APPENDIX E

Solihull Metropolitan Borough Council

# CORPORATE CAPITAL STRATEGY
# 2019/20 – 2021/22

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## 1. Executive Summary

1.1 The prudential code for capital finance in local authorities, 2017 edition, sets out the requirement that authorities should have in place a capital strategy and governance procedures for the setting and revising of the strategy and prudential indicators. This will be done by the same body that approves the local authority's budget, which for Solihull will be Full Council.

1.2 The Director of Resources and Deputy Chief Executive will be responsible for ensuring that all matters required to be taken into account are reported to the decision making body for consideration and for establishing procedures to monitor performance.

1.3 Under the prudential code guidance a capital strategy needs to demonstrate that Solihull takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

1.4 The Council has a revised capital programme totalling £54.946 million in 2018/19 and an asset base valued at £1,145.188 million. This strategy is an overarching document which sets the policy framework for the development, management and monitoring of this investment and forms a key component of the Council's planning alongside the Medium Term Financial Strategy and Efficiency Plan (MTFS), Treasury Management Strategy, Corporate Asset Strategy and the Council's Flexible Use of Capital Receipts Strategy.

1.5 The Corporate Capital Strategy sits alongside the three year revenue budget strategy and feeds into the annual revenue budget by informing on the revenue implications of capital funding decisions. The ongoing implications for the revenue budget strategy are fully considered before any capital funding decisions are confirmed.

1.6 Equally, the availability of prudential borrowing means that capital and revenue solutions to service delivery can be considered, and ranked, alongside each other as part of an integrated revenue and capital financial strategy.

1.7 The Corporate Capital Strategy further sets out the Council's approach to the allocation of its capital resources and how this links to its strategic priorities and objectives at a corporate and service level. It describes how the Council has responded to the opportunities provided by prudential borrowing and other new sources of finance and finally outlines the links to other key Council policies. Specifically this document addresses the following points:

- How the Council's priorities and objectives inform the capital programme;
- Outlines service priorities, objectives and major projects;
- Summarises the forecast 3 year capital programme;
- Describes the links to the corporate Asset Strategy;
- Outlines the Council's capital resource allocation methodology;
- Outlines the implications of capital investment decisions;
- Reviews the relevant capital prudential indicators and limits; and

- Sets out the links to other council strategies, plans and policies.

1.8 Notwithstanding the significant investment that will be delivered through capital projects, the projected programme recognises the diminishing capital resources and the need to respond to this position.

1.9 Although the current strategy covers the three year period up to 2021/22 it will be refreshed on an annual basis to ensure its continued relevance and to update it for any significant changes in legislation or council policy, to be in line with the three year MTFS.

## 2. Service Priorities and Objectives

2.1 Individual service priorities flow from the objectives contained within the Council Plan. This ensures that all parts of the organisation are focused on meeting the priorities identified by the Council in conjunction with the local community and its strategic partners.

2.2 The main service priorities, objectives and projects, where applicable, are summarised below by cabinet portfolio.

### Adult Social Care and Health

2.3 The principles set out in the Adult Care and Support Transformation Programme and the Adult Care and Support Offer outline the nature of the challenges we face, our vision for the future of care and support in Solihull and how we will go about making the changes and realising that vision.

2.4 The completion of the construction of a new care home on Tanworth Lane is the significant capital project in terms of value in 2019/20 within this portfolio. Joint investment with other public service agencies and private sector partners where appropriate will ensure that these asset types reflect changes in demography, lifestyle and social care needs.

### Children, Education and Skills

2.5 The Children's Services Capital Strategy is reflected in the Solihull Schools Asset Management Plan (AMP). It comprises the investment programmes that fall within the remit of the Council's Children, Education and Skills Portfolio and within that, provision for (1) children's services and (2) the schools estate capital works. Consultation with schools and key stakeholders on the AMP continues through various collaborative processes.

2.6 The AMP, updated and approved in 2018, is developed and managed for, essentially, the benefit of the schools estate. The purpose of the AMP is to develop a strategic approach to capital investment with the aim of providing appropriate facilities that assist in raising education standards within a quality built environment. The plan is focused upon a three year rolling programme of capital works, reviewable annually, and has six aims:

- To ensure sufficient physical provision for pupil places;
- To support the effective delivery of teaching and learning;

- To support the raising of education standards;
- To support inclusion and make provision for the most vulnerable pupils;
- To identify investment priorities which will both inform, and be influenced by priorities within, the Council Plan and;
- To improve the building condition of the maintained schools estate through planned maintenance, long term refurbishments or renewal to achieve these aims.

2.7 The Children, Education and Skills Capital Programme is comprised of subordinate programmes essentially focused upon:

- The Northern Primary Programme;
- The Schools Improvement Programme; and
- The Schools Maintenance Programme.

**The Northern Primary Programme**

2.8 This is a programme of activity aimed at the improvement of the North Solihull primary estate which is now in its latter phase. The penultimate scheme is the rebuilding of Yorkswood Primary School, which is on site and will complete in spring 2019.

2.9 The final planned project, to achieve the original target for school places, is still the subject of feasibility, but will be focused upon an extension style project at Kingshurst Primary School.

**The Schools Improvement Programme**

2.10 The Schools Improvement Programme incorporates the priorities highlighted within the School Organisation Plan (Places) and on-going support for Special Educational Needs and Disabilities (SEND) and provision for Early Years.

2.11 In 2018, most notably, school place expansions have been completed at Shirley Heath and Sharmans Cross Junior Schools while the expansion of Tudor Grange Academy is now on site.

2.12 In support of the evolving SEND strategy the Additionally Resourced Centre (ARC) for pupils with Autism was opened at Alderbrook Academy. Finally Early Years Schemes (EYS) were completed at Reynalds Cross Special School and Yew Tree and Ulverley Primary Schools.

**The Schools Maintenance Programme**

2.13 This aspect of the programme continues to cover the planned maintenance element of the AMP delivered by Property Services with the principal focus on the maintained primary sector. The programme is based upon an annual review of the maintenance priorities for the Council’s maintained schools.

2.14 In 2018 over £1m worth of works were completed at several schools, principally focused upon the improvement of their kitchen ventilation systems.

2.15 Additionally, the Voluntary Aided estate benefits from a separate programme of investment (circa £0.9m), which is deployed annually in much the same manner as our maintenance programme, and where we serve as programme coordinators.

**Environment and Housing**

2.16 The most significant projects in terms of budget within the portfolio is for the Disabled Facilities Grant (DFG) which is a long established source of financial assistance for home owners and private tenants to adapt their homes in order to maintain their independence.

2.17 Solihull Community Housing (SCH) is responsible (through Solihull Independent Living) for the provision of home adaptations, including DFG – funded works. This usually follows an assessment of the work required to meet the applicant’s needs by an Occupational Therapist or a Trusted Assessor.

2.18 The grant is statutory, so applicants who meet criteria which are set out in the Regulations must be assisted by SCH on behalf of the Council. Where the applicant’s household income is above a defined threshold a financial contribution to the required works may be required.

2.19 Central government makes annual allocations to cover a substantial part of the cost of delivering DFG. Since 2015/16, it has been made to the local authority as an earmarked amount within the Better Care Fund (BCF).

**Leisure, Tourism and Sport**

2.20 The portfolio will be working to deliver significant priorities around the Birmingham 2022 Commonwealth Games, the Velo Birmingham Cycle event from 2019, Sport England Active Communities Pilot and the Coventry 2021 City of Culture.

2.21 The Council will deliver these priorities with key partners such as, but not limited to:

- The West Midlands Combined Authority
- Birmingham City Council
- Coventry City Council

2.22 The Council has not identified the need for any capital funding as yet to support these priorities but will work closely with the above stakeholders to secure external funding that fit our strategic objectives.

## Managed Growth

2.23 The Council delivers economic growth, opportunities and regeneration for Solihull, by maximising external funding available to the borough and through our local and regional partnerships.

2.24 Through the vision and investment programme of UK Central (UKC), the Council is committed to creating jobs and delivering inclusive economic growth. The unique concentration of strategic economic assets in Solihull that includes Jaguar Land Rover, Birmingham Airport and the NEC offers an opportunity on a scale that is of national significance.

2.25 The UKC Programme and development plans for the borough will support investment in transport, development, clusters of emerging sectors, and the green infrastructure which will play such a vital role in the borough's success. It shows that careful planning; detailed design and ambitious strategies will ensure an exciting and sustainable future.

## Resources and Delivering Value

2.26 Supported by funding from the West Midlands Combined Authority the Council will be delivering two key programmes to develop and invest in Solihull Town Centre and accelerate housing delivery by maximising residential development opportunities.

2.27 Other significant capital projects within the Resources and Delivering Value Cabinet Portfolio are the Property Services Asset Management Programme for the enhancement of council properties excluding Schools and Housing dwellings. This programme currently relies on funding through prudential borrowing.

2.28 The Digital Strategy recognises the important role digital will play in delivering the Council's objectives. Since the strategy had been approved, it had been used as the template for a Digital Transformation programme.

2.29 The corporate ICT programme supports the central equipment refresh programme and the ICT capital projects. The implementation of a new Adults' and Children's social care information system will continue to be a key project for 2019/20.

2.30 The ICT division seeks opportunities to take the business further into efficient operating with ICT tools and innovations. This includes identifying technical solutions to known business problems and also bringing new technology opportunities to the business. In this way the division both contributes to the Council Plan and helps to shape it. Where funds are sought from the ICT capital programme, a clear link on how the project will support the Digital Strategy will be required.

**Stronger Communities and Partnerships**

2.31 The Bereavement Service's 30 year Business Strategy sets out how the Council will meet future demand for service provision over this period. In the context of the period of the Corporate Capital Strategy the most significant project is the acquisition of land at Woodlands Cemetery and Crematorium.

2.32 The Library and Information Service's mission is to provide libraries that inspire, enrich, improve quality of life for all, help individuals and communities achieve their full potential and create a sense of place. Priorities include transforming services within libraries to meet the changing needs of customers. These improvements to the service will be achieved by using partnerships and engaging with the local community. A further priority is to explore the feasibility of co-location/relocation of existing libraries when opportunities arise.

**Transport and Highways**

2.33 The 'Vision for Transport in Solihull' is the strategy to deliver local transport objectives to the transport and road networks across Solihull borough in line with the key objectives for the West Midlands over the next 5 years as detailed in the Local Transport Plan 3 (LTP 3).

2.34 The LTP 3 key objectives are considered to be relevant 'Strategic Aims' for transport within Solihull and are therefore the basis against which Solihull's local transport objectives are considered. The key objectives of the LTP 3 are to:

- Support economic growth;
- Tackle climate change;
- Contribute to better safety, security and health; and
- Improve quality of life and a healthy natural environment.

2.35 Over the last 12 months a new transport direction has been articulated to support the Council's 'Managed Growth' agenda and the promotion of UKC now being covered by the development of the Solihull Connected transport strategy.

2.36 These objectives are reflected in the main priorities for the 2019/20 LTP which also recognises supporting regional road safety programmes and delivering local improvements. The Solihull Connected Delivery Plan identifies specific transport priorities for development to an investment ready state. Key highlights of our Delivery Plan include:

- Street Lighting LED upgrade;
- Expansion of borough-wide cycle routes;
- Public Transport Improvements; and
- Maintenance and improvement of the road network.

**Housing Revenue Account Capital Programme**

2.37 The proposed council housing capital programme for 2019/20 is £16.066 million. This will go towards delivering the objectives identified in the proposed 2017-2022 Asset Management Strategy to underpin the Housing Revenue Account (HRA) MTFS.

The key objectives include to:

- Provide comfortable and well-maintained homes;
- Improve the energy efficiency of our homes and enable residents (and the landlord) to benefit from lower energy costs;
- Acquire and develop properties to support local housing need; and
- Ensure that our homes are suitable for occupation by disabled persons, either through adaptation or design.

## 3. Summary of Current and Forecast Three Year Capital Programme

3.1 As at February 2019 the known central government capital grant allocations are shown below. Specific grants and third party contributions will be allocated to provide specific outputs associated with that service. Revenue contributions will come from a directorate's revenue cash limit. There is also a ring fencing of any capital programmes that are HRA related.

| **Cabinet Allocation** | **Grant Funding 2019/20 £m** | *Grant Funding 2018/19 (For information) £m* |
|---|---|---|
| **Department for Education** (passported to Children, Education & Skills portfolio) | | |
| Basic Need | **0** | 2.387 |
| School Condition | **1.554*** | 1.554 |
| Special Provision Capital Fund | **0.278** | 0.278 |
| Devolved Formula Capital | **0.320*** | 0.320 |
| **Better Care Fund** (passported to Environment, Housing & Regeneration portfolio) | | |
| Disabled Facilities Grant | **2.029*** | 2.277 |
| **Department for Transport** (passported to Transport & Highways portfolio) | | |
| Integrated Transport Block | **0.971*** | 0.971 |
| Highways Maintenance Block | **2.108*** | 2.108 |
| Highway Incentive Fund | **0.442** | 0.442 |
| Pothole Fund Grant | **0.280*** | 0.280 |

*still to be confirmed

3.2 The Council's current and proposed capital programme for the period 2018/19 to 2021/22 is summarised below. This is based on the current approved programme and a forecast for future years based on actual funding allocations where known and estimates based on current allocations where a three year allocation has not been provided by central government.

| Summary of Corporate Capital Programme 2018/19 to 2021/22 | | | | |
|---|---|---|---|---|
| | | | | |
| **Cabinet Portfolio** | ***2018/19*** | **2019/20** | **2020/21** | **2021/22** |
| | ***£m*** | **£m** | **£m** | **£m** |
| Adult Social Care and Health | *5.140* | **5.516** | 0.830 | 0.830 |
| Children, Education and Skills | *9.290* | **12.269** | 6.863 | 2.250 |
| Environment and Housing | *1.390* | **1.600** | 1.350 | 1.376 |
| Leisure, Tourism and Sport | *0.406* | **0.200** | 0 | 0 |
| Managed Growth | *8.726* | **24.702** | 29.036 | 53.003 |
| Resources and Delivering Value | *5.391* | **7.249** | 2.691 | 2.600 |
| Stronger Communities & Partnerships | *0* | **0.500** | 2.600 | 2.100 |
| Transport and Highways | *7.047* | **4.348** | 3.970 | 5.091 |
| **Total Cabinet Portfolios** (Projection) | *37.390* | **56.384** | 47.340 | 67.250 |
| Housing Revenue Account | *17.556* | **16.066** | 16.707 | 14.041 |
| | | | | |
| **Total Council Capital Programme** | ***54.946*** | **72.450** | **64.047** | **81.291** |

## 4. Asset Management

4.1 Asset management and its planning forms an integral part of the Council's business management arrangements and is crucial to the delivery of efficient and effective services.

4.2 The Council's corporate Asset Management Strategy, along with the Schools, Housing and Transportation service plans, sets out the medium to long term land, property and accommodation strategies that have been drawn up in support of the Council's existing strategic priorities and key objectives and other potential service developments.

4.3 The Council's asset management policy is articulated within the strategy and a description of the organisational arrangements for implementing and developing the policy is also included. The strategy provides detailed information about the Council's existing asset base and a range of performance measures and indicators that are intended to inform future decisions about the suitability, sufficiency, and sustainability of the Council's land and property resources.

4.4 The Council works to manage assets creatively, responsibly, efficiently and effectively towards achieving the Council's and community ambitions.

4.5 The table overleaf provides a summary of the values of the assets owned by Solihull Council as at 31 March 2018.

| Value of Fixed Assets as at 31 March 2018: | |
|---|---|
| **Council Owned Assets** | £m |
| Council Dwellings | 417.196 |
| Other Land & Buildings | 548.431 |
| Vehicles Plant & Equipment | 16.131 |
| Infrastructure | 129.215 |
| Community Assets | 12.290 |
| Assets Under Construction | 9.740 |
| Heritage Assets | 0.950 |
| Investment Property | 10.603 |
| Intangible Assets | 0.632 |
| **Total Council Owned Assets** | 1,145.188 |

## 5. Prudential Borrowing

5.1 Since 1st April 2004 Local Authority borrowing for the purpose of capital expenditure has been governed by the CIPFA Prudential Code. The code replaces the previous borrowing regime and the Council is able to undertake further borrowing as long as it complies with the Code and can demonstrate that it is affordable, sustainable and prudent. Each year, Full Council is asked to approve parameters for borrowing as part of the Code.

5.2 The funding of any project from prudential borrowing is subject to there being sufficient headroom within the Council's prudential indicators. A number of broad principles have been developed which have been approved by Full Cabinet:

i. Prudential borrowing could be used (in part or potentially in full) to finance the capital cost of the scheme.

ii. The borrowing would be based on a maximum repayment period of 50 years (or the estimated lifespan of the asset, whichever was the shorter). (*Note that a period of 60 years may be considered in specific circumstances where appropriate.)*

iii. This would be subject to:

a. The assets being maintained over that period to an agreed lifecycle standard,

b. Sufficient provision to cover these costs in the financial model presented as part of any business case.

## 6. Flexible Use of Capital Receipts Strategy

**Background and approval requirements**

6.1 The 2015 Autumn Statement announced a new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment assets to fund the costs of service reform. The Communities Secretary as part of the provisional settlement announced in December 2017 that this flexibility will be extended until March 2022. Councils can only use sale proceeds realised over that period, and not existing receipts.

6.2 Local authorities can use capital receipts from the sale of property, plant and equipment in the years flexibility is offered (2016/17 - 2021/22). For expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years.

6.3 Local authorities are required to publish their plans for the flexible use of capital receipts in a strategy which must be approved by Full Council. For 2017/18 Solihull Council had chosen to incorporate this strategy into the MTFS and Efficiency Plan document.

6.4 For 2018/19 the flexible use of capital receipts strategy has been prepared as part of the Corporate Capital Strategy as permitted by the guidance.

6.5 The strategy should be approved before the beginning of each financial year by Full Council. If changes are proposed to the strategy during the course of the financial year, for example if a project is identified which can be funded using this flexibility, then the revised strategy will require the approval of Full Council. Furthermore, any revisions to the strategy in-year will need to be reported to the Ministry of Housing, Communities and Local Government (MHCLG).

**Capital receipts three year forecast**

6.6 The capital receipts projected during the qualifying period are shown in the table below. However, the majority of this funding is already committed to the capital programme and if it was put to an alternative use it would need to be replaced by other funding.

| | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|---|
| Projected Capital Receipts | 7.360 | 0.764 | 0.124 | 0.124 | 8.372 |

6.7 The capital receipts forecast in the table above are taken into consideration in the Council's Corporate Capital Strategy in identifying the surplus/deficit between available capital funding and the proposed capital programme.

**Qualifying projects**

6.8 Qualifying expenditure is that which is forecast to generate on-going savings to an authority's and/or to another public sector body's net service expenditure. Examples provided in the guidance include service sharing, reform feasibility work, freeing up land, digital investment, procurement aggregation, systems to tackle fraud and setting up alternative delivery models. Capital receipts can only be applied to fund set up and implementation costs and must not be used for on-going revenue costs.

6.9 To aid accountability and transparency the strategy is required to list each project that plans to make use of the capital receipts flexibility. However, at this stage this strategy describes the process that the Council will go through to identify projects, rather than the projects themselves.

6.10 When the Council considers that it has a proposal that would be suitable for making use of the capital receipts flexibility it will present the following information in a business case to Full Cabinet:

- The specific details of the project, timelines and what service outcomes it will achieve;
- The costs of the project and the benefits that are expected to be delivered;
- Details of what alternative funding will be used to replace the capital receipts that are now going to be used for this purpose, with the implications on the Council's Prudential Code including any additional approvals required;
- A recommendation that clearly evidences that by using the new capital receipts flexibility the Council will achieve greater savings than would be possible using alternative sources of funding.

6.11 In December 2017, Full Council approved the inclusion of the termination of the Leisure PPP contract as a qualifying project for the flexible use of capital receipts. This enabled the Council to utilise capital receipts received between April 2016 and March 2018. The projects that were originally planned to be funded from these capital receipts will be financed by prudential borrowing, funded from the Leisure contract annual savings.

6.12 As in 2018/19, any changes to this strategy, including any further qualifying projects identified for inclusion, will be reported to Full Council for approval. Currently, no new projects have been identified to utilise the flexible use of capital receipts strategy during the remaining qualifying period.

**Projects approved in previous years**

6.13 The strategy is required to list the projects approved in previous years and comment on progress against delivery of the planned savings or service transformation initially targeted for each project.

6.14 As referred to at 6.11, the only qualifying project identified to date is the termination of the Leisure PPP contract, which is now complete.

## 7. Capital Receipts

7.1 The Council continues to face the challenge to effectively prioritise and manage capital investment. Recent years have seen a variation in the value of the capital receipts that have been received.

7.2 The difference between the capital funding available and the proposed capital programme is shown in the table below. This shows that there is a forecast surplus which decreases slightly over the next three years.

| | 2019/20 £m | 2020/21 £m | 2021/22 £m |
|---|---|---|---|
| **Forecast cumulative surplus** | 3.400 | 2.900 | 2.739 |

7.3 The projected capital receipts in future financial years from asset disposals is highlighted in paragraph 6.6 and compared to recent years the projected three year forecast will deliver minimal capital receipts. However forecast capital receipts in 2018/19 ensure a cumulative surplus in available capital funding.

7.4 With the exception of specific receipts from housing and school related asset disposals, capital receipts are treated as a corporate resource available to fund the corporate capital programme. Full Cabinet is responsible for deciding how corporate capital receipts are to be utilised in line with council objectives.

7.5 The Corporate Capital Strategy is supported by the Council's Corporate Asset Management Strategy which includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

7.6 The Council will continue to realise the value of any assets that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

## 8. The Revenue Implications of Capital Investment Decisions

8.1 The Council shall ensure that the revenue implications of capital finance, including financing costs, are properly taken into account within the option appraisal process.

8.2 The capital financing charges and additional running costs arising from major corporate capital investment decisions have been fed into the latest MTFS. This enables members to consider the consequences of major capital investment alongside other competing priorities for revenue funding.

8.3 For self-funded projects the relevant service area is required to identify the revenue implications of the project and demonstrate how they will be financed as part of the approval process.

## 9. Long Term Implications of Capital Investment Decisions

9.1 Capital investment decision making is not only about ensuring the initial allocation of capital funds meet the corporate and service priorities, further review ensures that the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the Council must have explicit regard to consider all reasonable options available.

## 10. Prudent Implications of Capital Investment Decisions

10.1 In producing the Corporate Capital Strategy the Council ensures all of the capital and investment plans are prudent and sustainable. In doing so we take into account the arrangements for the repayment of debt, through a prudent MRP policy in line with MRP guidance produced by the Ministry of Housing, Communities and Local Government. Further consideration is given to risk and the impact, or potential impact, of capital investment decisions on the Council's overall fiscal sustainability.

## 11. Risk Implications of Capital Investment Decisions

11.1 Any proposed substantial capital or investment plan will be subject to a risk analysis review. The results of the risk analysis will be considered in line with the risk management strategies we have in place commensurate with the Council's low risk appetite.

## 12. Affordability Implications of Capital Investment Decisions

12.1 The fundamental objective is to ensure the affordability of the Council's capital and investment plans. To further ensure that the total capital investment of the Council remains within sustainable limits, the Council is required to consider all of the resources available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts.

12.2 The Prudential Code refers to both affordability and prudence. In order to ensure long term affordability, decisions have also to be prudent and in the long term sustainable.

## 13. Value for Money Implications of Capital Investment Decisions

13.1 Another key principle is to ensure value for money in any asset investment over the life of the asset. Initially the manner in which capital monies are spent is governed by the Procurement Strategy to ensure that the acquisition of all goods and services secures value for money.

13.2 Value for money is not just limited to financial costs and efficiency but could also consider various impacts on the economy, the environment and social welfare. Value for money is assessed in a number of ways including as part of the annual external audit of the Council's financial statements which concluded that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## 14. Prudential Indicators

14.1 The Council shall set and monitor against the specified prudential indicators for capital expenditure and external debt. The prudential indicators provide a broad framework to be considered alongside robust forecasting procedures embedded into the budget consideration process.

14.2 The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators. They should be considered in parallel with the treasury management indicators required by the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

14.3 The prudential and treasury indicators contained within the Treasury Strategy and this Corporate Capital Strategy approved by Full Council will be monitored by Audit Committee as part of the Mid Year Treasury Management Report. The Prudential Indicators are set out below.

### Estimates of Capital Expenditure

14.4 The estimate of capital expenditure is the first prudential indicator and must show the total capital expenditure the Council plans to incur during the forthcoming financial year and at least the following two financial years. This information is shown in paragraph 3.2 and summarised below with the financing of the capital expenditure. Any shortfall in resources results in a borrowing need.

| Estimate of Capital Expenditure | 2018/19 Latest estimate | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Non-HRA | 37,390 | 56,384 | 47,340 | 67,250 |
| HRA | 17,556 | 16,066 | 16,707 | 14,041 |
| **Total** | **54,946** | **72,450** | **64,047** | **81,291** |
| **Financed by:** | | | | |
| Capital receipts | 8,733 | 3,081 | 250 | 250 |
| Capital grants | 14,504 | 37,203 | 30,294 | 31,456 |
| Contributions | 5,515 | 3,090 | 11,139 | 29,924 |
| Revenue | 16,442 | 14,201 | 15,094 | 15,261 |
| **Net financing need for the year** | **9,752** | **14,875** | **7,270** | **4,400** |

### Actual Capital Expenditure

14.5 After the year end, the actual capital expenditure incurred during the financial year will be recorded and forms one of the required prudential indicators.

| Actual Capital Expenditure | 2017/18 Actual |
|---|---|
| | £000 |
| Non-HRA | 27,044 |
| HRA | 14,504 |
| Total | **41,548** |

### Estimates of Financing Costs to Net Revenue Stream

14.6 Prudential indicators are required to assess the affordability of the capital investment plans, to provide an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

| % | 2018/19 Latest | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|
| Non-HRA | 11.69% | 11.74% | 11.83% | 11.49% |
| HRA | 18.22% | 17.78% | 17.10% | 14.53% |

### Actual Financing Costs to Net Revenue Stream

14.7 After the year end the proportion of financing costs to net revenue stream will be calculated directly from the Council's comprehensive income and expenditure statement.

| % | 2017/18 Outturn |
|---|---|
| Non-HRA | 12.56% |
| HRA | 18.34% |

### Estimates of the incremental impact of capital investment decisions on council tax

14.8 This indicator identifies the revenue costs associated with proposed changes to the three-year capital programme compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three-year period.

*Incremental impact of capital investment decisions on the Band D Council Tax*

| | 2018/19 Budget | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|
| Council Tax - Band D | £10.60 | £14.63 | £6.32 | £7.33 |

**Estimates of the incremental impact of capital investment decisions on housing rent levels**

14.9 Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator shows the revenue impact of any newly proposed changes, although any discrete impact will be constrained by rent controls.

| | 2018/19 Budget | 2019/20 Estimate | 2020/21 Estimate | 2021/22 Estimate |
|---|---|---|---|---|
| Weekly Housing Rent Levels | £12.05 | £16.28 | £26.46 | £0.00 |

## 15. Minimum Revenue Provision (MRP) Policy Statement

15.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

15.2 Regulations have been issued which require Full Council to approve an 'MRP Statement' in advance of each year. A variety of options are provided to councils, however, these are not compulsory as long as there is a prudent provision.

15.3 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, MRP will be charged on a 2% straight line basis, net of 'Adjustment A'. This ensures that the debt will be repaid within 50 years.

15.4 From 1 April 2008, for all unsupported borrowing (including PFI and Finance Leases) the MRP policy will be the:

15.5 Asset Life Method - There are 2 methods of calculating the annual charge under this option. Firstly, equal annual instalments or secondly by the annuity method where annual payments gradually increase during the life of the asset.

Equal Instalment Method - MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). MRP in respect of leases brought on balance sheet will equal the annual repayment of the deferred liability; and the

Annuity Method – MRP is linked to schemes where the flow of benefits is expected to increase in later years. It may be particularly attractive in connection with projects promoting regeneration.

15.6 These options provide for a reduction in the borrowing need over the asset's approximate life and each option is used in appropriate circumstances.

15.7 Regulations allow authorities to apply an 'MRP holiday', whereby the MRP charge is deferred until a year after the practical completion of the asset. The Council will apply this allowance where appropriate.

15.8 There is no requirement on the HRA to make a minimum revenue provision but following HRA reform, there is a requirement for a charge for depreciation to be made (although there are currently transitional arrangements in place).

15.9 Repayments included in annual PFI or finance leases are applied as MRP**.**

15.10 MRP on capitalised loan advances to other organisations or individuals will not be required. Instead, the capital receipts arising from the capitalised loan repayments will be used as provision to repay debt. However, revenue MRP contributions would still be required if the loan or part of the loan defaulted, equal to the amount of any impairment of the loan advanced.

15.11 MRP on investments in equities will be made on an annuity profile over 20 years, as recommended by government guidance.

## 16. Treasury Management Strategy

16.1 The prime policy objective of the Council's treasury management strategy is the security of funds, and the Council should avoid exposing public funds to unnecessary or unquantified risk.

16.2 The treasury management service is also involved in funding the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations.

16.3 The Treasury Management Strategy 2019/20 – 2021/22 contains the Treasury Indicators.

## 17. Commercial Activity

17.1 The Council is considering a number of commercial acquisition opportunities in line with the Property Investment Strategy approved by Full Cabinet in November 2017. This may result in investment in operational or investment assets. The purpose of the strategy is to ensure the investment is carried out in accordance with an approved process and complies with published guidance on local government capital, treasury management and investments.

17.2 The strategy is predominately concerned with direct property investment but also allows the Council to invest in property funds or to take on the role of property development, either on its own or with a development partner. Preference will be given to investments that offer regeneration, economic or social benefit to the borough.

17.3 The strategy proposes that once a potential investment is identified, detailed due diligence will take place and the investment will be 'scored' against the scoring matrix. The proposal will be reviewed by an Investment Board. If the Investment Board thinks that the investment should be pursued, they will present a report to Full Cabinet for consideration.

17.4 A schedule of the Council's current investment properties at 31 March 2018 totalling £10.603 million per the value of assets table in paragraph 4.5 is detailed below:

| **Schedule of Investment Properties** | |
|---|---|
| **Asset Name** | **Total Value as at 31/03/18** |
| PATTERSON COURT, 1 KENILWORTH ROAD, KNOWLE | 166,000 |
| IVY HOUSE FARM, GRANGE ROAD DORRIDGE | 1,690,500 |
| HOLIDAY INN HOTEL - HOMER ROAD SOLIHULL | 25,000 |
| 656 STREETSBROOK ROAD, SOLIHULL | 271,500 |
| 660 STREETSBROOK ROAD, SOLIHULL | 271,500 |
| LAND ADJ TO THE PLUME OF FEATHERS, 345 STRATFORD ROAD | 33,500 |
| SHIRLEY WELCOME CLUB, STRATFORD ROAD, SHIRLEY | 98,000 |
| KINGSWOOD - PRIVATE SCHOOL - ST JAMES PLACE SHIRLEY | 281,500 |
| SPIRE PARKWAY HOSPITAL DAMSON PARKWAY | 139,500 |
| PRINCES WAY MULTI STOREY CAR PARK PRINCES WAY SOLIHULL | 1,360,000 |
| CENTURY PARK STARLEY WAY BICKENHILL | 1,260,532 |
| WATERLOO INDUSTRIAL ESTATE, BURHILL WAY, FORDBRIDGE | 368,254 |
| BOSWORTH DRIVE SHOPPING CENTRE 147-157 BOSWORTH WOOD DRIVE | 368,000 |
| PARKING SPACES AT THE REAR OF 46-58 POPLAR ROAD SOLIHULL | 60,000 |
| 170 GARDEN EXTENSION LICENCES | 50,000 |
| MEB SUB STATIONS | 55,000 |
| GAS GOVERNOR STATIONS | 12,000 |
| 63 AND 65 HOBS MOAT ROAD, SOLIHULL | 75,000 |
| 133 HOBS MOAT ROAD, SOLIHULL | 1,000 |
| LAND ADJ 18 HOLLYHURST GROVE | 0 |
| 40 GILSON WAY, KINGSHURST MEDICAL CENTRE | 326,500 |
| DAMSON PAKWAY WHAR HALL FARM – JAGUAR LAND ROVER | 1,727,000 |
| LAND ADJ TO 14 ARBOR WAY | 94,500 |
| LAND R/O 9-19 DUNSTER ROAD | 63,000 |
| LAND AT CHAPELHOUSE DRIVE / MOAT CROFT | 252,000 |
| LAND AT WAVENEY CROFT KINGSHURST | 157,500 |
| LAND AT MENAI WALK | 252,000 |
| LAND ADJ TO BEDFORD HOUSE, SANDA CROFT | 315,000 |
| LAND AT ANGLESEY AVENUE, KINGSHURST | 315,000 |
| LAND R/O 89 WOODLANDS WAY/BROOK FARM WALK | 126,000 |
| LAND AT CAMBRIDGE DRIVE , MARSTON GREEN | 283,500 |
| VODAFONE MAST BEDFORD HOUSE | 104,000 |
| **Total** | **10,602,786** |

## 18. Corporate Asset Strategy

18.1 Particularly strong links exist between the Corporate Capital Strategy and the new Corporate Asset Strategy 2019-2025 which was approved by Resources and Delivering Value Cabinet in January 2019. The Corporate Capital Strategy sets out the corporate framework to capital investment whilst the Corporate Asset Strategy provides more detailed information on the asset portfolio and its performance in meeting service objectives.

18.2 The aspiration of the asset management strategy is to:

- Ensure the property portfolio is aligned with Council Services;
- Have an informed overview of property information;
- Ensure consistent processes are created to manage property; and
- Engage with partner organisations to ensure the Council can accommodate collaborative services.

18.3 With this in place then the capital strategy will be able to enhance the presentation of the long term context in which capital decisions and investment decisions are made in relation to corporate property assets.

## 19. Conclusion

19.1 This Corporate Capital Strategy outlines the context for the Council's capital programme and summarises the key considerations which the Council takes into account when making capital investment decisions. As the strategy highlights, the Council continues to manage a significant programme of investment which is targeted at improving the lives of people in the borough in line with the objectives set out in the Council Plan.

19.2 The strategy adds to our comprehensive approach to managing resources in Solihull. The measures outlined in this strategy and in the revenue MTFS seek to give the authority a sound financial base and provide a solid platform from which the Council can deliver its priorities.