

Draft Capital Investment Strategy**Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

To introduce a draft of the Council's first Capital Investment Strategy to support early consideration by elected members.

2 Introduction

As part of the continued development of the Council's strategic financial planning and in line with best practice a draft Capital Investment Strategy covering a ten year period has been developed for the Council. This is at a higher level than the existing five year Capital Plans which are already in place for both General Fund Services and Housing Revenue Account (HRA) and over time it is expected that many of the projects will move into those more detailed plans and be fully costed and fully funded.

It is difficult to fully anticipate the local authority environment over such a long period so an element of the strategy represents aspiration and expectation rather than certainty particularly given the affordability gap for the projects currently identified and costed.

3 Background

Whilst the Council has in place a five year Capital Plans for both General Fund Services and HRA there has been no mechanism to capture the wider and longer term investment in the Council's asset base and in particular to set out the investment required to align with the longer term time horizon of the Midlothian Local Development Plan.

The draft 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 through to March 2028.

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 a general theme for Council Service Provision has been included. Under each of these themes, projects and developments have been identified which will most closely support the achievement of future outcomes.

The strategy even at this draft stage 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.

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.

One of the essential parts of the overall strategy is the Edinburgh and south East Scotland Region City Deal which will underpin key infrastructure projects for the A720 City Bypass and A701/A702 as part of the Easter bush development.

Amongst the other key priorities set out in the draft strategy are continuing development of both the school estate and the housing estate across the Council. It is recognised that work is ongoing to develop a Waste Strategy which may have a capital investment requirement which is currently unknown. Any further investment demands such as this will be picked up and considered in the proposed refresh of the strategy.

In developing the draft strategy and taking cognisance of the affordability gap it is clear that a number of potential projects 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. This includes projects such as Dalkeith town centre redevelopment and master planning proposals for Newtongrange and Stobhill.

4 Report Implications

4.1 Resource

The draft 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 borrowing implications of these.

Including projects already included in the approved Capital plans the draft strategy incorporates projects with an estimated total value of £852 million, £586 million for General Fund and £266 million for HRA. The HRA element is fully funded, principally by borrowing supported by future year's rental income.

The position is more challenging for General Fund where the initial indications based on projected funding and affordable borrowing together with a range of assumptions set out in the Capital Investment

Strategy itself highlight an affordability gap at this point of £102 million (or 17%). Work will continue over the summer to further refine the assessments but the extent of the funding gap means that Council will need to prioritise projects which in turn may require some of the projects in the draft strategy to be dropped or progressed by other means.

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.

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 draft 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

At this time only, the Council's Management Team have been consulted and are in agreement with the content of this report. The draft 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 the strategy identifies a range of positive benefits associated with the development of the strategy and the projects it contains.

4.9 Supporting Sustainable Development

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

4.10 IT Issues

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

5 Summary

The draft Capital Investment Strategy attached sets out the longer term capital investment priorities and funding source for the Council over the next ten years.

It is presented in a draft to allow fuller consideration by members over the summer with a view to holding a seminar of Council before the finalised strategy is presented to Council in October 2018.

6 Recommendations

It is recommended that Council:-

- a) Welcomes the draft Capital Investment Strategy attached to this report;
- b) Notes the affordability gap for General Fund services;
- c) Agree to a seminar of Council to consider more fully the strategy before it is finalised and presented to Council on 2 October 2018 for approval.

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Background Papers: