

Title of report: Capital Strategy 2024/25 to 2028/29

Report of: Darren Collins – Strategic Director, Resources and Digital

Purpose of the Report

1. Cabinet is asked to recommend that Council approve the attached Capital Strategy for 2024/25 to 2028/29 to support the framework used to set and monitor the Capital Programme.

Background

2. In December 2021 the Chartered Institute of Public Finance (CIPFA) revised the Prudential Code for Capital and the Code of Practice on Treasury Management to align these documents to the revised MHCLG Guidance on Local Government Investments.
3. The revised guidance emphasis is the need to ensure capital expenditure is prudent, proportional, affordable and sustainable, with greater weight placed on the assessment and management of the long-term implications of capital expenditure on the revenue budget and the delivery of the Council's policy objectives.
4. All Councils are required to have a Capital Strategy in place which is approved by full Council. This supports decision making and ensures Councils have a robust approval, reporting and monitoring framework in place which clearly links capital expenditure to the wider Council objectives and impact on the revenue budget.

Proposals

5. Cabinet is asked to recommend that Council approve the Capital Strategy attached at Appendix 2, to ensure that the Council fully complies with the requirements of good financial practice in capital accounting.

Recommendation

6. Cabinet is asked to agree the Capital Strategy as attached at Appendix 2 and recommend the Strategy for approval to Council.

For the following reason:

To ensure that the Council fully complies with the requirements of good financial practice in capital accounting.

Policy Context

1. The proposals in this report are consistent with the Council's priority of Making Gateshead a Place Where Everyone Thrives and the Medium Term Financial Strategy, in particular they ensure that effective use is made of the Council's resources to achieve the Council's priorities whilst ensuring a sustainable financial position.

Background

2. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable.
3. In addition, the revised Prudential Code requires all Councils to have in place a Capital Strategy which has been approved by full Council. To ensure Councils have a robust approval, reporting and monitoring framework in place which clearly links capital expenditure to the wider Council objectives and demonstrates the impact on the revenue budget.
4. The Prudential Code also refers to the need for a clear and integrated treasury strategy which, by the application of set prudential and treasury management financial indicators enables the Council to assess and monitor the prudence, affordability, sustainability and proportionality of the capital programme.
5. CIPFA has produced the Prudential Code, which represents best practice, adopting the attached Capital Strategy will ensure the Council fully complies with the Code and this contributes towards achieving good practice.

Capital Strategy

6. The Capital Strategy for 2024/25 to 2028/29 is attached at Appendix 2. This covers the specific capital investment activities included with the Capital Programme and the framework in place for the annual review of the five-year rolling programme.
7. The Capital Strategy ensures all decisions on capital investment support the Council's priorities and the Council's Medium Term Financial Strategy (MTFS) and sets out the decision-making, monitoring and reporting framework for capital expenditure.
8. In compliance with the Prudential Code, the Capital Strategy also sets out the Council's approach to the following areas:
 - Use of the capitalisation flexibility
 - The impact of the ongoing costs of capital expenditure on the revenue budget and if any reliance is placed on investment returns to balance the revenue budget
 - Assessment of the risks associated with the Capital Programme
 - Any restrictions around borrowing
 - Long term projections around borrowing and the repayment of debt
 - The Council's approach to commercial investments

- Use of independent external advice to support decision-making
- How other long-term liabilities, such as equity investments and financial guarantees are identified and monitored.
- The level of knowledge and skills available within the Council to support informed decision-making.

Consultation

9. The Leader of the Council has been consulted on this report.

Alternative Options

10. There are no alternative options, as the Capital Strategy recommended for approval is required in order to comply with CIPFA's Prudential Code for Capital.

Implications of recommended options

11. **Resources:**

a) Financial Implications - The Strategic Director, Resources and Digital confirms that there are no additional financial implications associated with this report.

b) Human Resources Implications - There are no human resources implications arising from this report.

c) Property Implications – There are no property implications arising from this report.

12. **Risk Management Implications**

There are no risk management implications arising from this report.

13. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

14. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

15. **Climate Emergency and Sustainability Implications**

There are no climate emergency or sustainability implications arising from this report.

16. **Human Rights Implications**

There are no human rights implications arising from this report.

17. **Ward Implications**

There are no direct ward implications arising from this report.

18. **Background Information:**

The following documents have been used in preparation of the report:

1. Local Government Act 2003
2. CLG Guidance on Local Government Investments
3. CIPFA's Prudential Code for Capital
4. CIPFA's Code of Practice on Treasury Management

Capital Strategy

2024/25 – 2028/29

1. Purpose of the Capital Strategy

- 1.1 The purpose of the Capital Strategy is to drive the authority's capital investment ambition whilst also ensuring appropriate capital expenditure, capital financing and treasury management within the context of the sustainable, proportional and affordable long-term delivery of services.
- 1.2 The Capital Strategy supports the Investment Plan and aligns to the Council's strategic approach of Making Gateshead a place where Everyone Thrives by:
- Putting people and families at the heart of everything we do
 - Tackling inequality so people have a fair chance
 - Supporting our communities to support themselves and each other
 - Investing in our economy to provide sustainable opportunities for employment, innovation, and growth across the borough
 - Working together and fight for a better future for Gateshead
- 1.3 Local Authorities are required, by regulation, to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003. A key element of the code is that local authorities should have a long-term capital strategy in place that sets out the long-term context in which capital and revenue decisions are made.

2. Technical Background

2.1. The Capital Strategy is framed within the following statute and guidance:

Legislation	Professional Codes	Guidance
Local Government Act 2003 - Part 1	CIPFA	Government and CIPFA
1.1 Power to borrow 1.12 Power to invest 1.15 Regard to guidance issued 1.3 Affordable borrowing limit	Prudential Code 2021 Treasury Code of Practice 2021	Minimum Revenue Provision Local Government Investments

2.2. In response to a growing number of authorities increasing their use of non-financial investments (such as commercial property portfolios) to generate income to compensate for reducing resources supporting the delivery of their core services, the Prudential Code was updated in 2021. The revised code and guidance sought to increase transparency and to provide a single place to assess the proportionality of this activity in comparison to an authority's core services.

2.3. The Strategy is completed in line with best practice as outlined within the Chartered Institute of Public Finance and Accountancy (CIPFA) revised 2021 Treasury and Prudential Code, it:

- Applies a long-term approach.
- Explores external influences on Capital Strategy e.g. Local Enterprise Partnership (LEP).
- Examines Commercial activity/ambition.
- Determines implications of the Treasury Management Strategy.

- Ensures Council Plan priorities drive capital investment.
- Examines available resources and capacity to deliver.
- Assesses affordability against ambition and addresses any gaps.
- Identifies capital financing principles.
- Demonstrates integration with other strategies and plans.
- Identifies risks and mitigation.
- Outlines Governance, monitoring processes and procedures.

3. The Capital Planning Framework

3.1. The Capital Strategy is an integrated part of the Council's Planning framework. It has an impact on, and is impacted by, other strategies both internally and externally which include the following:

Strategy	Description
Core Strategy	Sets out the spatial planning framework to deliver economic prosperity and healthy, sustainable communities through economic and housing regeneration and new developments
Medium term Financial Strategy (MTFS)	Sets out the financial implications of delivering its key priorities, on the Council, over a five-year period whilst considering potential changes in demographics, legislation, government policies and the economy.
Health and Wellbeing Strategy	Sets the approach to achieving the vision of "Good jobs, homes, health and friends" and assists in the delivery of the Thrive agenda.
Treasury Management Strategy	Sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy.
Asset Strategy	Details existing asset management arrangements and outcomes and planned action to improve asset use
Highways Asset Management Plan	Aims to facilitate the development and improvement of the way in which highway maintenance and management functions are carried out. This will assist in the optimal allocation of resources
Climate Strategy	Provides a framework to table climate change, allowing a collaborative approach and provide actions to contribute to the environmental goals of the Council and wider community.
Housing Strategy	Sets out the long-term vision for housing. The aim of the strategy is to ensure Gateshead continues to provide, good quality affordable homes and housing services that meet the needs and aspirations of the local people.

Strategy	Description
Digital Strategy	Enables customers to access online and mobile services, enables the council to work differently and more efficiently and enables the Council, residents, and businesses to compete in the digital world.
Economic Development Strategy	Sets the vision for the economic growth and development of Gateshead through redevelopment and inward investment

4. Principles

4.1. Capital expenditure can be defined as expenditure that results in the acquisition, construction, or enhancement of an asset (e.g., land, buildings, roads, plant and equipment), that continues to benefit the Council for a period of more than one financial year. Projects can be capitalised if they meet the definition of capital expenditure and are over the current approved de minimus of £10,000. Any item below this limit is charged to revenue.

4.2. The Prudential Code requires that authorities demonstrate that they make capital expenditure and investment decisions in line with services objectives and have proper stewardship arrangements, provide value for money, are prudent, proportional, sustainable, and affordable.

4.3. To ensure that the Council meets this requirement, it will:

- Ensure capital expenditure contributes to the achievement of the Council's Priority Outcomes.
- Ensure investment decisions make best use of resources. The impact of capital expenditure and use of resources is understood and a holistic view taken through the Medium-Term Financial Strategy. Income is not factored into the Medium-Term Financial Strategy although it is used to assess capital schemes.
- Have a clear framework for making capital expenditure decisions.
- Ensure a corporate approach to generating capital resources is established. The approach to providing funding for capital is set out in section 5 of this strategy.
- Have access to sufficient long-term assets to provide services. The Council uses statistical information, including population trends and housing development plans along with asset condition surveys and regular valuations of our assets to help plan long-term need.

4.4. Where loans to third parties are being used to fund expenditure that is classed as capital in nature, the loans will be accounted for as capital expenditure and will therefore be approved as part of the capital programme. Capital loans to third parties will only be considered where there is agreed terms of repayment, and repayments will be treated in accordance with the Council's Treasury Management Strategy.

5. Investment for Commercial Return

5.1. To date the Council has not entered any non-treasury financial investments which are purely to generate a commercial return. The Council owns a portfolio of tenanted non-residential properties which generate a revenue return for the

Council however, these properties have been held for a significant number of years and support the wider corporate priorities.

5.2. There are currently no plans to consider entering a non-treasury financial investment solely or primarily to obtain a revenue return. However, if an opportunity to do so arose the long-term financial impact and the risks inherent to the schemes would be assessed as part of the due diligence process. Where the size of the investment or the risk of the investment required external advice, this would be obtained. Cabinet would approve any potential investment to obtain a commercial return.

6. Funding

6.1. The Council's Capital Programme is funded through a range of sources including:

Source	Description
Prudential Borrowing	The introduction of the Prudential Code in 2004 allows the Council to undertake unsupported borrowing. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. This has revenue implications for the Council in the form of financing costs, including the Minimum Revenue Provision, which is considered via the annual budget setting process.
External Grants for Specific Purposes	These include grant allocations categorised for specific purposes to deliver specific schemes or outcomes. Where the Council is already funding a scheme or targeted outcome from council funding streams such as borrowing or capital receipts, then such grants will be used to reduce the use of council funding in the defined order outlined at 5.2.
External Grants for Non-Specific Purposes	These are grant allocations for the delivery of the Council's capital plans (most often from government departments), that are categorised as non-specific. These grants are used to fund the approved capital programme and reduce the Council's need to borrow.
Infrastructure Contributions e.g. S106 Contributions, Community Infrastructure Levy (CIL) etc	Some projects within the Capital Programme are funded by contributions from private sector developers. Where applicable we request contributions towards infrastructure, such as roads and transport, schools, libraries, household waste recycling centres and rights of way, relating to the development.
Other External Contributions	Organisations or partners may make a contribution towards the delivery of a specific capital project. The same principles will apply as to External Grants for Specific Purposes (see above).
Reserves and Revenue Set Aside	The Council can use revenue resources to fund capital projects, where these have been approved as part of the budget setting process or an approved business case.

	This includes specific reserves, payback from invest to save schemes or revenue contributions.
Capital Receipts	The Council can generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources, which will be available to support the Council's plans. This funding source will be prioritised to fund assets with the shortest useful life, such as IT equipment, to reduce the requirement to borrow for assets that attract a greater annual Minimum Revenue Provision cost.
New Homes Bonus	New Homes Bonus is a (non-specific) revenue grant given by Central Government to Councils which is based on the number of homes built or brought back into habitation in the previous year and is payable for four years. New Homes Bonus can be used to fund revenue or capital expenditure. This will be decided annually through the budget setting process
Leasing	Lease obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks to the Council owning and delivering such assets itself.

6.2. The application of funding sources to capital expenditure incurred during the year will be applied in the following order, where possible, to minimise revenue implications:

- Scheme specific income e.g., specific grants, S106 contributions, Community Infrastructure Levy and Other External Contributions
- Reserves and Revenue set aside funding, where agreed.
- Non-Specific grants
- New Homes Bonus
- Capital Receipts
- Borrowing

7. Environmental, Social and Governance Considerations

7.1. In 2019 the Gateshead Council declared a Climate Emergency and set a target of achieving carbon neutrality from its activities as soon as practicable and in any event by 2030, in line with the new target for the UK agreed by Parliament in 2019. Where possible, officers will identify energy efficient methods and embed low carbon outcomes as appropriate in capital contracts.

7.2. To ensure that the costs and benefits of any potential projects is balanced with the social, economic, and environmental implications of carbon reduction initiatives, the following should be considered.

- Energy efficiency measures should be considered at the start of any capital project and included in the whole project costs when establishing a business case.
- Where possible, ESG schemes should be integrated within existing funded programmes, e.g., a boiler replacement programme should replace boilers with lower carbon alternatives as part of the capital building maintenance programme.
- A whole building approach should include whole life costings which will range from shorter to longer term pay back periods, and it may be possible to use short term savings to subsidise longer term improvements.
- Scheme Specific Funding, such as external grants and Section 106/CIL contributions should be considered and actively sought to fund projects.
- Scheme should assess whether they can include an element of lobbying of government departments to provide funding for low carbon measures, such as the Department of Education when funding new schools and major improvements.

8. Equalities Impact

8.1. Following the introduction of the Equality Act 2010 ('the EA') a public authority must, in the exercise of its functions, have due regard to the need to

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the EA;
- Advance equality of opportunity between persons who share a relevant protected characteristic (as defined by the EA) and persons who do not share it.
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.2. The protected characteristics set out in the EA are age, disability, race, pregnancy/ maternity, religion or belief, sex, gender reassignment, and sexual orientation. Marriage and civil partnership are also protected characteristics for the purposes of the duty to eliminate discrimination.

8.3. In setting the Capital Programme, the three equality aims set out above have to be considered as a relevant factor alongside financial constraints and all other relevant considerations. The EA does not require a specific template or format for this assessment however, cases considering the public sector equality duty have held that an Equality Impact Assessment is the best way to demonstrate that the equalities impacts have been identified and considered.

8.4. Where a capital project is added to the Capital Programme, officers will have regard to the equalities impacts and this will identify whether a further impact assessment is required if the proposal is agreed.

9. Debt, Borrowing and Treasury Management

9.1. A requirement under the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services is to prepare a Treasury Management Policy and Strategy setting out the Council's policies for managing investments and borrowing. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential

Code and to set Prudential Indicators to ensure that the Council's capital investment plans are affordable, prudent, proportional and sustainable.

- 9.2. The Local Government Act 2003 permits local authorities to borrow to finance capital expenditure provided that the plans are affordable, prudent, proportional and sustainable in the long term. For borrowing to be considered prudent and affordable there must be an identifiable source of revenue funding to meet the future costs of the borrowing. Ideally this will be revenue savings or additional income. The costs of borrowing and any anticipated income/savings are included within the Medium-Term Financial Strategy. The Treasury Management Policy and Strategy and the Capital Programme identifies a borrowing need. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.
- 9.3. Under the Prudential Code and Treasury Management Code, the Council is required to set parameters around its borrowing and treasury activity, including an authorised borrowing limit for each year which cannot be breached. Additionally, when funding capital expenditure through borrowing, the Council is required to set aside a sum from revenue each year to repay the debt, known as the Minimum Revenue Provision (MRP).
- 9.4. To ensure the separation of the core treasury function under security, liquidity and yield principles (SLY), and the policy and commercialism investments usually driven by expenditure on an asset, the Capital Strategy is reported separately from the Treasury Management (TM) Strategy. Therefore, the debt related to the activity and the associated interest costs, payback period, Minimum Revenue Provision policy or for non-loan type investments, the cost against the current market value and the financial risks are part of the Treasury Management Policy and Strategy.
- 9.5. The borrowing strategy outlines the different borrowing options available to fund the capital financing requirement and how the risk around borrowing will be managed. The prudential framework and indicators, which are set annually, ensure that the capital programme remains affordable, sustainable, proportional and prudent by setting maximum levels of overall borrowing, interest rates exposure and the total borrowing maturity exposure per period.
- 9.6. The Treasury Management Investment Strategy specifies the Council's approach to specified and non-specified treasury management investments and non-treasury financial investments. Non-treasury financial investments are investments entered into either directly or through investment in a third party primarily to generate a financial yield and are not capital expenditure.

10. Governance

- 10.1. The Council's constitution and financial regulations govern the capital programme as set out below:
 - All capital expenditure must be carried out in accordance with the financial regulations and the Council's constitution.
 - Capital expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
 - The Capital Programme must be approved by Full Council as part of the Council's annual budget process. The programme is set for a five year period and reviewed annually.

- All schemes are formally approved into the capital programme.
- Additional schemes can be added to the capital programme during the year when there is additional external funding received, where there is an urgent health and safety issues, where the additional capital investment will support the financial position through long term savings or additional income or where the scheme supports the priorities and require immediate action.
- Each scheme must be under the control of a responsible person/project manager.
- All variations to the Capital programme are approved by Cabinet prior to incurring expenditure.

10.2. The Council has a SMG Project Board, a cross-departmental group consisting of officers from each service department, finance, property, legal and procurement. SMG Projects oversees the development and delivery of the Council's capital programme.

10.3. For large/higher risk capital projects, a project group will be established to manage the delivery of the project. This will be a multi-disciplinary team and will usually include the project manager and, as a minimum, representatives from the Capital Team, Property Services and Design Services. In these cases, external advice may also be used to ensure all risks have been identified, assessed and are at a level that is acceptable to the Council. Monitoring of the scheme will continue throughout the project to ensure risk continues to be effectively managed.

10.4. In year, the Capital Programme is monitored and reported to SMG Projects Board, the Corporate Management Team and then to Cabinet and Full Council, on a quarterly basis, as part of the Council's budget monitoring.

10.5. Governance arrangements, including risk management (see section 10), will be reviewed to ensure that they remain fit for purpose and are in line with best practice.

11. Risk

11.1. The Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements.

11.2. The Council is exposed to a range of risks that could be triggered by local, national or global events resulting in, for example:

Type of risk	Description
Financial	Related to the investment of the Council's assets and cash flow, market volatility, currency etc.
Macroeconomic	Related to the growth or decline of the local economy, interest rates, inflation and, to a lesser degree, wider national and global economics.
Credit and Counterparty	Related to investments, loans to organisations, individuals and counterparties in business transactions.

Operational	Related to operational exposures within its organisation, its counterparties, partners and commercial interests.
Strategic	Related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its Priority Outcomes.
Reputational	Related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
Environmental and social risks	Related to risk around the environment e.g., ownership of contaminated land and disposal of waste or social e.g., being a good civic organisation, which can be highlighted in the perceived relationships with employees, local community, businesses, etc.
Governance	Related to ensuring that prudence and careful consideration sits at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks that balance oversight and efficiency.

11.3. Managing the Council's risks is an area of significant focus for senior management and members, and the Council adopts an integrated view to the management and qualitative assessment of risk.

11.4. The Council aims to minimise its exposure to unwanted risks – risks that are avoidable and which carry no commensurate reward for the Council – through a range of cost-effective mitigation strategies.

11.5. To ensure that risks are minimised for the delivery of the capital programme, a structured framework of planning and monitoring is maintained as detailed in section 9, which is intended to identify those schemes at risk of non or late delivery.

12. Knowledge and Skills

12.1. Officers and Councillors involved in the decision-making process are required to have an appropriate level of skill and knowledge, or to have access to these skills, to make informed decisions.

12.2. The officers from Financial Management, involved in the day-to-day management of the Capital and Treasury Management Teams are Consultative Committee of Accountancy Bodies (CCAB) qualified accountants. Link Asset Services provide external advice and support on treasury management issues and are also available to provide advice on capital accounting issues.

12.3. For individual capital schemes which are more complex and potentially higher risk, external advice will be sought to assist with the due diligence process. Where

external advice is taken, the outcome of the advice will be included within reports to Senior Officers and Councillors as part of the decision-making process.

12.4. Treasury management and capital training is available to Officers and Councillors and can include both formal training delivered by external advisor and in-house presentation around specific issues.

APPENDIX 2

GATESHEAD COUNCIL - CAPITALISATION POLICY

All capital expenditure on the acquisition, creation or enhancement of a non-current asset is capitalised on an accruals basis.

Expenditure on the acquisition of a non-current asset, or expenditure that adds to, and not merely maintains, the value of a non-current asset is capitalised and classed as a non-current asset. However, this is provided that the non-current asset yields benefits to the Council and the services it provides for a period of more than one year.

Expenditure that should be capitalised will include expenditure on the:

- Acquisition, reclamation, enhancement or laying out of land.
- Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures.
- Acquisition, installation or replacement of plant, machinery and vehicles.
- Replacement of a component of a non-current asset that has been treated separately for depreciation purposes and depreciated over its individual useful life.

In this context, enhancement means the carrying out of works that are intended to:

- Lengthen substantially the useful life of the asset; or
- Increase substantially the open market value of the asset.
- Increase substantially the extent to which the asset can or will be used for the purposes of the Council.

The Council capitalises expenditure on developing and implementing computer software and licenses as an intangible asset, provided that the expected life exceeds one year.

The Council also capitalises Project Management costs where this is directly linked to the delivery of a major project included within the Capital Programme.

All capital expenditure creating or enhancing a non-current asset (see definitions above) will be recorded in the Council's Asset Register where the asset can be identified. Some expenditure may also relate to assets owned by a third party rather than the Council and this is capitalised as Revenue Funded from Capital under Statute (REFCUS) in accordance with accounting regulations.

The Council's de-minimis level for valuation purposes is £40,000 and £10,000 for individual items of capital expenditure, with the exception of certain external funding regimes where different levels of capitalisation are specified.

All expenditure is capitalised through the capital accounts and financed at the year-end, as long as the scheme has been approved through the Council's capital programme. This includes programmes of spending such as purchase of fleet vehicles, ICT equipment, strategic maintenance or health and safety schemes, where individual project spend could be less than the current de-minimis level.