

Capital Investment Strategy - Update

Report by Gary Fairley, Chief Officer Corporate Solutions

1 Purpose of Report

To present an update of the Council's Capital Investment Strategy which sets out the longer term investment which supports delivery of the Single Midlothian Single Plan and the Midlothian Local Development Plan.

2 Introduction

As part of the continued development of the Council's strategic financial planning and in line with best practice the Council's first Capital Investment Strategy, covering a ten year period, was approved by Council on 13 November 2018.

This update includes a number of revisions, the most material of which is to reflect the refinement and update of the Learning Estate Strategy which is the subject of a separate report also on today's agenda. The updated Capital Investment Strategy which is attached as Appendix 1 reemphasises the ambitious investment programme for essential infrastructure, the majority of which is unavoidable, together with identified sources of funding over a ten year period.

3 Background

The Capital Investment Strategy is based on the themes of the Midlothian Local Plan and identifies the investment required to achieve outcomes over a ten year period. The Capital Investment Strategy is structured around the key themes of Sustainable Growth, Getting it Right for Every Midlothian Child, Adult Health and Integrated Social Care, Community Safety and Improving Opportunities in Midlothian. In addition there is a general theme for Council Service Provision. Under each of these themes, projects and developments are identified which will most closely support the achievement of future outcomes.

The strategy is a key document in the Council's overall financial strategy linking to the five year Capital Plans and the strategy for the revenue budget. It is also key in the Council's overall strategy in that it integrates with the delivery of the infrastructure required for the Midlothian Local Development Plan and delivery of the Strategic Housing Investment Plan (SHIP) and the associated Rents Strategy.

The Strategy and particularly the investment plans articulated within it are not static. It is recognised that the position will continue to change and be refined and in this regard members should note the work that is overseen by the Capital Plan and Asset Management Board to more fully develop asset management plans for all classes of assets and so ensure the Capital Strategy incorporates adequate provision to ensure these assets remain fit for purpose. Alongside this, work continues to identify and provide for the investment which is essential to support a reduction in the Council's carbon footprint, whether by reducing energy consumption or transitioning the vehicle fleet to greener alternatives.

The Strategy also recognises the importance of investment to support a growing community through investment in additional school capacity, other facilities and infrastructure. Investment is also essential to support the recently approved Economic Development Framework and whilst the Strategy incorporates the City deal projects, plans are in development to secure an increased provision of accommodation for a range of commercial accommodation, particularly for incubator units to support business start-ups and inward investment in Midlothian.

It demonstrates a recognition of the significant resources required to deliver the vision for the Council and is a mechanism for indicating the longer term funding requirements and to support the prioritisation of investment.

Members may recollect that when the Capital Strategy was approved in 2018 a separate Capital Strategy Guidance Supplement was also approved and now forms a key part of the Council's suite of financial governance documents. It covers arrangements for:-

- The capital investment and disposal appraisal process;
- How the capital requirements will be prioritised;
- The capital programme decision making;
- How the Council will procure its capital projects;
- How the Council will measure the performance of the capital programme;
- Arrangements for the Capital Plan and Asset Management Plan Board.

It continues to be difficult to fully anticipate the local authority environment particularly given the short term nature of grant settlements, a new and evolving model of government support for school estate investment and the inherent uncertainty associated with longer term projections. As such the later years of the strategy represents aspiration and expectation rather than certainty.

4 Report Implications

4.1 Resource

The updated Capital Investment Strategy spans a ten year period and is intended to reflect the Council's ambition over that period. It sets out the longer term expenditure and funding and the potential borrowing implications of these.

Ideally the Council will want to have in place an affordable and deliverable ten year Capital Investment Strategy which can then be fully reflected in the regular update of the Council's rolling five year Capital Plans.

Including projects already included in the approved Capital plans the strategy incorporates projects with an estimated total value of £925 million, £561 million for General Fund, as summarised in Appendix 2 and £264 million for HRA, as summarised in Appendix 3. The HRA element is fully funded, principally by borrowing supported by future year's rental income.

There remains an affordability gap to be bridged over the life of the Capital Strategy. At this point the indications are that the borrowing associated with the Capital Investment Strategy can be contained within the projected provision in the revenue budget through to 2022/23. Thereafter indications are that there would need to be an increase in the proportion of the revenue budget which is set aside to meet borrowing costs based on the projects included in the strategy which will bring inevitable funding challenges for the remainder of the revenue budget. Accordingly, there remains an affordability gap over the ten year life of the plan and work will continue to find ways to address this.

This work will be led by the Capital Plan and Asset Management Board with proposed changes reflected in future updates to the strategy and also reported to Business Transformation Steering Group reflecting its revised remit.

Table 1 below summarises the funding position for general services for each of the years. At this time the funding assessment provides for the planned utilisation of the Capital Fund and future capital receipts to support investment with the retention of a minimum balance for the Capital Fund of £5 million to provide for unforeseen capital investment needs.

Table 1 – General Services Affordability 2019/20 to 2029/30

Year	Total Investment £000's	Total Funding £000's	Borrowing Requirement £000's
2019/20	37,642	(23,900)	13,742
2020/21	66,970	(42,992)	23,978
2021/22	82,266	(45,622)	36,643
2022/23	77,045	(27,589)	49,456
2023/24	42,107	(16,938)	25,169
2024/25	47,282	(33,984)	13,298
2025/26	69,267	(49,666)	19,600
2026/27	93,749	(50,886)	42,862
2027/28	14,967	(22,907)	(7,940)
2028/29	12,506	(24,870)	(12,364)
2029/30	17,367	(22,346)	(4,979)
Total	561,168	(361,700)	199,467

In updating the strategy and taking cognisance of longer term affordability it is clear that a number of potential projects which are currently included will only be able to be progressed if they can be delivered on a spend to save basis (i.e. where income or cost savings more than offset the cost of funding the investment) or where they can be delivered on a cost neutral basis. There are also projects within the Learning Estate that will only be able to progress with additional funding awards through the Schools for the future programme.

4.2 Risk

The Capital Investment Strategy mitigates against the risk of capital investment not being aligned to the delivery of the Council's priority outcomes.

4.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☒ Sustainable growth
- ☐ Business transformation and Best Value
- ☐ None of the above

4.4 Key Priorities within the Single Midlothian Plan

The strategy supports the delivery of all of the Single Midlothian Plan's priorities.

4.5 Impact on Performance and Outcomes

Sustainable investment in the asset base is essential to service performance and delivery of outcomes.

4.6 Adopting a Preventative Approach

Sustainable investment in the asset base is essential to securing a preventative approach.

4.7 Involving Communities and Other Stakeholders

The strategy reflects the essential infrastructure arising from the Strategic Housing Investment Plan and Local Plan, both of which were subject to extensive consultation.

4.8 Ensuring Equalities

The Integrated Impact Assessment completed for original strategy identifies a range of positive benefits associated with the development of the strategy and the projects it contains. That assessment continues to be applicable.

4.9 Supporting Sustainable Development

Sustainable investment in the asset base is essential to supporting sustainable investment.

4.10 IT Issues

The strategy includes investment to sustain the Council's digital asset base.

5 Summary

The Capital Investment Strategy sets out an ambitious investment programme for essential infrastructure over a 10 year period. This is at a higher level than the rolling five year Capital Plans for both General Fund Services and Housing Revenue Account (HRA).

6 Recommendations

It is recommended that Council:-

- a) Welcomes and adopts the updated Capital Investment Strategy which sets out the an ambitious and exciting investment programme f or the county and which is attached as appendix 1 to this report;
- b) Notes the areas of further development as outlined in the report;
- c) Note that strategy incorporates projects with an estimated total value of £925 million, £561 million for General Fund, as summarised in Appendix 2 and £264 million for HRA, as summarised in Appendix3;
- d) Note that work continues to address the affordability of the strategy for General Fund services over the ten year life of the plan. This work is led by the Capital Plan and Asset Management Board with oversight provided by recent revisions to the remit of the Business Transformation Steering Group;
- e) Notes that it is difficult to fully anticipate the local authority environment over such a long period so the later years of the strategy represents aspiration and expectation rather than certainty particularly given the affordability gap for the projects currently identified and costed;
- f) Otherwise note the report.

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Report Contact:

Gary Fairley Tel No: 0131 271 3110

gary.fairley@midlothian.gov.uk

Background Papers:

Appendix 1: Capital Investment Strategy 2019/20 to 2029/30

Appendix 2: General Services Capital Strategy 2019/20 to 2029/30

Appendix 3: HRA Capital Strategy 2019/20 to 2029/30