
Capital Programme 2020/21

Report of the Director of Finance

1. Purpose

- 1.1 The purpose of this report is to ask the Council to approve a capital programme for 2020/21.

2. Summary

- 2.1 Capital expenditure is incurred on works of lasting benefit and is principally paid for by grant, tenants' rents, and the proceeds of asset sales (capital receipts). Money can also be borrowed for capital purposes, but the scope for this is limited as borrowing affects the revenue budget.
- 2.2 Traditionally, the Council has prepared a multi-year capital programme. The last programme was approved on 30th November 2017 and covered two years: 2018/19 to 2019/20.
- 2.3 This programme is a one year programme for 2020/21. This programme only includes projects that are going to start in 2020/21, but the capital projects may continue into future years. The reason for the one year programme, is the current uncertainty over future resources beyond 2020/21, as detailed in the General Fund Revenue Budget Report for 2020/21 (also on the Council agenda). Schemes already approved and in the current programme 2019/20, will continue to form part of the programme.
- 2.4 The proposed programme set out in this report for the "General Fund" element of the capital programme is £53m. In addition to this the HRA capital programme which is elsewhere on this agenda is £17m and the Council's approved commitment to increase the supply of affordable housing is £70m.

2.5 The table below summarises the proposed spending for capital projects starting in 2020/21, as described in this report:-

| | <u>£m</u> |
|--------------------------------------|------------------|
| <u>Proposed Programme</u> | |
| People & Neighbourhoods* | 5.9 |
| Highways, Transport & Infrastructure | 10.2 |
| Promoting Business | 4.5 |
| Tourism & Culture | 16.3 |
| Corporate | 5.2 |
| Policy Provisions | 11.3 |
| Total New Schemes | 53.4 |
| <u>Funding</u> | |
| Monies ringfenced to Schemes | 7.2 |
| Unringfenced Resources | 47.0 |
| Total Resources | 54.2 |
| Contingency | 0.8 |

*HRA is spending £87.3m on affordable housing and improvements, putting the total spend in People & Neighbourhoods up to £93m.

2.6 The table below presents the total spend on General Fund and Housing revenue account schemes:

| | <u>£m</u> |
|-------------------------|------------------|
| General Fund | 53.4 |
| Housing Revenue Account | 17.4 |
| Affordable Housing | 70.0 |
| Total | 140.8 |

2.7 In addition to the above, the current programme is still being delivered and therefore a number of significant schemes will be carried forward into future years. These include £55m for schools, £9m for Waterside Regeneration and £17.5m for Connecting Leicester.

2.8 The Council's total capital expenditure now forecast for 2020/21 and beyond is expected to be over £300m, including the HRA.

2.9 The Council continues to bid for significant sums from government initiatives such as the Transforming Cities Fund and these will be reported and added to the programme in due course, if successful.

2.10 The capital programme is split into two parts:-

- (a) “**Immediate starts**”, being schemes which directors have authority to commence once the council has approved the programme. These are fully described in this report;
- (b) “**Policy provisions**”, where the purpose of the funding is described but money will not be released until specific spending proposals have been approved by the Executive.

2.11 Immediate starts have been split into three categories:-

- (a) **Projects** – these are discrete, individual schemes such as a road scheme or a new building. These schemes will be monitored with reference to physical delivery rather than an annual profile of spending. (We will, of course, still want to make sure that the overall budget is not going to be exceeded);
- (b) **Work Programmes** – these will consist of minor works or similar schemes where there is an allocation of money to be spent in a particular year;
- (c) **Provisions** – these are sums of money set aside in case they are needed, but where low spend is a favourable outcome rather than indicative of a problem.

3. Recommendations

3.1 The Council is asked to:-

- (a) Approve the capital programme described in this report and summarised at Appendices Two to Four, subject to any amendments proposed by the City Mayor;
- (b) For those schemes designated immediate starts, delegate authority to the lead director to commit expenditure, subject to the normal requirements of contract procedure rules and finance procedure rules;
- (c) Delegate authority to the City Mayor to determine a plan of spending for each policy provision, and to commit expenditure up to the maximum available;
- (d) For the purposes of finance procedure rules:
 - Determine that service resources shall consist of service revenue contributions; HRA revenue contributions; and government grants/third party contributions ringfenced for specific purposes (but see below for the Local Growth Fund);
 - Designate the highways maintenance programme and transport improvement programme as programme areas, within which the

director can reallocate resources to meet operational requirements.

- (e) As in previous years, delegate to the City Mayor:
 - Authority to increase any scheme in the programme, or add a new scheme to the programme, subject to a maximum of £10m corporate resources in each instance;
 - Authority to reduce or delete any capital programme provision, subject to a maximum of 20% of scheme value for “immediate starts”; and
 - Authority to transfer any “policy provision” to the “immediate starts” category.

- (f) In respect of the Local Growth Fund (LGF), (which the Council receives as the accountable body to the Leicester and Leicestershire Enterprise Partnership LLEP):-
 - Delegate to the City Mayor approval to accept the Government’s funding offer each year, and to add this to the capital programme;
 - Delegate to the Strategic Director, City Development and Neighbourhoods, in consultation with the Director of Finance, authority to allocate the funding to individual projects (in effect, implementing decisions of the LLEP);
 - Agree that City Council schemes funded by LGF can only commence after the City Mayor has given approval;
 - Delegate to the Director of Finance authority to reallocate LGF funding between projects to ensure the programme as a whole can be delivered; and
 - Note that City Council contributions to LGF projects will follow the normal rules described above.

- (g) Apply the rules in (f) above to any similar Government scheme that replaces LGF;

- (h) Delegate to directors, in consultation with the relevant deputy/assistant mayor, authority to incur expenditure in respect of policy provisions on design and other professional fees and preparatory studies, but not any other type of expenditure;

- (i) Approve the earmarked reserves transfer as detailed in paragraph 5.7, of this report

- (j) Approve the capital strategy as described at paragraph 8 and Appendix 5.

4. Key Policy Issues

- 4.1 In preparing the 2020/21 capital programme, the key focus is to deliver strategic objectives and meet (as far as possible) a level of need which considerably exceeds available resources.
- 4.2 The capital programme therefore is primarily focussed around some key priorities of the Council. The themes are:
- People & Neighbourhoods
 - Highways, Transport & Infrastructure
 - Promoting Business
 - Tourism & Culture
- 4.3 The capital programme is just for 2020/21 because of the continued uncertainty around our budgets. Nonetheless, it explicitly aims to support the City Mayor's delivery plan. Most notably, this is the case with housing where the Council has already committed to £70m to assist with meeting its commitment to deliver 1,500 new council, social and extra care homes before 2023.
- 4.4 In addition, the already approved schools capital programme as described in paragraph 2.7 will assist us in achieving this.
- 4.5 It is important to note that the council's commitment to tackling the climate emergency is most obviously but not exclusively addressed within the transport capital programme. This is part the wider Connecting Leicester Programme, a sum which could substantially increase to over £100m should we succeed with our Transforming Cities bid.
- 4.6 However, addressing the energy and bio diversity requirements of all our capital projects is absolutely central to the entire capital programme. Recent years' capital projects have included energy saving and generating elements across the corporate estate as well as a raft of energy efficiency measures being delivered in our schools and on our council estates.
- 4.7 Similarly, our commitment to invest in the whole city cuts right across our capital programme. The housing, schools and transport capital investment programmes represent by far the largest components of this and future capital programmes. These capital investment strands will benefit the entire city from our outer estates to city centre, with the majority planned to be spent on our neighbourhoods and communities. The categorisation at Appendix 2A is to some extent subjective, so for example the £5.9m allocated to People & Neighbourhood budgets represents only a fraction of what we intend to spend on improving our neighbourhoods and communities. In addition to the above, the Council is estimated to be spending over £150m on schools (in the current programme) and affordable housing.

5. **Resources**

- 5.1 Resources available to the programme consist primarily of Government grant and capital receipts (the HRA programme is also supported by tenants' rent monies). Most grant is unringfenced, and the Council can spend it on any purpose it sees fit.
- 5.2 Appendix One presents the unringfenced resources available to fund the proposed programme., which total some £47m. The key funding sources are detailed below.
- (a) £13.5m of resources brought forward from 2018/19;
 - (b) £10.5m of general capital receipts and £0.7m of Right to Buy Receipts;
 - (c) £5m of capital receipts in relation to Ashton Green;
 - (d) £7.3m of unringfenced grant funding;
 - (e) £10m of one-off additional resource that has become available following a recent review of BSF and Insurance Fund reserves.
- 5.3 The bought forward savings relate to capital financing, savings in some projects and grant monies reported in 2018/19 outturn reports and set aside for this purpose.
- 5.4 The Council has a policy of not committing capital receipts until they are received. This increases the resilience of the capital programme at a time when revenue budgets continue to be under pressure.
- 5.5 The exception to not committing receipts in advance is the expected receipts from the sale of council housing. Where tenants exercise their "Right to Buy" the RTB receipts are now layered, with different layers being available for different purposes. A sum of £0.7m will be available for general purposes. Further tranches are available to us but must be used for new affordable housing or returned to government.
- 5.6 In this year there is a further exception in relation to the capital receipt due shortly for £5m in relation to Ashton Green.
- 5.7 During the year the Council has completed a review of the BSF and Insurance Fund reserves. As part of this £10m of one-off monies have been made available to support the capital programme.
- 5.8 As noted above, £0.7m is forecast to be available from Right to Buy receipts, and a further £10.5m had been received from general capital receipts by November 2019. Any receipts received subsequently will support the programme for 2021/22 onwards.

- 5.9 For some schemes the amount of unringfenced resources required is less than the gross cost of the scheme. This because resources are ringfenced directly to individual schemes. Ringfenced resources are shown throughout Appendix Two and include the following:
- (a) Disabled Facilities Grant – an estimated £1m will be received from the Government for the year to support the making of grants to householders in the private sector requiring disabled adaptations;
 - (b) Borrowing. Because borrowing has an impact on the revenue budget, it is only used for reasons detailed in Capital Strategy in Appendix 5 of this report.
- 5.10 The Council has submitted bids to the local business rates pool to fund capital works as part of the Museums Investment Strategy. Once the outcome of this bid is known, this will be included in the capital programme.
- 5.11 Finance Procedure Rules enable directors to make limited changes to the programme after it has been approved. For these purposes, the Council has split resources into corporate and service resources. These are similar to, but not quite the same as, ringfenced and unringfenced resources. Whilst all unringfenced resources are corporate, not all ringfenced monies are service resources. Borrowing, for instance, is treated as a corporate resource requiring a higher level of approval.
- 5.12 Directors have authority to add schemes to the programme, provided they are funded by service resources, up to an amount of £250,000. This provides flexibility for small schemes to be added to the programme without a report to the Executive.

6. Proposed Programme – Immediate Starts

- 6.1 Schemes classified as immediate starts can commence as soon as required, once the Council has approved the capital programme. No further approval is necessary. The whole programme is summarised at Appendix 2.
- 6.2 £5.9m is provided for People & Neighbourhoods. This area is focused around improving the neighbourhoods of the City but also improving the lives of the City's residents.
- (a) The main scheme within this area will be the **Disabled Facilities Grant**, with £2m being put in to support the scheme in 2020/21. This is a continual annual programme which has existed for many years. These grants provide funding to eligible disabled people for adaption work to their homes, and help them maintain their independence. Part of this cost is met by government grant of £1m. (see paragraph 5.9 above). Each grant costs, on average £7.1k.

- (b) **Additional Disabled Facilities Grant** is being made available to clear a current backlog of approximately 140 applications. Hence the total investment is some £3m.
- (c) £905,000 has been set a side to fund maintenance and improvements to **Council Housing Estate Shops**.
- (d) £400,000 has been provided to continue supporting a **Parking Improvement Programme**. This programme addresses local neighbourhood issues related to residential parking, local safety, cycle ways, shopping precincts, community lighting and green infrastructure improvements. Works will directly contribute towards addressing priorities identified through ward member consultations.
- (e) £400,000 has been provided to continue the annual programme of **Local Environmental Works** in 2020/21. This programme addresses local neighbourhood issues related to residential parking, local safety, cycle ways, shopping precincts, community lighting and green infrastructure improvements. Works will directly contribute towards addressing priorities identified through ward member consultations.
- (f) £330,000 is allocated to replace the customer facing **Library Self-Service System**, as the current equipment is now outdated. This self-service system enables multi-service working, as well as enabling customers to borrow, renew and return library items and pay any charges.
- (g) £250,000 has been provided for a new **Foster Carer Capital Contribution Scheme**. Money has been provided to invest in the homes of foster carers of looked after children, to ensure that foster care is an option in as many cases as possible.
- (h) £210,000 has been set aside to introduce **Library Improved Self-Access Pilots** at two Leicester libraries. This will enable improved use of library buildings and the ability to target opening hours more effectively. The project will include improved security within the buildings.
- (i) £200,000 is provided in 2020/21 to continue the programme of **Repayable Home Repair Loans**. This grant aids vulnerable, low income home owners to carry out repairs or improvements to their homes, to bring properties up to decent homes standards. Any loan will remain in place until a change of ownership or sale of the property is triggered, at which point the loan is repayable in full.

- (j) £150,000 is provided for **Parks Plant and Equipment** to replace aging machinery with up to date, energy efficient models to provide continued maintenance of our parks and open spaces. The replacement of this equipment is met from borrowing, and a revenue budget exists for this purpose.
- (k) £50,000 is continued to be made available to top up the **Administration Fee for Long Term Empty Home Acquisitions** pot in 2020/21. Under the empty homes strategy, some 300 long term empty homes are bought back into use annually. The Empty Homes Team gives advice and assistance to owners, helping them bring homes back into occupation. As a last resort, when all avenues have been exhausted, we have to use compulsory purchase. £50,000 covers the incidental costs associated with acquisition where CPO or negotiated purchase is required, where such costs cannot be recouped from the sale proceeds. £50,000 will cover 4 transactions (the most difficult cases).
- (l) £50,000 is set aside for **Conservation Building Grants**. These grants are provided to city residents and organisations to repair historic buildings or reinstate original historic features that have been lost. The funding seeks to acknowledge the additional cost of owning an historic building.
- (m) No new funding is required for school capital maintenance, as some £5m was released in November 2019, to fund improvement works through to September 2021. Funding for new school places is already provided for within the existing policy provision, of £41.9m.

6.3 £10.2m is provided to support Highways, Transport & Infrastructure capital works within the city. Much of the capital works in this area are work programmes and regular capital schemes.

- (a) £3.4m is provided for a continuing programme of **Connecting Leicester** street works. The Connecting Leicester programme will continue the improvements and security enhancements of streets within the city centre. Examples of the projects to be included in this programme are City Centre security bollards and resurfacing of Belvoir Street.
- (b) £2.6m is provided in 2020/21 to continue the rolling programme of works constituting the **Transport Improvement Programme**. This includes sums for:-
 - Potential additional walking and cycling facilities at Putney Road.
 - Local safety schemes
 - 20mph schemes in neighbourhoods
 - Bus lane enforcement

- (c) £2.1m is provided as part of the continued **Highway Capital Maintenance Programme**. This is a rolling annual programme and spending is prioritised to reflect asset condition, risk and local neighbourhood priorities.
- (d) £1.5m has been provided to continue the support of the annual **Operational Estate Capital Maintenance Programme**. This money is used to carry out remedial works to the properties the Council uses itself.
- (e) £300,000 is provided to continue the **Flood Strategy, Flood Defence and Watercourse Improvements Programme** into 2020/21. The programme supports the Local Flood Risk Management Strategy and action plan, and the delivery of our statutory role to manage and reduce flood risk in collaboration with the Environment Agency & Severn Trent Water.
- (f) £200,000 has been made available to fund a new version of a **City-wide Parkmap TRO system Upgrade**. The system records all Traffic Regulation Orders, which will assist with more efficient management of parking and traffic.
- (g) Following the success of a pilot scheme of **Front Wall Enveloping**, £200,000 has been provided to continue the scheme in 2020/21. The scheme, which commenced in the last programme, involves the enclosure of small spaces in front of housing. Enveloping schemes can make a significant improvement to local neighbourhoods and enable occupiers to tend house fronts more effectively.

6.4 £4.5m has been provided to **promote business** in the city, which will be used for a number of projects.

- (a) £1.8m has been made available to fund **Leicester Market Phase 3**. The refurbishment will help support the market within the city centre by improving the environment for traders and shoppers.
- (b) £1m has been provided in the programme to fund an **Onsite Construction Skills Hub** at the Ashton Green development site. The scheme is part funded from the Construction Industry Training Board.
- (c) £600,000 has been made available to replace the **Corporate LAN/WAN Network Cisco Infrastructure**. The current infrastructure is now outdated, but we are also seeing increased demand on the current system, due to the support required for the Smart Cities and digital transformation projects.
- (d) Following the success of the **Reuse Shop** on the site at Gypsum Close Household Waste Recycling, £530,000 has been provided to support an expansion. The expansion will enable more items to be reused, will improve the shopping experience and protect the income currently generated from the shop.
- (e) £350,000 has been provided for the **Corporate Storage Area Network (SAN) Replacement**. This is the Council's ICT network storage and is part of the Council's infrastructure.
- (f) £200,000 has been set a side for **Smart Cities Pilot Projects**. This will be used for readying and enabling a range of capital projects involving infrastructure, such as low-carbon buildings and retrofits, heating districts and mobility solutions. The work to be procured and undertaken would include the master-planning of a low energy districts, the procurement of smart meters and energy monitors.
- (g) £50,000 has been provided for **Touchdown** projects. This will provide additional desk space on the outskirts of the city in existing Council properties. The project supports flexible working, allowing staff greater control and ability to work more effectively across the city.

6.5 £16.3m has been made available to support **Tourism & Culture** in the City, focusing on improvements within museums.

- (a) The **Jewry Wall Museum Redevelopment**: this £11.6m project is based around the building infrastructure (new reception, café area etc), as well as new gallery spaces including new displays, cases and interactives.

- (b) £2.45m has been provided to make improvements at **New Walk Museum**. The improvements will see significant investment in updating the spaces. This will include the creation of a modern art gallery and improved educational facilities for school groups.
- (c) £593,000 has been provided for the **Haymarket Theatre – Internal Completion Works**. The works will allow persons with limited mobility access to the stage, improvements to the lobby area, including a new box office and a dry bar, and re-roofing the external stair tower.
- (d) £546,000 has been made available to fund repairs at **Abbey Park Precinct Wall**. Recently the wall was put on the Heritage at Risk Register: the repairs should prevent further deterioration.
- (e) £450,000 has been provided for the **Expansion & Refurbishment of the Toilets at Haymarket Bus Station**. The toilets have been suffering from vandalism and problems with antisocial behaviour, along with issues in relation to the entrance space and current drainage. The refurbishment will aim to reduce the vandalism and antisocial behaviour, along with making a larger toilet space and making the space easier to clean.
- (f) As part of the recent transfer of the King Richard III centre to the Council, the **Visit Leicester Centre** will be relocated there. To enable this work to be completed, £320,000 has been made available.
- (g) £125,000 has been made available as part of the **Museums Security Programme**.
- (h) £100,000 is being provided to fund the rollout of new **Street Nameplates** in the City. This will ensure that the style of the name plates is in keeping with the character and heritage of the area.
- (i) As part of a continued rolling programme to replace **Festive Decorations**, £50,000 has been provided.

6.6 £5.2m has been made available to fund three general corporate budgets.

- (a) £3.7m has been made available to fund the annual **Fleet Replacement Programme**. This is part of the usual cycle of works and covers all fleet. This programme is funded from borrowing, which is repaid from existing budgets.
- (b) £862,000 is available to fund the **Capital Projects Team**, which will support the delivery of the construction projects in the capital programme.
- (c) £600,000 is set aside for **Feasibility Studies**. This will enable studies to be done, typically for potential developments not included elsewhere

in the programme or which might attract grant support, without requiring further decisions.

7. Proposed Programme – Policy Provisions

- 7.1 Policy provisions are sums of money which are included in the programme for a stated purpose, but for which a further report to the Executive (and decision notice) is required before they can be spent. Schemes are usually treated as policy provisions because the Executive needs to see more detailed spending plans before full approval can be given.
- 7.2 Executive reports seeking approval to spend policy provisions must state whether schemes, once approved, will constitute projects, work programmes or provisions; and, in the case of projects, identify project outcomes and physical milestones against which progress can be monitored.
- 7.3 Policy provisions in the proposed programme are identified at Appendix Three, and total £11.3m.
- 7.4 £3.1m is provided to support projects within People & Neighbourhoods. The focus of this policy provision is around improving the neighbourhoods of the city. Whilst also improving the lives of the city's residents.
- 7.5 Tourism & Culture have a policy provision of £550k to support improvements in museums.
- 7.6 £3.6m will be available to support projects within Highways, Transport & Infrastructure.
- 7.7 £4m will be available to support potential strategic acquisitions of land and buildings within the City.

8. Capital Strategy

- 8.1 Local authorities are required to prepare a capital strategy each year, which sets out our approach for capital expenditure and financing at high level.
- 8.2 The proposed capital strategy is set out at Appendix 5. This also includes the policy on repaying debt and the prudential indicators which assess the affordability of new borrowing.

9. Consultation

- 9.1 This report was subject to consultation with stakeholders along with the revenue budget. No comments have been received.
- 9.2 No changes have been made to the schemes proposed in the draft report.

10. Equality Assessment (Hannah Watkins, Equalities Manager)

- 10.1 Under the Equality Act 2010, public authorities have statutory duties, including the Public Sector Equality Duty (PSED) which means that, in carrying out their functions they have to pay due regard to the need to eliminate unlawful discrimination, harassment and victimisation, to advance equality of opportunity between people who share a protected characteristic and those who don't and to foster good relations between people who share a protected characteristic and those who don't.
- 10.2 Protected characteristics under the Equality Act 2010 are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation.
- 10.3 People from across all protected characteristics will benefit from the improved public good arising from the proposed capital programme. However, as the proposals are developed and implemented, consideration should continue to be given to the equality impacts of the schemes in question, and how it can help the Council to meet the three aims of the Public Sector Equality Duty.
- 10.4 Some of the schemes focus on meeting specific areas of need for a protected characteristic: disabled adaptations within homes (disability), home repair grants which are most likely to be accessed by elderly, disabled people or households with children who are living in poverty (age and disability), provision of funds for festive decorations (religion and belief).
- 10.5 Other schemes target much larger groups of people who have a range of protected characteristics reflective of the diverse population within the city. Some schemes are place specific and address environmental issues that also benefit diverse groups of people. The delivery of the capital programme contributes to the Council fulfilling our Public Sector Equality Duty (PSED). For example, schemes which support people in being able to stay in their homes, to continue to lead independent lives, and to participate in community life help promote equality of opportunity, one of the aims of the PSED.
- 10.6 The capital programme includes schemes which improve the city's infrastructure and contribute to overall improvement of quality of life for people across all protected characteristics. By doing so, the capital programme promotes another PSED aim: fostering good relations between different groups of people by ensuring that no area is disadvantaged compared to other areas as many services rely on such infrastructure to continue to operate.
- 10.7 Where there are any improvement works to buildings or public spaces, (for example, the planning improvement programme, Leicester Market, New Walk Museum, Reuse Shop) considerations around accessibility (across a range of protected characteristics) must influence design and decision making. This will ensure that people are not excluded (directly or indirectly) from accessing a building, public space or service, on the basis of a protected characteristic.

11. Sustainability Assessment (Aidan Davis, Sustainability Officer)

- 11.1 In February 2019 the City Council declared a climate emergency, and is aiming to make Leicester a carbon neutral city. The City Council is one of the largest employers and land owners in the city, with carbon emissions of 40,000 tCO₂e in 2018/19, and has a high level of influence in the city. The council has a vital role to play in reducing emissions from its buildings and operations, and leading by example on tackling the climate emergency in Leicester. As discussed in this report, many of the projects outlined will play a positive role in reducing carbon emissions in the city.
- 11.2 There is not sufficient information within this report to provide specific details of climate change implications for individual projects. Detailed implications should therefore be produced for individual projects as and when plans are finalised. At a high level, there are some general principles that should be followed during the planning, design and implementation of capital projects, as detailed below.
- 11.3 Where funding provides for the construction of new buildings, these should be built to a high standard of energy efficiency, and incorporate renewable energy sources where possible. Projects should aim to achieve carbon neutral development or as close as possible to this. Maintenance and refurbishment works should also seek to improve energy efficiency where possible. This will reduce energy use and therefore bills, delivering further benefits. Major projects will also need to meet Climate Change policy CS2 in the Leicester City Core Strategy planning document, which requires best practice in terms of minimising energy demand for heating, ventilation and lighting, achieving a high level of fabric efficiency, and the use of low carbon or renewable sources of energy.
- 11.4 Projects involving procurement, including for construction works, should follow the Council's sustainable procurement guidelines. This includes the use of low carbon and sustainable materials, low carbon equipment and vehicles and reducing waste in procurement processes. Transport projects should seek to enable a greater share of journeys to be safely and conveniently undertaken by walking, cycling or public transport wherever possible, and many of the planned works will directly contribute to this.
- 11.5 A number of other projects detailed also have high level impacts not covered above. Flood risk works are a key part of increasing resilience to a changing climate in the city. Improvements to the reuse shop at Gypsum Close will help to increase re-use and refurbishment of items that would otherwise be disposed of. Many of the Smart Cities pilot projects have a direct role to play in identifying opportunities to reduce carbon emissions in the city.

12. Financial Implications

12.1 This report is exclusively concerned with financial matters.

- (a) There is some proposed prudential borrowing in the programme for replacement of vehicles, equipment and housing estate shops £4.8m. The anticipated revenue costs arising will be £0.5m per year, for which revenue budget exists.

12.2 No schemes are expected to lead to higher ongoing costs and some will lead to savings.

13. Legal Implications (Kamal, City Barrister & Head of Standards)

13.1 As the report is exclusively concerned with financial matters, there are no direct legal implications arising from the report. There will be procurement and legal implications in respect of individual schemes and client officers should take early legal advice. In accordance with the constitution, the capital programme is a matter that requires approval of full Council.

14. Other Implications

14.1

| | | |
|-------------------------------|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equal Opportunities | Yes | Paragraph 10. |
| Policy | Yes | The capital programme is part of the Council's overall budget and policy framework, and makes a substantial contribution to the delivery of Council policy. |
| Sustainable and Environmental | Yes | Paragraph 11. |
| Crime and Disorder | No | |
| Human Rights Act | No | |
| Elderly/People on Low Income | Yes | A number of schemes will benefit elderly people and those on low income. |

Report author: Amy Oliver
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Corporate Resources

Unringfenced Capital Resources

| | 20/21 |
|----------------------------------------------|-------------------|
| | <i>{£000}</i> |
| Resources Saved in 18/19 | 13,475 |
| General Capital Receipts | 10,544 |
| Council Housing - Right to Buy Receipts | 700 |
| Ashton Green Receipts | 5,000 |
| Total | 29,719 |
| <u>Unringfenced Capital Grant</u> | |
| Education Maintenance | 2,500 |
| Integrated Transport | 2,556 |
| Transport Maintenance | 2,200 |
| Total Unringfenced Grant | 7,256 |
| Earmarked Reserves Review | 10,000 |
| Total Unringfenced Resources | 46,975 |

Appendix 2a

Immediate Starts – People & Neighbourhoods

| Immediate Start | Scheme Type | Corporate Programme Funding | Ringfenced Funding | Total Approval |
|-----------------------------------------------------------------|--------------------|------------------------------------|---------------------------|-----------------------|
| | | {£000} | {£000} | {£000} |
| <u>People & Neighbourhoods</u> | | | | |
| Disabled Facilities Grant | WP | 1,000 | 1,000 | 2,000 |
| Additional Disabled Facilities Works | WP | 1,000 | 0 | 1,000 |
| Housing Estate Shops | PJ | 0 | 905 | 905 |
| Parking Improvement Programme | WP | 400 | 0 | 400 |
| Local Environmental Works | WP | 400 | 0 | 400 |
| Library RFID Self-Service System | PJ | 330 | 0 | 330 |
| Foster Care Capital Contribution Scheme | WP | 250 | 0 | 250 |
| Library Improved Self-Access Pilot | PJ | 210 | 0 | 210 |
| Repayable Home Repair Loans | WP | 200 | 0 | 200 |
| Parks Plant and Equipment | WP | 0 | 150 | 150 |
| Administration Fee for the Acquisition of Long Term Empty Homes | PV | 50 | 0 | 50 |
| Conservation Building Grants | WP | 50 | 0 | 50 |
| | | 3,890 | 2,055 | 5,945 |

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

| | |
|--------------------------------|--------------|
| | {£000} |
| Disabled Facilities Grant | 1,000 |
| Prudential Borrowing | 1,055 |
| TOTAL RINGENCED FUNDING | 2,055 |

Appendix 2b

Immediate Starts – Highways, Transport & Infrastructure

| Immediate Start | Scheme Type | Corporate Programme Funding | Ringfenced Funding | Total Approval |
|--------------------------------------------------------------------|--------------------|------------------------------------|---------------------------|-----------------------|
| | | <i>{£000}</i> | <i>{£000}</i> | <i>{£000}</i> |
| <u>Highways, Transport & Infrastructure</u> | | | | |
| Connecting Leicester | PJ | 3,350 | 0 | 3,350 |
| Transport Improvement Works | WP | 2,556 | 0 | 2,556 |
| Highways Capital Maintenance Programme | WP | 2,102 | 0 | 2,102 |
| Operational Estate Capital Maintenance Programme | WP | 1,450 | 0 | 1,450 |
| Flood Strategy, Flood Defence & Watercourse Improvements Programme | WP | 300 | 0 | 300 |
| City-wide Parkmap TRO review, signs and lines upgrades | PJ | 200 | 0 | 200 |
| Front Walls Enveloping Programme | WP | 200 | 0 | 200 |
| | | 10,158 | 0 | 10,158 |

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Immediate Starts – Promoting Business

| Immediate Start | Scheme Type | Corporate Programme Funding | Ringfenced Funding | Total Approval |
|------------------------------------------------------------|--------------------|------------------------------------|---------------------------|-----------------------|
| | | {£000} | {£000} | {£000} |
| <u>Promoting Business</u> | | | | |
| Leicester Market Improvements Phase 3 | PJ | 1,800 | 0 | 1,800 |
| Onsite Construction Skills Hub | PJ | 300 | 700 | 1,000 |
| Corporate LAN/WAN Network Cisco Infrastructure Replacement | PJ | 600 | 0 | 600 |
| Reuse Shop Expansion | PJ | 530 | 0 | 530 |
| Corporate Storage Area Network (SAN) Replacement | PJ | 350 | 0 | 350 |
| Smart Cities Pilot Projects | PJ | 0 | 200 | 200 |
| Touchdown Project | PJ | 50 | 0 | 50 |
| | | 3,630 | 900 | 4,530 |

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

| | |
|--------------------------------|---------------|
| | {£000} |
| Ringfenced Grant Funding | 700 |
| Departmental Reserves | 200 |
| TOTAL RINGENCED FUNDING | 900 |

Appendix 2d

Immediate Starts – Tourism & Culture

| Immediate Start | Scheme Type | Corporate Programme Funding | Ringfenced Funding | Total Approval |
|-------------------------------------------------------------|--------------------|------------------------------------|---------------------------|-----------------------|
| | | <i>{£000}</i> | <i>{£000}</i> | <i>{£000}</i> |
| <u>Tourism & Culture</u> | | | | |
| Jewry Wall Museum Redevelopment | PJ | 11,140 | 500 | 11,640 |
| New Walk Museum Phase 1 | PJ | 2,450 | 0 | 2,450 |
| Haymarket Theatre - Internal Completion Works | PJ | 593 | 0 | 593 |
| Abbey Park Precinct Wall | PJ | 516 | 30 | 546 |
| Haymarket Bus Station - Toilet Expansion and Refurbishments | PJ | 450 | 0 | 450 |
| Visit Leicester Relocation | PJ | 320 | 0 | 320 |
| Museums Security Programme | PJ | 125 | 0 | 125 |
| Street Nameplates City Branding Programme | WP | 100 | 0 | 100 |
| Festive Decorations Replacement | WP | 50 | 0 | 50 |
| | | 15,744 | 530 | 16,274 |

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

| | |
|--------------------------------|---------------|
| | <i>{£000}</i> |
| LLEP funding | 500 |
| Ringfenced Grant Funding | 30 |
| TOTAL RINGENCED FUNDING | 530 |

Immediate Starts – Corporate

| Immediate Start | Scheme Type | Corporate | Ringfenced | Total |
|-----------------------------|--------------------|--------------------------|-------------------|-----------------|
| | | Programme Funding | Funding | Approval |
| | | {£000} | {£000} | {£000} |
| <u>Corporate</u> | | | | |
| Fleet Replacement Programme | WP | 0 | 3,700 | 3,700 |
| Capital Projects Team | Oth | 862 | 0 | 862 |
| Feasibility Studies | Oth | 600 | 0 | 600 |
| | | 1,462 | 3,700 | 5,162 |

Key to Scheme Types : PJ = Project ; WP = Work Programme ; PV = Provision ; Oth = Other

Summary of Ringfenced Funding

| | |
|--------------------------------|--------------|
| | {£000} |
| Prudential Borrowing | 3,700 |
| TOTAL RINGENCED FUNDING | 3,700 |

Appendix 3

Policy Provisions

| Policy Provision | Corporate Programme Funding | Ringfenced Funding | Total Approval |
|--------------------------------------|--------------------------------------------|-------------------------------|---------------------------|
| | <i>{£000}</i> | <i>{£000}</i> | <i>{£000}</i> |
| People & Neighbourhoods | 3,100 | 0 | 3,100 |
| Tourism & Culture | 540 | 10 | 550 |
| Highways, Transport & Infrastructure | 3,600 | 0 | 3,600 |
| Strategic Acquisitions | 4,000 | 0 | 4,000 |
| POLICY PROVISIONS TOTAL | 11,240 | 10 | 11,250 |

Project Milestones

| Project | Completion Date |
|-------------------------------------------------------------|------------------------|
| <u>People & Neighbourhoods</u> | |
| Library RFID Self-Service System | Mar 21 |
| Library Self-Access Pilot | Mar 21 |
| <u>Highways, Transport & Infrastructure</u> | |
| Connecting Leicester | Mar 21 |
| City-wide Parkmap TRO review, signs and lines upgrades | Mar 21 |
| <u>Promoting Business</u> | |
| Leicester Market Improvements Phase 3 | Dec 21 |
| Onsite Construction Skills Hub | Dec 22 |
| Corporate LAN/WAN Network Cisco Infrastructure Replacement | Dec 21 |
| Reuse Shop Expansion | Jul 20 |
| Corporate Storage Area Network (SAN) Replacement | Jun 21 |
| Smart Cities Pilot Projects | Dec 20 |
| Touchdown Project | Mar 21 |
| <u>Tourism & Culture</u> | |
| Jewry Wall Museum Redevelopment | Mar 23 |
| New Walk Museum Phase 1 | Mar 22 |
| Haymarket Theatre - Internal Completion Works | Mar 21 |
| Abbey Park Precinct Wall | Mar 22 |
| Haymarket Bus Station - Toilet Expansion and Refurbishments | Dec 20 |
| Visit Leicester Relocation | Nov 21 |
| Museums Security Programme | Nov 21 |

Capital Strategy 2020/21

1. **Introduction**
 - 1.1 It is a requirement on local authorities to prepare a capital strategy each year, which sets out our approach to capital expenditure and financing at a high level. The requirement to prepare a strategy arises from Government concerns about certain authorities borrowing substantial sums to invest in commercial property, often outside the vicinity of the Council concerned (something Leicester City Council has never done).
 - 1.2 There is also a requirement on local authorities to prepare an investment strategy, which specifies our approach to making investments other than day to day treasury management investments (the latter is included in our treasury management strategy, as in previous years). The investment strategy is presented as a separate report on your agenda.
 - 1.3 This appendix sets out the proposed capital strategy for the Council's approval. It incorporates our policy on repaying debt, which used to be approved separately.
2. **Capital Expenditure**
 - 2.1 The Council's capital expenditure plans are approved by the full Council, on the basis of two reports:-
 - (a) The corporate capital programme – this covers periods of one or more years, and is always approved in advance of the period to which it relates. It is often, but need not be, revisited annually (it need not be revisited if plans for the subsequent year have already been approved);
 - (b) The Housing Revenue Account (HRA) capital programme – this is considered as part of the HRA budget strategy which is submitted each year for approval.
 - 2.2 The capital programme is split into:-
 - (a) Immediate starts – being schemes which are approved by the Council and can start as soon as practical after the council has approved the programme. Such schemes are specifically described in the relevant report;
 - (b) Policy provisions, which are subsequently committed by the City Mayor (and may be less fully described in the report). The principle here is that further consideration is required before the scheme can start.
 - 2.3 The corporate capital programme report sets out authorities delegated to the City Mayor. Decisions by the City Mayor are subject to normal requirements in the constitution (e.g. as to prior notice and call-in).

- 2.4 Monitoring of capital expenditure is carried out by the Executive and the Overview Select Committee. Reports are presented on 3 occasions during the years, and at outturn. For this purpose, immediate starts have been split into three categories:-
- (a) **Projects** – these are discrete, individual schemes such as a road scheme or a new building. These schemes are monitored with reference to physical delivery rather than an annual profile of spending. (We will, of course, still want to make sure that the overall budget is not going to be exceeded);
 - (b) **Work Programmes** – these will consist of minor works or similar schemes where is an allocation of money to be spent in a particular year.
 - (c) **Provisions** – these are sums of monies set aside in case they are needed, but where low spend is a favourable outcome rather than indicative of a problem.
- 2.5 When, during the year, proposals to spend policy provisions are approved, a decision on classification is taken at that time (i.e a sum will be added to projects, work programmes or provisions as the case may be).
- 2.6 The authority does not capitalise expenditure, except where it can do so in compliance with proper practices: it does not apply for directions to capitalise revenue expenditure.
- 2.7 The table below forecasts the past and forecast capital expenditure for the current year and 2020/21. It therefore, includes expenditure from the 2019/20 programme that will be rolled forward.

| Department / Division | 2019/20 Estimate £m | 2020/21 Estimate £m |
|--------------------------------------|------------------------------------|------------------------------------|
| People & Neighbourhoods | 4.7 | 17.0 |
| Highways, Transport & Infrastructure | 33.8 | 62.5 |
| Promoting Business | 12.1 | 18.6 |
| Tourism & Culture | 2.6 | 6.8 |
| Corporate | 2.8 | 7.0 |
| Schools | 28.0 | 27.8 |
| Strategic Acquisitions | 0.0 | 3.0 |
| Total General Fund | 84.0 | 142.7 |
| Housing Revenue Account | 49.4 | 75.5 |
| Total | 133.4 | 218.2 |

- 2.8 The Council's Estates and Building Services Division provides professional management of non-housing property assets. This includes maintaining the properties, collecting any income, rent reviews, ensuring that lease conditions are complied with and that valuations are regularly updated at least every 5 years. A capital programme provision is made each year for significant

improvements or renovation: spending need is initially prioritised by the division and formally approved by the City Mayor.

- 2.9 The Housing Division provides management of tenanted dwellings. Apart from the new build, the HRA capital programme is almost entirely funded from tenants' rents. The criteria used to plan major works are in the table below:-

| Component for Replacement | Leicester's Replacement Condition Criteria | Decent Homes Standard: Maximum Age |
|----------------------------------|----------------------------------------------------|----------------------------------------------------------------------------------|
| Bathroom | All properties to have a bathroom for life by 2036 | 40 years / 30 years |
| Central Heating Boiler | Based on assessed condition | 15 years (future life span of new boilers is expected to be on average 12 years) |
| Chimney | Based on assessed condition | 50 years |
| Windows & Doors | Based on assessed condition | 40 years |
| Electrics | Every 30 years | 30 years |
| Kitchen | All properties to have an upgraded kitchen by 2036 | 30 years / 20 years |
| Roof | Based on assessed condition | 50 years (20 years for flat roofs) |
| Wall finish (external) | Based on assessed condition | 80 years |
| Wall structure | Based on assessed condition | 60 years |

3. **Financing Capital Expenditure**

- 3.1 Most capital expenditure of the Council is financed as soon as it is spent (by using grants, capital receipts, revenue budgets or the capital fund). The Council will only incur spending which cannot be financed in this way in strictly limited circumstances. Such spending is termed "prudential borrowing" as we are able to borrow money to pay for it. (The treasury management strategy explains why in practice we don't need to borrow on the external market: we must still, however, account for it as borrowing and make "repayments" from revenue each year). Circumstances in which the Council will use "prudential borrowing" are:-

- (a) Where spending facilitates a future disposal, and it is estimated that the proceeds will be sufficient to fully cover the initial costs;
- (b) Where spending can be justified with reference to an investment appraisal (this is further described in the separate investment strategy). This also includes social housing, where repayment costs can be met from rents;
- (c) Other "spend to save" schemes where the initial cost is paid back from revenue savings or additional income;
- (d) Where, historically, the Council has used leasing for vehicles or equipment, and revenue budgets already exist to meet the cost;

(e) “Once in a generation” opportunities to secure significant strategic investment that will benefit the city for decades to come.

3.2 The Council measures its capital financing requirement, which shows how much we would need to borrow if we borrowed for all un-financed capital spending (and no other purpose). This is shown in the table below:-

| | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--------------|----------|----------|----------|----------|
| | Estimate | Estimate | Estimate | Estimate |
| | £m | £m | £m | £m |
| HRA | 226 | 242 | 259 | 278 |
| General Fund | 259 | 251 | 243 | 235 |

(The table above excludes PFI schemes).

3.3 Projections of actual external debt are included in the treasury management strategy, which is elsewhere on your agenda.

4. **Debt Repayment**

4.1 As stated above, the Council usually pays for capital spending as it is incurred. However, this has not always been the case. In the past, the Government encouraged borrowing and money was made available in Revenue Support Grant each year to pay off the debt (much like someone paying someone else’s mortgage payments).

4.2 The Council makes charges to the general fund budget each year to repay debt incurred for previous years’ capital spending. (In accordance with Government rules, no charge needs to be made to the Housing Revenue Account: we do, however, make charges for newly built and acquired property).

4.3 The general underlying principle is that the Council seeks to repay debt over the period for which taxpayers enjoy the benefit of the spending it financed.

4.4 Where borrowing pays for an asset, debt is repaid over the life of the asset.

4.5 Where borrowing pays for an investment, debt is repaid over the life of the Council’s interest in the asset which has been financed (this may be the asset life, or may be lower if the Council’s interest is subject to time limits). Where borrowing funds a loan to a third party, repayment will never exceed the period of the loan.

4.6 Charges to revenue will be based on an equal instalment of principal, or set on an annuity basis, as the Director of Finance deems appropriate.

4.7 Debt repayment will normally commence in the year following the year in which the expenditure was incurred. However, in the case of expenditure relating to the construction of an asset, the charge will commence in the year after the asset becomes operational or the year after total expenditure on the scheme has been completed.

4.8 The following are the maximum asset lives which can be used:-

- (a) Land – 50 years;
- (b) Buildings – 50 years;
- (c) Infrastructure – 40 years;
- (d) Plant and equipment – 20 years;
- (e) Vehicles – 12 years.

- 4.9 Some investments governed by the treasury strategy may be accounted for as capital transactions. Should this require debt repayment charges, an appropriate time period will be employed. Share capital has a maximum “life” of 20 years.
- 4.10 Authority is given to the Director of Finance to voluntarily set aside sums for debt repayment, over and above the amounts determined in accordance with the above rules, where she believes the standard charge to be insufficient, or in order to reduce the future debt burden to the authority.
- 4.11 Voluntary set aside has been made in past years, in line with approved budget strategies. Prior to 2015/16, the Council had a policy requiring higher sums to be set aside than the current policy requires. In November 2015, the policy was changed by the Council to one which is essentially the one stated above. Subsequent budgets, however, deliberately topped up the amount of repayment to previous levels. In this way, the Council postponed potential budget savings until Government grant cuts made implementation essential (after all, the “budget savings” only arise from slower payment of debt).
- 4.12 The law permits the Council to “claim back” sums set aside voluntarily in previous years by reducing subsequent years’ debt repayment. The Council will only do this in the following circumstances:-
- (a) To support the Council’s treasury management strategy. For instance, using these sums gives the Council access to a wider pool of collective property investments than we could otherwise use because of accounting restrictions (and hence access to better investment opportunities). We have used this flexibility to invest in £8m of investments in pooled property funds.
 - (b) For the acquisition of other investments permitted by the investments strategy, where it is appropriate to capitalise spending so that revenue savings can be delivered immediately.
- 4.13 Once investments acquired through sums “claimed back” are redeemed, the receipt will be set aside again for debt repayment. The amount available now stands at £5m.
- 4.14 In circumstances where the investment strategy permits use of borrowing to support projects which achieve a return, the Director of Finance may adopt a different approach to debt repayment to reflect the financing costs of such schemes. The rules governing this are included in the investment strategy.

4.15 The ratio of financing costs to net revenue budget is estimated to be:-

| | 2019/20 | 2020/21 | 2021/22 |
|--------------|---------|---------|---------|
| | % | % | % |
| General Fund | 2.0 | 2.0 | 2.2 |
| HRA | 9.9 | 11.1 | 11.6 |

5. **Commercial Activity**

5.1 The Council has for many decades held commercial property. It may decide to make further commercial investments in property, or give loans to others to support commercial investment. Our approach is described in the investment strategy, which sets the following limitations:-

- (a) The Council will not make such investments purely to generate income. Each investment will also benefit the Council's service objectives (most probably, in respect of economic regeneration and jobs). It will, however, invest to improve the financial performance of the corporate estate;
- (b) The Council will not make investments outside of the LLEP area (or just beyond its periphery) except as described below. We would not, for instance, borrow money to buy a shopping centre 100 miles from Leicester;
- (c) There is one exception to (b) above, which is where the investment meets a service need other than economic regeneration. An example might be a joint investment in a solar farm, in collaboration with other local authorities; or investment in a consortium serving local government as a whole. In these cases, the location of the asset is not necessarily relevant.

5.2 Such investments will only take place (if they are of significant scale) after undertaking a formal appraisal, using external advisors if needs be. Nonetheless, as such investments also usually achieve social objectives, the Council is prepared to accept a lower return than a commercial funder might, and greater risk than it would in respect of its treasury management investments. Such risk will always be clearly described in decision reports (and decisions to make such investments will follow the normal rules in the Council's constitution).

5.3 Although the Council accepts that an element of risk is inevitable from commercial activity, it will not invest in schemes whereby (individually or collectively) it would not be able to afford the borrowing costs if they went wrong. As well as undertaking a formal appraisal of schemes of a significant scale, the Council will take into account what "headroom" it may have between the projected income and projected borrowing costs.

5.4 In addition to the above, the Council's treasury strategy may permit investments in property or commercial enterprises. Such investments may be to support environmental and socially responsible aims, and are usually pooled with other bodies. For the purposes of the capital strategy, these are not regarded as commercial activities under this paragraph where activity is carried out under the treasury strategy.

6. **Knowledge and Skills**

6.1 The Council employs a number of qualified surveyors and accountants as well as a specialist team for economic development who can collectively consider investment proposals. It also retains external treasury management consultants (currently Arlingclose). For proposed investments of a significant scale, the Council may employ external specialist consultants to assist its decision making.