0.053 | 372.481 |

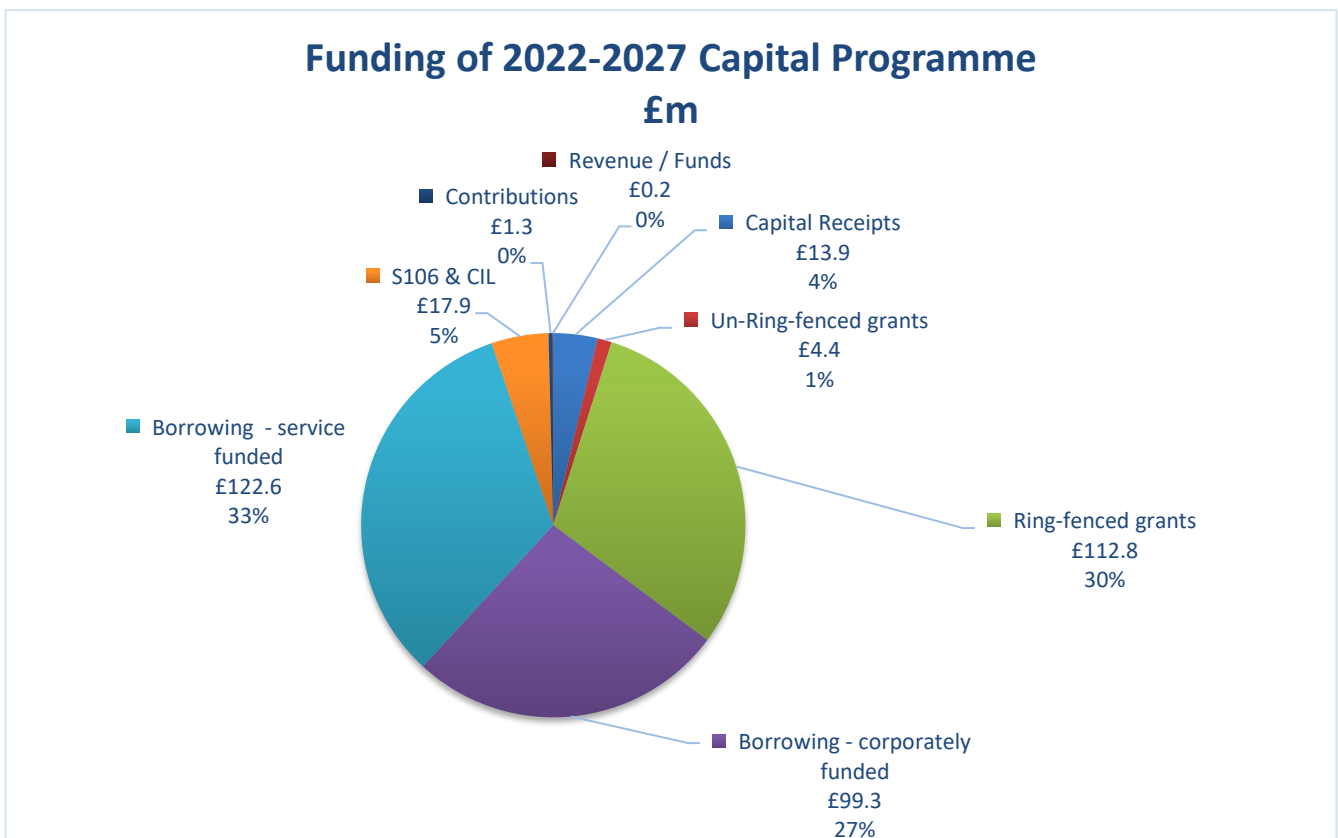
CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is defined as money spent on assets, such as property or vehicles, which will provide a service benefit for more than one year. In local government, this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 (land and buildings) and £5,000 (vehicles, plant or equipment) are not capitalised and are charged to revenue in year.

Capital expenditure is financed by a range of sources which may either be ringfenced or unringfenced. The source of financing is always identified and approved at the time of capital project approval. The capital programme is currently financed by:

- Capital Receipts;
- Grants and contributions;
- S106 and Community Infrastructure Levy (CIL);
- Revenue Contribution to Capital Outlay (RCCO);
- Borrowing – both funded corporately, or where schemes deliver a saving, this is offset against the project and repaid by service.

The Capital Programme is of £372.481m is funding is summarised below by funding source.



PROPERTY AND REGENERATION FUND

The Property and Regeneration Fund’s strategic objectives are to deliver regeneration, economic and employment growth with associated income benefits in the Plymouth Functional Economic Area.

This will enable the Council to invest in direct developments and forward funding opportunities to promote regeneration, safeguarding and creating new jobs as well as encouraging economic growth in Plymouth Functional Economic Area.

The investment fund helps deliver the Plymouth Plan and assists in the redevelopment of brown field sites in the Plymouth area where it is difficult to attract external investment. Any regenerated areas encourage other private companies to invest in the locality as well as attracting external investment from inward investment by companies moving into the area.

EXISTING INVESTMENT PROPERTIES

The Property and Regeneration Fund (previously known as the Asset Investment Fund) has approved investment of over £250 million in commercial property including direct development and forward funding commercial property schemes to deliver:

- Stimulation of economic and employment growth and regeneration in Plymouth Functional Economic Area.
- Associated long-term income generation (via rental revenues) to support the wider financial position of the Council.

All investment decisions have been fully accountable and followed a sequence of internal reporting and sign-offs. In addition, verification of purchase price by external suitably qualified RICS Approved Valuers were obtained prior to any investment.

In terms of on-going governance arrangements, the fund's properties are managed alongside the Council's existing commercial property portfolio in accordance with delegated land and property procedures as set out in the Council's Constitution. In addition, the team undertake regular analysis at both a portfolio and property-level to benchmark performance and manage risk. To improve transparency and disclosure, a regular fund managers' report is produced and a Management Group of key stakeholders meet regularly to review outputs.

AFFORDABILITY

The Council considers all finances from a prudent perspective; this includes the assessment of affordability of all capital investments.

At the point of approval of a scheme, both the funding implications and any ongoing revenue implications are evaluated to enable informed decisions to be made regarding investment opportunities.

The short, medium and longer-term impacts are all assessed taking into account any other wider policy implications which could impact on the decision.

As much of the capital programme is funded by borrowing, assumptions and decisions on the cost and affordability of the Council's borrowing is linked to the Public Works Loan Board (PWLB) interest rates, prudential indicators and the approved borrowing strategy as set out in the Treasury Management Strategy 2023/24.

RISK MANAGEMENT

Risks are assessed continually from both an operational and financial perspective.

In carrying out due diligence, potential project risks are identified and relevant mitigation measures documented prior to approval.

All risks are then managed in line with the Council's risk management policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.

Subject to careful consideration, the Council may consider investing in a higher risk initiative should there be a significant direct gain to the Council's resources or enable more effective delivery of statutory duties.

KNOWLEDGE AND SKILLS

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director of Finance is a qualified accountant with over 25 years' experience.

The Council pays for staff to study towards relevant professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc.

Where Council staff does not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.