Inverclyde council

AGENDA ITEM NO: 7

Report To:	**Inverclyde Council**	**Date:**	**21 April 2022**
Report By:	**Head of Legal & Democratic Services**	**Report No:**	**CM/LS/32/22**
Contact Officer:	**Colin MacDonald**	**Contact No:**	**01475 712113**
Subject:	**Capital Strategy 2022/32 – Remit from the Policy & Resources Committee**		

1.0 PURPOSE

1.1 The purpose of this report is to request the Council consider a remit from the Policy & Resources Committee.

2.0 SUMMARY

2.1 The Policy & Resources Committee at its meeting on 22 March 2022 considered a report by the Interim Director, Finance & Corporate Governance presenting an updated Capital Strategy as required by the CIPFA Prudential Code. A copy of the report to the Policy & Resources Committee is attached as Appendix 1.

2.2 The Policy & Resources Committee decided the following:

(1) that the Capital Strategy for 2022/32 be remitted to the Inverclyde Council for approval; and
(2) that the significant medium term financial challenges facing the Council in terms of maintaining and/or improving the assets which it owns be noted.

3.0 RECOMMENDATION

3.1 The Council is asked to approve the Capital Strategy 2022/32 and note the significant medium term financial challenges facing the Council in terms of maintaining and/or improving the assets which it owns.

Iain Strachan
Head of Legal & Democratic Services

Appendix 1

Inverclyde council

AGENDA ITEM NO. 7

Report To:	**Policy & Resources Committee**	**Date:**	**22 March 2022**
Report By:	**Interim Director, Finance & Corporate Governance**	**Report No:**	**FIN/25/22/AP/MT**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Capital Strategy 2022/32**		

1.0 PURPOSE

1.1 The purpose of this report is to present an updated Capital Strategy as required by the CIPFA Prudential Code.

2.0 SUMMARY

2.1 The Capital Strategy 2022/32 presents a longer term view of the asset management, financial and other issues affecting capital expenditure requirements and delivery. The Strategy is a requirement of the Prudential Code and is in addition to the existing plans and updates presented through the year to Committee and to the Council such as the Financial Strategy.

2.2 The key purpose of the Capital Strategy is to explain how different facets of the Council's Treasury Strategy and Capital Programme interact and to allow Members to consider the affordability and sustainability of Capital investment decisions in the longer term.

2.3 Many of the decisions taken by the current Council will impact long after most current Members and Officers have left the Council but it is important that the Council takes a long term view when considering the sustainability of investment decisions. For the purposes of this Strategy, the longer term is viewed as being a period of 10-20 years.

2.4 Overall the Council is in a good position in respect of the development and delivery of Asset Management Plans and has sound governance processes in place. It has been highlighted in Audit reports at a local and national level that the Council has one of the highest levels of expenditure on loans charges and a higher than average level of capital debt however this is a function of the significant investment in the improved school estate, leisure estate, ongoing investment in roads infrastructure plus investment in other assets within the HSCP and open spaces.

2.5 The Capital Strategy demonstrates that loan debt is expected to peak in the next 2 years and thereafter will reduce for the foreseeable future.

2.6 The Strategy confirms that the Council will need to have a modicum of prudential borrowing in order to maintain its asset investment in the medium term. However, by the mid 2020's the Council will need to start developing funding plans for major reinvestment or replacement of many of the assets built or comprehensively refurbished since local government reorganisation in 1996. This is something that will be developed over coming years.

2.7 Overall the Capital Strategy confirms that current plans and requirements can be contained within the overall Financial Strategy in the medium term but that in the period from the mid/late 2020s, without either increases in the level of Capital Grant or a significant increase in Prudential Borrowing, it will become increasingly difficult to maintain the current asset infrastructure. This is a matter which will require to be considered by the new Council.

3.0 RECOMMENDATIONS

3.1 It is recommended that the Committee remits the Capital Strategy for 2022/32 to the Inverclyde Council for approval.

3.2 It is recommended that the Committee notes the significant medium term financial challenges which face the Council in terms of maintaining and/or improving the assets which it owns.

Alan Puckrin
Interim Director, Finance & Corporate Governance

4.0 BACKGROUND

4.1 The Capital Strategy 2022/32 is attached as Appendix 1 and presents a longer term view of the asset management, financial and other issues affecting capital expenditure requirements and delivery. The Strategy is a requirement of the Prudential Code and is in addition to the existing plans and updates such as the Financial Strategy that are presented during the year to Committee and to the Council.

4.2 CIPFA produced the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management and revised both documents in December 2017. Inverclyde Council have adopted the Code of Practice on Treasury Management and comply with the Prudential Code. Both codes were revised in December 2021.

4.3 It is a statutory requirement for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue are affordable within the projected income of the Council for the foreseeable future. The projected revenue impact of the 2022/25 Capital Programme is built into the recently approved Revenue Budget.

5.0 CAPITAL STRATEGY

5.1 The Prudential Code revised in 2017 requires the preparation of a formal Capital Strategy that is "intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability".

5.2 The Capital Strategy highlights the links between the Council's policy priorities, investment plans and Financial Strategy. Much of this is captured within the Corporate Directorate Improvement Plans which are reported to Committee every second reporting cycle.

5.3 The link between Corporate priorities and longer term investment plans is made via the preparation and delivery of Asset Management Plans (AMPs). Therefore the summarised update of the current position of the AMPs is a key aspect of the Capital Strategy and forms Section 3 of the Strategy.

5.4 The relationship between the Council's Annual Accounts, External Borrowing and Loans Charges can be confusing and the Strategy explains the make-up and inter-relationships between them. Critically the Strategy provides long term projections and raises matters for Members to consider. The Strategy highlights the need for current Members to take the longer term view when making investment decisions which will impact on the Council's finances for several decades into the future.

5.5 The management of risk and provision of appropriate governance arrangements are vital when dealing with large sums of money and making decisions which will impact on future generations and as such the Strategy sets out the current governance arrangements including the Council's approach to managing risk. These matters are kept under regular review and this is even more pertinent in these uncertain times.

5.6 The Capital Strategy confirms the need for the Council to have a small level of continued prudential borrowing in the medium term based on current AMPs and estimated Government Grants/Receipts. This is sustainable in the medium term, (next 3-5 years), as the level of Loans Charges levels out.

5.7 The above proposal does not allow for the replacement of existing assets which in the longer term will need either significant investment or full replacement e.g. schools, leisure facilities or major new physical infrastructure projects. The next Council will require to consider this matter in the context of the significant revenue pressures reported as part of the Financial Strategy. This matter will be captured in the Financial Strategy and will be kept under review.

6.0 IMPLICATIONS

6.1 **Finance**

The Capital Strategy demonstrates that the Council's loan debt is due to reduce considerably over the period to 2029/30. Major decisions will be needed over the next 5 years regarding future investment in new/replacement assets to address those assets which by 2030 will be due for renewal.

<u>Financial Implications:</u>

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

6.2 **Legal**

There are no Legal implications arising from this report.

6.3 **Human Resources**

There are no HR implications arising from this report.

6.4 **Equalities**

<u>Equalities</u>

(a) Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
X	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) <u>Fairer Scotland Duty</u>

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
X	NO

(c) <u>Data Protection</u>

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
X	NO

7.0 CONSULTATIONS

7.1 The Capital Strategy has been prepared in consultation with relevant officers and is supported by the Corporate Management Team.

8.0 BACKGROUND PAPERS

8.1 None

Capital Strategy

2022 – 2032

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1.0 INTRODUCTION

1.1 The production of a Capital Strategy which is reviewed annually is now a requirement of the CIPFA Prudential Code. The document requires to be considered along with the Treasury Strategy and thereafter approved by the Inverclyde Council. It is viewed as being one of the key strategic financial documents along with the Council's Financial Strategy which help govern the strategic direction for the Council's financial planning.

1.2 The traditional focus of Local Government budgeting tends to be on the Revenue Budget with the annual cycle of Grant settlements from the Scottish Government, the identification of savings and investment plans and the approval of the budget along with Council Tax in February/March. As part of this the Council will generally approve a three year Capital Programme. In recent years the capital budget has been a less contentious issue for Elected Members with the Council approving significant amounts of prudential borrowing as well as contributions form Revenue Reserves in order to deliver an ambitious Capital Programme

1.3 Details of the Council's asset base, borrowing and debt are included within the audited financial accounts considered by Members and attracts far less attention than the Revenue Budget and Reserve position. At the 31st March 2021 the Council owned property plant and equipment assets valued at £428million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £542million. Much of the investment in this Asset Base has been funded by borrowing over preceding decades. The Council's external borrowing as at 16th February 2022 was:-

PWLB Debt	£ 89.0 million
Market Debt	£ 99.8 million
	£188.8 million

The bulk of this debt is due to be repaid at the point that the loan matures with some £26.4 million of the PWLB Debt due to be repaid by 31st March 2032.

1.4 Allied to this the Council maintains a Loan Charges record which is an internal record of investment and which is currently written down on annuity basis using the expected life span of the asset created/work carried out. For example a new school will generally be written off over 40 years whereas a roads resurfacing contract will be written off over 25 years. As at the 31st March 2022 the expected value of the Council's internal loan debt is £227.9 million. The repayment costs in 2021/22 are projected to be £16.1 million and these repayments include both Capital and Interest and are referred to as Loan Charges. It is Loan Charges which are funded by the Council's Revenue Budget.

1.5 Over the last ten years the Council has undertaken a significant amount of work on Asset Management Planning. The first Asset Management Plan related to the School Estate (the SEMP) which resulted in an ambitious and comprehensive new build and upgrade programme for the full School Estate. Thereafter asset plans were created in respect of the main leisure facilities, the roads assets, office and depot assets, ICT assets and most recently, open spaces. All Asset Management Plans are linked to the Corporate Directorate Improvement Plans (CDIPs) with delivery reported throughout the year both as part of the CDIPs but also via cyclical Capital Programme updates.

1.6 The purpose of Asset Management Plans are to not only document and quantify all the assets held and their assessed condition but also create a sustainable investment plan which can then be factored into future years Capital Programmes. The creation of the Asset Management Plan will require in many cases decisions from Members regarding a whole estate investment approach which will potentially identify assets which the Council should no longer retain. This can lead to investment in fewer assets but to a higher quality. This has certainly been the case in respect of schools, offices and depots where the Council's property footprint has reduced considerably with the sums saved from buildings no longer in existence reinvested in the remaining buildings and resulted in a greatly improved estate.

1.7 A significant benefit of having long term Asset Management Plans is that it allows longer term Capital Planning and the Capital Strategy includes Investment Plans for the next 10 years. This allows the Council to identify whether it's longer term Capital Investment Plans are affordable and sustainable and provides time for corrective action to be taken.

1.8 The Council is coming to the end of a period of ambitious investment. This has seen a significant increase in the Council's Loan Debt over the last ten years and projections indicate that the Loan Debt will peak at approximately £235.0 million in 2024/25 but on the basis of limited prudential borrowing in future years the loan debt will reduce to around £184 million by 2031/32. Therefore it can be seen that there is a correlation between the reduction in the Council's internal loan debt and the repayment of the Council's external borrowing to the PWLB over the next 10-15 years.

1.9 One issue which the Capital Strategy and Treasury Strategy require to demonstrate is the affordability and sustainability of the Council's Asset Management Plans, to enable Members to see the longer term financial implications of policy and investment decisions.

1.10 Much of the affordability assessment depends on the Council's Treasury Strategy and this is also presented to the Policy & Resources Committee annually prior to the 31st March each year. The period of the Treasury Strategy is currently four years and one product of the creation of a Capital Strategy will be to better align the timescales for the Treasury Strategy, Investment Strategy and Capital Programme. Based on the projected trajectory of the Council's loans fund and external borrowing then the overall Treasury Strategy is currently to borrow on a short to medium term basis. This approach is largely influenced by the significant value of market debt held by the Council much of which was borrowed at the time of the transfer of the housing stock in 2007. The latest possible maturity date for the market loans varies from 2066-2077 although, dependent on macroeconomic changes there is always the possibility that lenders may wish to trigger repayment of their loans with the Council.

1.11 The Interim Director, Finance & Corporate Governance is supported in monitoring the Council's Capital, Treasury and Investment position by both internal officers and also the Council's Treasury Advisor with whom he meets twice per year. This external support is a vital check and balance in ensuring the Council is receiving the best possible advice and support in managing the Council's considerable asset base, borrowings and future investment plans. This enables the Interim Director, Finance & Corporate Governance to provide regular reports to the Policy & Resources Committee and the Inverclyde Council on the Council's Treasury Strategy, Treasury Annual Report and Mid-Year Report as well as frequent updates on the Capital Programme.

1.12 The Capital Strategy pulls all these aspects together and aims to provide a valuable addition to Elected Members overall understanding of the Council's finances and the wider impacts on policy choices in coming years.

2.0 GOVERNANCE AND REGULATORY FRAMEWORK

Legal and Regulatory Framework

2.1 The legal framework under which treasury management operates mainly involves:

- the Local Government (Scotland) Act 1973
- the Local Government (Scotland) Act 1975
- the Local Government etc. (Scotland) Act 1994
- the Local Government in Scotland Act 2003

and

- Regulations and statutory guidance issued under powers in the above Acts.

2.2 In addition, CIPFA issued the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, both of which were last revised in December 2021.

The Prudential Code requires Councils to ensure that capital expenditure and investment plans are affordable, that borrowing and other long-term liabilities are prudent and at sustainable levels, and that treasury management and investment decisions are taken in accordance with professional good practice. The Code requires the production and monitoring of Prudential Indicators.

The Treasury Management Code includes requirements for Councils to consider the objectives of their treasury management activities and the effective risk management of those activities. The Code requires the production of a Treasury Management Practices document which sets out how the Council will seek to achieve its treasury management policies and objectives and how it will manage and control its treasury management activities. The Code also requires that, as a minimum, the following reports be submitted to the Council each year: a treasury management strategy, a mid-year review, and an annual report after the year-end.

2.3 The main regulations and statutory guidance that apply are:

a) Local Government Capital Expenditure Limits (Scotland) Regulations 2004
These require that Councils "have regard" to the Prudential Code when determining "the maximum amount which a local authority can afford to allocate to capital expenditure".

b) Local Government Investments (Scotland) Regulations 2010
Scottish Government Finance Circular 5/2010 was issued under these Regulations and requires the approval of annual Investment Strategies and Permitted Investments by Members as well as an Annual Report on Investments to Members within 6 months of the financial year-end.

c) The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
Scottish Government Local Government Finance Circular 7/2016 was issued under these Regulations and replaced provisions for local authority borrowing, lending and loans funds that were in the Local Government (Scotland) Act 1975. The Circular includes requirements in relation to the prudent annual charging against the Revenue Budget for the cost of capital projects (Loan Charges) and permitted methods of calculating those charges.

d) Scottish Government Local Government Finance Circular 7/2018
This Guidance replaces a Finance Circular issued in 2007 that was issued under powers in the Local Government in Scotland Act 2003. The Guidance permits accounting adjustments for some types of treasury management activities, including where Councils have incurred premiums or received discounts when refinancing PWLB loans taken out by the Council.

Governance

2.4 The Capital Expenditure budget is approved by the Council and monitored by the Policy & Resources Committee with oversight of individual projects by the Service Committees.

2.5 For Treasury Management, officers prepare an Annual Treasury Management and Investment Strategy for each year (including Permitted Investments for the year, the Authorised Limit for External Debt, and the Treasury Management Policy Statement), a Mid-Year Report, and an Annual Report. These reports are submitted to the Policy & Resources Committee for review and for remission to the Full Council for formal approval, in line with the regulatory requirements above. Where the Council undertakes debt rescheduling, this is reported to the Policy & Resources Committee and the Full Council in line with agreed policy.

2.6 The cost of Treasury Management activity is included in the Revenue Budget and Budget reports to Committee as Loan Charges. Loan Charges are comprised of the annual charges for the write-off of the cost of capital projects over an appropriate period along with the interest and expenses costs from borrowing and the treasury management activities.

2.7 The Interim Director, Finance & Corporate Governance has delegated authority to make the necessary arrangements for authorised borrowing, the temporary investment of funds, and specified changes to the Treasury Management Practices. This authority is also delegated to each of the 3 Finance Managers where the Interim Director, Finance & Corporate Governance is absent (as approved by the Council on 30 November 2017). Treasury Management requirements are also included in the Council's Financial Regulations.

2.8 The Treasury Management Practices ("TMPs") is an operational document that is updated at least every 3 years and that set-out the main principles under the Treasury Management Code and how the Council will comply with those principles. The TMPs were last updated in September 2021.

3.0 ASSET MANAGEMENT PLANS

3.1 A number of years ago the Council identified the need to align capital investment against the policy priorities of the Council. This resulted in the creation of a number of comprehensive Asset Management Plans (AMPs). The first Asset Management Plan related to the School Estate (the SEMP) which resulted in an ambitious and comprehensive new build and upgrade programme for the full School Estate. Thereafter asset plans were created in respect of the main leisure facilities, the roads assets, office and depot assets, ICT assets and most recently, open spaces.

3.2 Over the last ten years the Council has undertaken a significant amount of work on Asset Management Planning and has used a combination of internal expertise and external peer review in their development. Once created the AMPs are embedded within the Council's Corporate Directorate Improvement Plans and Capital Programme formulation process to ensure that there is a strong alignment between the Council's overarching Priorities and capital investment decisions.

3.3 The Asset Management Plans not only document and quantify all the assets held and their assessed condition but also create a sustainable investment plan which can then be factored into future years Capital Programmes. In addition the creation of the Asset Management Plan will lead to Members considering a whole estate investment approach which will potentially identify assets which the Council should no longer retain.

3.4 A significant benefit of having long term Asset Management Plans is that it allows longer term Capital Investment Plans for a minimum of the next five years but the capability to project this forward for a further period of time. This allows the Council to identify whether it's longer term Capital Investment Plans are affordable and sustainable and provides time for corrective action to be taken. The next part of this section provides an overview of the current position of the Asset Management Plans being progressed by the Council.

3.5 School Estate Management Plan & Expansion of Early Learning & Childcare

The Council has invested in excess of £270m on its school estate over the life of the School Estate Management Plan. The rationalisation of the estate was completed by the end of 2013. Over the period of the programme to date there has been a net reduction of 12 primary schools (from 32 to 20) and a net reduction of 2 secondary schools (from 8 to 6) with 2 of the remaining 6 secondary schools co-located within a shared community campus.

Significant progress has been made in addressing the number of Condition category C (Poor) and D (Bad) rated schools from 7 Secondary Schools and 21 Primary Schools at the start of the programme to all schools across all sectors rated A (Good) or B (Satisfactory) by 2016. In terms of Suitability there has also been significant progress made in ratings through the programme of comprehensive refurbishment and new build.

The plan prior to the COVID-19 lockdown would have seen all major projects completed in 2020 reflecting the approval of the acceleration of the School Estate Management Plan agreed as part of the budget setting process in March 2016. The St Mary's Primary School project was completed in October 2020 however completion of the final project at Gourock Primary School has been impacted by the insolvency of the main contractor and COVID-19, with that project now projected to complete by summer 2022. The demolition of the last remaining decant facility, the former Sacred Heart Primary School, is currently underway and projected to be complete by the end of May 2022.

In addition to the projects taken forward and completed in 2014/15 to facilitate the Scottish Government commitment to the provision of 600 hours of Early Learning and Childcare, additional expenditure was approved in March 2016 to address works required to improve asset condition and suitability across the stand-alone facilities within the Early Years estate. The Council funded elements of the Early Years estate plan have now been completed with the final project to refurbish Hillend Children's Centre operational as of October 2021.

The Scottish Government plan to further increase the entitlement of early learning and childcare from 600 hours to 1140 hours has required substantial levels of investment in workforce and infrastructure to support the expansion. Inverclyde Council submitted its initial expansion plan to the Scottish Government in September 2017 and this was reported to the October 2017 Education & Communities Committee. A full re-working of the plan was undertaken with submission of a revised financial template in March 2018 and the revised plan was reported to the special Education & Communities Committee in June 2018. The Scottish Government confirmed a total Capital grant of £5.98m to Inverclyde Council as part of the overall 1140 hours funding for the infrastructure and capital funded elements of the expansion plan to be delivered between 2017/21. The original plan was phased from 2017/18 onwards to ensure that the required expanded capacity would be in place by 2020 however as a result of the impact of COVID-19, in April 2020 an order revoked the change to the 2014 Children and Young People's Act that requires education authorities to secure 1140 hours of ELC provision for all eligible children from August 2020. This meant that there would be no statutory duty for Authorities to provide 1140 hours of early learning and childcare (ELC) from August 2020. Given the progress already made within Inverclyde in the implementation of 1140 hours, it was possible to develop contingency plans to ensure that 1140 hours was still implemented across Inverclyde as of August 2020. All core 1140 hours expansion projects have now been completed with the final project for the new Larkfield Early Learning Centre operational as of November 2021.

The School Estate funding model also includes a lifecycle fund designed to address maintaining the condition and suitability of the revitalised estate. The fund allocations are profiled such that the initial allocation of circa £400K in 2014/15 increases to circa £2.5-3m per annum (subject to capital funding constraints and budget setting process). The lifecycle works address the on-going requirement for investment in the estate to maintain the overall condition of the assets at a good/satisfactory level. The allocation of this funding is based on annual review of the externally procured condition surveys and physical inspection of the various properties by the Council's Property Service. The most recent external condition surveys were undertaken via Aecom during 4th Quarter 2019. These surveys and Property Services assessment will inform the allocation of future lifecycle funding across the estate and this will become increasingly important in the coming years, particularly for the properties that were included early in the original programme.

A wider Learning Estate Review and strategy is now required to address the next 10+ years and future of the Learning Estate. Work has commenced on this in respect of roll projection analysis and assessment of the possible impacts of the new Local Development Plan and potential new housing provision. The new strategy will also include a full review of the Condition of the estate from the most recent external surveys and Property Services reviews. A full review of all suitability surveys has also been progressed in conjunction with Education Services and Heads of each establishment and this information was reflected in the 2021 Core Facts return. The strategy will also incorporate elements such as the 2021/28 Education Services Digital Learning Strategy approved at the November Education & Communities Committee. Energy efficiency including the implications of the Inverclyde Net Zero Strategy approved by the October 2021 Environment & Regeneration Committee and the emerging National policies around net zero carbon standards for public buildings will also have to be reflected in any future property asset strategies.

3.6 **Office AMP**

The Council's Office rationalisation proposals were originally presented and approved in September 2010. Linked with this was the prior approval in March 2010 for the development of a Customer Service Centre within Greenock Municipal Buildings designed to transform the way the Council communicates with its customers. The programme was part of a wider programme to modernise the Council's operations and working practices which included initiatives such as mobile and flexible working, electronic document management (EDRMS) and greater use of technology. The Offices Asset Management Plan (AMP) was taken forward on the premise that fewer desks than employees would be provided with the final projects within the Offices AMP completed in Autumn/Winter 2017. The Office Rationalisation programme resulted in a reduction of circa 40% of occupied floor space and circa 28% in terms of desk numbers with an increased potential desk space ratio through more efficient use of space across the same number of retained properties.

With the completion of the Office rationalisation programme, the majority of the Council's Operational Office space is now contained within the Greenock Municipal Buildings Campus. This is comprised of the main Municipal Buildings (including the refurbished/renovated former District Court offices), the Wallace Place Building and the James Watt Building. Property Services had undertaken studies across the Campus at the end of 2019, both internally and through external specialist space planning consultants, with a view to identifying where possibilities exist for more efficient use of space and to address improvements where existing space is less suitable for current use and/or in poorer condition. The challenges posed by COVID-19 necessitated a shift to different agile working delivery models including increased flexible, mobile and homeworking arrangements. As part of the COVID-19 Organisational Recovery Plan the Council has reviewed its agile working and other key policies and has developed a Hybrid Working Strategy with a 12 month pilot agreed involving a phased implementation between February and April 2022. A New Ways of Working project is also being taken forward over the same timeframe as the Hybrid working pilot which will examine the changes to the ways offices are being used within the Campus including changes in the use of technology and the potential for increased use of Electronic Document Management processes. The previously completed space studies will be revisited as part of this work stream to assess any potential property / ICT strategy implications connected with new ways of working.

The future maintenance and lifecycle requirements of this element of the Council's estate strategy will now be contained / addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2m General Property Service capital allocation monitored through the Environment & Regeneration Committee.

3.7 **Depot AMP**

The Council's Depot rationalisation has involved the centralisation of Grounds, Waste and Transport at Pottery Street with a Gourock Civic Amenity site and the Building Service Unit (BSU) currently remaining at Devol Depot. The original Depot Asset Management Plan budget was £13m however the development of the masterplan led to refinement of the strategy / proposals with reviews of phasing and scope realising a £2.8m saving. The plan has been progressed to an advanced stage with the majority of projects completed by 2nd Quarter 2019 involving the phased works at Pottery Street including the salt barn, civic amenity site, vehicle maintenance facility / offices, fuel and vehicle wash facilities, and the refurbishment of the corner depot building / offices. The final element of the Depot AMP involving the Gourock Civic Amenity facility has commenced with the existing Civic Amenity facility closed at the end of January 2022 and temporarily relocated to Craigmuschat Quarry. Preparation for demolition of the existing Kirn Drive Depot building is on-going with follow-on works to improve the facility programmed to be complete late summer / early autumn 2022.

3.8 **Leisure AMP**

The Council undertook a review of its key Leisure Sites prior to 2009 and brought reports forward covering a review of strategic sites and a pitches strategy, with a view to modernisation and reconfiguration of leisure provision within Inverclyde. Consultation was also undertaken with Sportscotland who allocated £1m in facilities grants, part funding specific projects at Parklea and Ravenscraig. A planned investment profile was presented to Committee in September 2009 with an initial implementation timescale of August 2012.

Following the implementation of the original Leisure Strategy above, a number of further projects were taken forward (Ravenscraig Activity Centre / Inverclyde Indoor Bowling / Lady Octavia Sports Centre / Boglestone Community Centre) through joint Council / Inverclyde Leisure funded projects. Plans for an indoor tennis facility at Rankin Park are also being explored through Inverclyde Leisure with a Council capital funding contribution committed and potential funding from the Transforming Scottish Indoor Tennis fund.

In 2018 the Council agreed to allocate £120,000 annually to supplement the funding in the Leisure Repairs and Renewals Fund to meet the life cycle costs associated with the large 3G Pitch estate. The on-going requirements for major maintenance and lifecycle replacement of sports pitches across the Leisure Estate are addressed through the Leisure Pitches Strategy Asset Management Plan and capital allocations monitored through the Education & Communities Committee. Condition surveys were undertaken via external specialists in late 2019 across the Leisure and School Estate pitches to inform a review of the Asset Management Plans and lifecycle replacement allowances. This information together with data on individual pitches hours of use from Inverclyde Leisure formed the basis of a revised asset plan which was approved by the September 2020 Education & Communities Committee. A programme of rejuvenation and carpet replacement works commenced in 4th Quarter 2020 with 3 pitches completed to date and 2 further pitches planned for 2022.

The major maintenance and lifecycle replacement requirements of the buildings for the Leisure Estate remains with the Council and this element of the Council's estate strategy is addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2m General Property Service capital allocation monitored through the Environment & Regeneration Committee. Minor day to day maintenance and 'consumables' are the responsibility of Inverclyde Leisure in accordance with the Service Level Agreement which regulates access, standards of maintenance and division of responsibilities. The allocations through this fund will be vital in the coming years to address significant elemental renewal of ageing assets. The Council and Inverclyde Leisure had been working together late 2019 / early 2020 on a review of the leisure estate to inform future asset management planning. This review has recommenced as Inverclyde Leisure progress their post COVID recovery plan and review of their future Business Model.

3.9 **Roads AMP**

The Council approved a comprehensive Roads Asset Management Plan (RAMP) and funding model in August 2012. A total of £29m was proposed for the period April 2013 to March 2018 to improve our roads infrastructure – carriageways, footways, lighting columns and structures, this included road and pavement resurfacing works, an extensive road patching and pothole repairs programme, street lighting replacement works and improvements to bridges and roads structures.

Further to this investment, a second phase of RAMP funding was allocated to the value of £15m for the period April 2018 to March 2023.

Over 97% of the Council's streetlights have now been upgraded to low energy LED types which has halved electrical power consumption, reduced energy and maintenance costs to the Council and has reduced the carbon footprint.

Roads structural projects and programmes have delivered numerous bridge upgrades and improvements including a prioritised programme of inspection and repair.

The RAMP has resulted in a reduction in the number of Inverclyde's roads, footways, street lights and road structures which require ongoing maintenance treatment while providing an increased future lifespan.

Covid 19 lockdown periods and restricted working arrangements have proven difficult to deliver the full capital programme however we are now again progressing with the full Roads Asset Management Plan.

From the implementation of the RAMP in 2013 to present, the Road Condition Indicator (RCI) has continually reduced which demonstrates that the planned investment is resulting in a significant improvement to the condition of Inverclyde's road network.

The Road Condition Indictor (RCI) for carriageways as follows:

	SRMCS Survey Results			
Year	**Red**	**Amber**	**Green**	**RCI**
2011/13	13.55	35.42	51.0	**49.0**
2012/14	12.69	36.55	50.8	**49.2**
2013/15	10.80	35.47	53.7	**46.3**
2014/16	10.11	33.18	56.7	**43.1**
2015/17	8.57	31.96	59.5	**40.5**
2016/18	7.09	30.80	62.1	**37.9**
2017/19	7.44	30.02	62.5	**37.5**
2018/20	7.41	29.88	62.7	**37.3**
2019/21	5.73	29.57	64.7	**35.3**
2020/22	4.51	28.19	67.3	**32.7**

During this time Inverclyde Council has received awards from The Association for Public Service Excellence (APSE) for the most improved performer in 2016 for Roads, Highways and Winter Maintenance and for Street Lighting in 2017 and again in 2019.

3.10 **Vehicle AMP**

The purpose of the Vehicle AMP is to provide the Council with an efficient, flexible method of procuring and operating fleet items that reflects good fleet management practice plus a cyclical replacement of fleet assets over a 5 or 7 year cycle dependant on fleet category taking advantage of public sector collaborative procurement frameworks.

In addition it led to the introduction of a dedicated Fleet Management System and Fleet Tracking System. Without a fleet asset management plan the Council would experience a return to inefficient practices including increased fleet downtime, an increase in expensive ‘spot’ hire vehicles, a requirement to increase workshop staff levels and an increase in both material and sub-contractor costs.

Looking to the future the Vehicle AMP will continue taking advantage of the latest technological advances both in terms of vehicle and management/telematics systems driving forward efficiencies within the fleet asset management plan.

Taking advantage of bridge funding from Transport Scotland and technological advances allowing greater battery range has allowed a significant increase in the number of Ultra Low Emission Vehicles (ULEVs) on the Council fleet. The vehicle categories consisting cars, people carriers and vans up to 2500kg Gross Vehicle Mass (GVM) accounts for 50 vehicles. In 2017/18 there were 4 pure electric ULEVs accounting for 8% of fleet vehicles within these categories. Within the same categories in 2020/21 the Council now has 38 pure electric ULEVs accounting for 76%. It is anticipated based on current technologies that this figure will rise to 41 by 2021/22 accounting for 82% of the Councils fleet of light commercial vehicles. The Council is well placed to provide service users with a continuity of service whilst meeting the Scottish Government target of ending the sale of new petrol or diesel cars and light vans in Scotland by 2032.

The technology to further introduce ULEVs into the medium and heavy commercial fleet is developing quickly and the continued funding of the Vehicle AMP will allow the Council to take advantage of these new technologies. In conjunction with this, consideration will require to be given to significant infrastructure requirements given the power requirements to charge large commercial vehicles, particularly when being charged at the same time in one central hub such as the Pottery Street depot.

3.11 **Open Spaces AMP**

The Council has also developed an initial Open Space AMP which incorporates Burial Grounds and the Crematorium. Given the wide range and nature of the assets covered and the piecemeal nature of some of the investment, the preparation of a detailed AMP has proven to be challenging. Based on the information to date an annual capital sum of £200,000 is allocated for general lifecycle maintenance. In addition the Council will explore opportunities to attract external funding where possible.

In addition the Council has allocated over £3.0 million over the next 2 years to expand Burial Grounds provision and replace the Council's cremators. The identification of appropriate ground for burials has been challenging however the expansion of Knocknairshill Cemetery is now progressing and this, along with the acquisition of additional ground at Kilmacolm Cemetery, addresses the requirements for the medium term.

3.12 **ICT Asset Plan**

The ICT Asset Management Programme delivers a modern ICT infrastructure providing the most appropriate level of equipment, at best value to the Council across all of Inverclyde Council's Offices and Schools. It aims to allow staff to undertake their roles and responsibilities in as efficient and flexible a manner as possible and provide teachers and pupils with modern and sustainable learning technologies. The ICT AMP has an annual budget of £0.593m.

In line with the best practices for ICT Asset Management, the physical lifecycle of an ICT Asset has two distinct phases:

- Planning & Procurement
- Lifecycle & Disposal

A lesson learned from the COVID Emergency is the benefit of having a flexible and connected workforce. The Council has now adopted a policy of deploying laptops as the default device for officers, unless there is a technological or configuration requirement that would require a desktop.

Currently ICT implements a six year desktop and laptop refresh strategy, however it is accepted that due to the shorter support lifecycle of a laptop device that this will need to be reviewed. Initial plans is to implement a four year refresh policy. The 2021/22 refresh programme is replacing 820 laptop devices and 105 desktops.

ICT have completed a full refresh across the corporate estate to prepare for the introduction of Hybrid working replacing the majority of desktop devices with laptops.

The total number of devices in the programme is 5700

	Desktop PCs	Notebook PCs	Tablet PCs	Total
Schools	2846	1152	61	4059
Corporate	336	1272	33	1641
Total	3182	2424	94	5700

The programme also includes provision for replacement of core ICT equipment such as network storage, servers and infrastructure and the procurement and implementation of other services to support Hybrid working such as videoconferencing equipment.

3.13 **Scheme of Assistance**

Section 72 of the Housing (Scotland) Act 2006 requires Local Authorities to prepare and make publicly available a statement which sets out the Council's approach to providing householders with advice and/or assistance on how to repair, improve, maintain or adapt their home.

The 2006 Act paves the way for applications for assistance with adaptations to be treated separately from applications for assistance with repairs and includes a general duty to provide financial assistance to make a house suitable for a disabled person.

All eligible adaptation works will receive a minimum of 80% grant assistance or, at the discretion of the Council, 100% grant can be awarded.

The provision of a Care and Repair/Small Repairs Service who assist eligible applicants with the grant process and progression of adaptation works. Care and Repair operate a small repairs service for plumbing, electrical, joinery and general household jobs. The services are available to homeowners and tenants in the private sector who are either disabled or are over 60 years of age.

Year	Number of Homes Adapted	Small Repairs Provided
15/16	174	1705
16/17	181	1587
17/18	171	1701
18/19	195	1582
19/20	169	1620
20/21	133	582

As can be seen the 2020/21 figures are lower than previous years due to the ongoing effect of the Covid-19 pandemic, while recovery continues to be slow it is anticipated that the service will return to closer to previous years in 2021/22 with approximately 160 Homes Adapted and 1,950 Small Repairs currently being projected.

3.14 **HSCP Asset Management**

In addition to the regular review of HSCP properties to identify opportunities for reconfiguration of services that support co-location, there is an on-going work stream within the NHS Greater Glasgow & Clyde area to develop a Primary Care Property Strategy which seeks to better understand the current utilisation of property and its suitability for existing and future service provision. This strategy will assist with future business cases and inform board infrastructure investment decisions.

A number of shared service offices were addressed as part of the Offices Asset Management plan and consolidation within the Hector McNeil House building completed in 2014. Two further major HSCP projects secured Scottish Government funding support with the new Adult and Older People Complex Care Beds facility (Orchard View) completed in summer 2017 and the new Greenock Health and Care Centre which became operational in March 2021. The completion of the new Health and Care Centre facilitated further shared service / joint working with the business case predicated on the basis that the existing NHS owned Greenock Health Centre, Boglestone Clinic, Larkfield Child & Family Centre (CAMHS) Building, and Cathcart Centre, which were not fit for purpose, would be disposed of.

Further asset areas are being addressed via the phased re-provisioning of Inverclyde's Children's Residential Services with one unit (Kylemore) completed in March 2013 and a further unit (Cardross – 'the View') completed in January 2018. The progression of the final unit (Crosshill) has been impacted by the insolvency of the main contractor and COVI-19 with that project now projected to complete at the end of March 2022.

The Strategic Review of Services for Adults with Learning Disabilities in Inverclyde was signed off by the Integration Joint Board in December 2016. As part of the Service redesign, a number of properties historically used by the service have been decommissioned with flats at Lynedoch Street and Hope Street vacated and released back to the relevant RSL's. Golf Road was vacated in June 2018 and the McPherson Centre decommissioned in September 2018 with full integration into the Fitzgerald Centre following work within the Fitzgerald Centre to upgrade personal care facilities, storage and sensory areas undertaken over summer 2018. The longer term plan remains for a new Inverclyde Community Learning Disability Hub with business case approved in February 2020 and design proposals currently being developed.

Two other specific property issues remain for Health & Social Care around the future of the Centre for Independent Living store and the continued lease of the Unpaid Work Unit at Kingston Industrial Estate.

Day to day investment in the HSCP buildings is funded from the general Property AMP but the funding for transformational change in service delivery requires to be funded elsewhere. For the Children's Units, funding came from a combination of prudential borrowing funded by service savings, reserves and core capital grant. The new Inverclyde Community Learning Disability Hub will also be funded by prudential borrowing.

3.15 **City Deal**

Although not a specific Asset Management Plan the Council does have major investment plans in relation to the Glasgow Region City Deal which has a £1.13 billion Capital Infrastructure investment programme covering the 8 Local Authorities in the Glasgow City region. Inverclyde Council currently has 3 projects in various stages of development with an estimated Capital cost of £22.4 million.

It is currently anticipated that over £20million of this investment will be funded by grant from the Scottish and UK Governments which is due to be paid over a 20 year period ending in 2035. Due to the timing difference between the Council incurring expenditure by 2023 and the receipt of grant, the Council will require to finance the cashflow implications as well as loan charges in relation to the Council's projected £1.3 million contribution.

The funding for this has been allowed for in the Council's recurring Revenue Budget and forms a specific appendix within the Financial Strategy.

4.0 THE CAPITAL PROGRAMME

4.1 The Council traditionally approves a rolling three year Capital Programme each budget cycle. The February 2022 budget cycle brings the current Capital Programme up to 2024/25.

4.2 Annual capital budget allocations are provided for investment in the core assets identified via the Asset Management Plans with these allocations intended to maintain the existing assets to acceptable standards. The allowances do not generally allow for expansion or replacement of existing assets which would normally be addressed through specific investment proposals.

4.3 Current annual allocations amount to £8.973m (see table below) This amount includes the increased allocation to Roads to deliver the RAMP as well as an ongoing Life Cycle Maintenance allowance for School Estate.

Recurring annual Grant Allocations:

ICT	£0.593m
Roads (RAMP)	£2.500m
Zero Waste Fund	£0.060m
Parks & Open Spaces	£0.200m
Property	£2.000m
Scheme of Assistance	£0.500m
Leisure Pitches	£0.120m
School Estate	£3.000m
Total Annual allocations	£8.973m

General Capital Grant in 2022/23 £6.353m

The recent Scottish Government spending review has confirmed the General Capital Grant will remain at the current level until at least 2025/26 however changes in the distribution methodology are likely to reduce Inverclyde's share of the grant to approximately £6m. The General Capital Grant in 2022/23 then is approximately £2.6 million short of the ongoing Asset Maintenance requirement and this shortfall is likely to increase to approximately £3m. The current Financial Strategy assumes that the Council will prudentially fund £1.5 million of capital investment annually from 2023/24 which will partially address this. This shortfall will require to be funded from either capital receipts, revenue reserves and prudential borrowing or investment requires to be reduced.

4.4 Other investment includes the Vehicle Replacement Programme however this is funded via ongoing prudential borrowing and is not reliant on the General Capital Grant. In addition specific investment proposals are considered either as part of the budget setting process or via reports to Service Committees. Any such proposals would require to be funded by way of prudential borrowing and/or one off allocations from reserves.

4.5 Specific capital grant awards are also included in the programme, currently there is significant time limited Specific Grant funded investment in Early Learning & Child Care. In addition, grants are received on an annual basis from Strathclyde Partnership for Transport, Sustrans and Cycling, Walking & Safer Streets.

4.6 In recognition of potential increase in resources or cost reductions the Council will overprovide by up to 5% against available resources. It needs to be borne in mind that if extra resources or cost reductions do not occur then savings will be required.

4.7 A summary of the proposed 2022/25 Capital Programme is shown below. This was approved by the Council in February 2022.

Proposed Capital Programme 2022/2025

Expenditure/Projects by Committee	2022/23 £m	2023/24 £m	2024/25 £m	Totals £m
Policy & Resources	0.816	1.564	0.593	2.973
Environment & Regeneration	11.582	15.795	9.353	36.730
School Estate	2.201	2.550	5.500	10.251
Education & Communities	2.376	1.323	0.120	3.819
HSCP	1.717	5.499	1.135	8.351
	18.692	26.731	16.701	62.124
Financed By				
Government Grant	6.353	6.000	6.000	18.353
Sales/Contributions	0.320	0.320	0.320	0.960
Other Income	1.871	2.100	0	3.971
Revenue	3.420	3.256	0.233	6.909
Prudential Borrowing	1.764	9.587	4.475	15.826
Resources Carried Forward	13.238	0	0	13.238
	26.966	21.263	11.028	59.257
Shortfall in Resources				2.867
Recommended maximum overcommitment (5% of Resources)				2.963
Flexibility				(0.096)

5.0 DEBT AND FIXED ASSETS

5.1 One objective of the Capital Strategy is to demonstrate the sustainability and affordability of its capital expenditure and investment plans. Much of the affordability assessment depends on the Council's Treasury Strategy. The period of the Treasury Strategy is currently four years and one positive development arising from the creation of a Capital Strategy will be to align the timescales for the Treasury Strategy, Investment Strategy and Capital Programme.

5.2 A key requirement of the Treasury Strategy is to set the Prudential Indicators which will determine limits around borrowing, investment and affordability and thereafter feeds directly into the Revenue Budget process. The Treasury Strategy is considered by the Policy & Resources Committee in March and thereafter the Council.

5.3 There are 3 distinct areas where it is important that the inter relationships are highlighted as these are at the heart of understanding the Council's overall approach to capital investment and long term financial planning.

Loan Charges/Loan Fund Debt – Loan Charges records are the Council's internal record of capital investment. Sums incurred are currently written down on annuity basis using the expected life span of the asset created/work carried out. The Loan Charges records allocate the capital incurred against the asset created/improved.

Loan Charges are an internal calculation and no money leaves the Council but it is Loan Charges which form the charge to the Revenue Budget as a proxy for depreciation.

External Debt- To fund capital works the Council will in many cases have to borrow funds. The traditional route for local government remains to borrow from the Public Works Loan Board (PWLB) but a significant amount of borrowing has also been carried out from other lenders and this is referred to as Market Debt. Interest is paid on these loans throughout the year and these costs form the basis of the calculation of the loan charges interest rate.

Balance Sheet Fixed Assets - As part of the statutory Annual Accounts the Council prepares a Balance Sheet and the largest sum within this is the value of assets held by the Council. Assets are revalued on a rolling basis every 5 years although adjustments can be made in the interim in the event of a material impact on the assets value. Depreciation is applied to the assets prior to inclusion on the Balance Sheet. Depreciation does not form part of the revenue budget and is reversed out of the accounts when calculating the Council's available Usable Reserves.

The financial position of these three areas is explained further in the following paragraphs.

5.4 **Loan Fund Debt**

The Council is coming to the end of a significant period of ambitious investment in the School Estate, Leisure Estate and the Office and Depot Estate. This has seen a significant increase in the Council's Loan Debt over the last ten years and projections indicate that the Loan debt will peak at approximately £235 million in 2024/25 but on the basis of limited prudential borrowing in future years the loan debt will reduce to around £184 million by 2031/32. Thereafter the debt gradually reduces and by 2042 there is only £111 million of the current debt outstanding. Given the current shortfall between Government Grant and annual capital requirements shown in 4.3, it is likely that Prudential Borrowing and hence debt will need to increase over this period.

5.5 **External Debt**

The Council's external borrowing as at 16th February 2022 was:-

PWLB Debt	£ 89.0 million
Market Debt	£ 99.8 million
	£188.8 million

The bulk of these loans are Maturity Loans i.e.: principal is due to be repaid at the point that the loan matures, with some £26.4 million of the PWLB Debt due to be repaid by 31st March 2032. Thereafter however there is a 25 year period where under £23 million is due to mature unless called in by the market lenders or the Council restructures its PWLB debt.

Taking 5.4 and 5.5 together then by 2037, on the basis of the Capital Expenditure plans outlined in this Strategy, the External Debt will exceed Loans Fund Debt. By 2042 the amount of External Debt would exceed Loan Charges Debt by £40 million if nothing else changes and this over borrowing would continue to grow over subsequent years.

5.6 **Balance Sheet Fixed Assets**

At the 31st March 2021 the Council owned property plant and equipment assets valued at £428million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £542million. This figure is significantly larger than the previous two figures as the Asset Value represents the fair value of the asset with assets revalued on a 5 yearly basis.

The average Asset Life Outstanding as at 31st March 2022 for the different category of assets is shown in the undernoted table. From this it can be seen that for the 3 main non-PPP asset categories, the average remaining life is approximately 24.7 years. At a high level this shows a correlation between the remaining life of the main assets in the balance sheet and the Loans Fund Debt.

	Average	
	Asset Life	Asset Life Outstanding
AUC	58.82	56.76
Community Assets	36.62	30.47
Infrastructure	29.93	18.30
OLB	27.53	25.43
PPP	31.73	29.20
VPE	6.25	2.09

It should be noted that the Asset Life Outstanding is reviewed at each valuation and provided the Council is undertaking appropriate maintenance and investment then the life will be extended thus ensuring that Asset values continue to exceed Long Term Borrowing in the Balance Sheet. In tandem with this the Policy & Resources Committee approved a Loan Charges repayment Policy in 2019 which extended the write off period for some classes of capital work. The net effect has been to spread loan charge payments over a longer period.

5.7 In summary therefore, in order for the Council to maintain its considerable asset base, it will need to undertake capital investment over and above the projected Scottish Government Grant/Capital Receipts. As such the Council will always carry Loans Fund Debt and External Debt. In order to ensure that the Council achieves a closer correlation between Loan Debt and External Debt in the longer term, the majority of new borrowing will be carried out for short to medium term periods i.e. up to 10 years.

6.0 LONGER TERM INVESTMENT PLANS

6.1 It can be seen from Section 4 of the Capital Strategy that it is unlikely that Government Grant and estimated Capital receipts will be sufficient to meet the required investment levels for the Council to maintain its current asset base. The current Financial Strategy assumes that the Council will prudentially fund £1.5 million of capital investment annually from 2023/24. Any prudential borrowing over and above this will need to be funded from savings delivered by the investment or service reduction. This will require the Council takes a conscious decision to disinvest in certain assets, reduce the number of assets it holds or cut day to day services.

6.2 It should be noted that this level of investment takes no account of any one off Capital investment requirements not included in the core life cycle maintenance allocations. Any such investment requirements will be flagged up in the relevant Asset Management Plans and following consideration as part of the normal governance processes would be factored into future Capital Strategy reports.

6.3 Appendices B and C show the impact of this level of capital investment on the Loan Charges earmarked reserve, loan charges and loan debt for the period to 2041/42. From Appendix C it can be seen that projected Loan Charges would increase by almost £1.2 million between 2022/23 and 2031/32 whilst over the same period the Loan Debt will drop by £43.0million.

6.4 Despite the ongoing need for prudential borrowing the Council will see a reduction in the proportion of its Revenue Budget which is spent on servicing loan charges and also a significant reduction in the ratio of loan debt to revenue budget. From Appendix C it can be seen that the Loan Debt as a percentage of Revenue Budget drops by almost 20.2% over the 2022/32 period, whilst the % of the Revenue Budget spent on Loan Charges increases by 0.48% to 7.97%

6.5 Looking beyond 2031 involves a significant amount of uncertainty around both the funding of Local Government, the services which it will be expected to deliver and the nature of those services. However based on past investment and current service delivery then many of the assets built or significantly refurbished since local government re-organisation will become due for replacement/refurbishment. The Council will therefore require to consider how this massive investment would be funded as part of future Capital Strategies.

7.0 CONCLUSIONS

7.1 The Capital Strategy provides an opportunity for a number of related aspects of the Council's overall finances to be pulled together into a summarised document. From this it can be seen that:

a) The Council is well advanced in its Asset Management Plan preparation and delivery with major investment in all aspects of its asset estate over the last 10 years or more.
b) The Council keeps a long term view of its long term borrowing and funding and this informs the current Treasury Strategy.
c) The Council has a robust governance process via the Financial Regulations, Prudential Code, Risk Management and Budget Process to ensure that Asset Management Plans and the Capital Strategy are affordable in the medium to longer term.

The current proposals within the Capital Strategy are affordable and can be met from the current Loan Charges allocation without further cost to the Council Tax payer.

7.2 The Capital Strategy emphasises the need for the Council to take a long term view when taking decisions around Capital investment and specifically to ensure that investment plans are appropriate and financially sustainable in the longer term. The annual production and updating of the Capital Strategy allied to the Treasury Strategy, Capital Programme approval and Financial Strategy will all ensure that the Council are able to take Capital investment decisions in the knowledge of the long term implications.

Appendix A

The area of Treasury and Capital investment requires risks to be continually managed and monitored. Part of this is covered in the Governance Section (Section 2), however the following paragraphs list other risks and how the Council manages these. The risks are shown in bold with the mitigation in normal typeface.

1/ **The Capital Strategy does not reflect the objectives set out in other strategic plans of the Council.**

The Capital Strategy provides a high level overview of the various Asset Management Plans, Financial Strategy and Treasury Strategy all of which closely link to the plans the Council has signed up to. It is acknowledged that there will inevitably be other financial investment requirements over the next 20 years not quantified at this point in time however the Capital Strategy will be updated as further information becomes available regarding these strategic plans.

2/ **The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.**

The Directorate Planning Guidance identifies that Corporate Directorate Improvement Plans (CDIP) should reflect the resources allocated – the need for additional resources to achieve a particular priority should be specifically identified via the Council's approved governance processes prior to the preparation of the CDIP.

3/ **Forecasts within the Capital Strategy are not accurately determined or reviewed on a regular basis**.

The Capital Strategy will set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and current AMP investment levels plus advice on interest rates and borrowing costs from the Council's Treasury Advisors.

Throughout the financial year, the Council regularly monitors its financial performance against its capital and treasury budgets and will revise projections and/or take action where necessary.

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4/ **The Council has insufficient capital resources to sustain capital commitments**.

The combination of reduced funding and the economic position mean that the Council has to focus on maintaining key infrastructure whilst utilising prudential borrowing for specific capital projects.

Regular review of existing Asset Management Plans and Policy Priorities ensures that the Council's investment plans remain affordable. The Council is in regular contact with its Treasury Advisors to identify opportunities to reduce Treasury costs within the parameters of the Prudential Indicators.

5/ **Given the major Global Economic uncertainty the Council is exposed to major fluctuations in the financial markets**

The Council' Treasury and Investment Strategy supported by the associated Treasury Management Policies and Prudential Indicators provides a robust framework within which officers operate to ensure that the Council is not materially exposed to short term fluctuations in the financial markets.

Inverclyde council

Appendix b

Finance Strategy
Loan Charges

		2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000
Balance B/fwd		766	368	776	1,078	1,167	1,032	1,343	1,668	1,922	2,448	3,085
Projected Loan Charges	a	11,614	11,608	11,814	12,127	12,451	12,105	12,191	12,362	12,190	12,179	12,177
Available Budget	b	12,716	12,016	12,116	12,216	12,316	12,416	12,516	12,616	12,716	12,816	12,916
Loan Charge Surplus/(Deficit)		1,102	408	302	89	(135)	311	325	254	526	637	739
Other Adjustments:												
Transfer to General Fund Reserves	c	(1,500)	0	0	0	0	0	0	0	0	0	0
		(1,500)	0	0	0	0	0	0	0	0	0	0
Balance at Year End		**368**	**776**	**1,078**	**1,167**	**1,032**	**1,343**	**1,668**	**1,922**	**2,448**	**3,085**	**3,824**
Interest Rate (Assumed):		3.35%	3.49%	3.60%	3.54%	3.60%	3.67%	3.72%	3.77%	3.85%	4.00%	4.15%

Notes

Revised projections as at February 2022 and excludes Loan Charges relating to funded models (SEMP, City Deal, Birkmyre Trust).
Includes the effect of decisions on SEMP acceleration taken in March 2016 including the £650k annual budget transferred to SEMP from 2021/22.
From 2018/19 onwards, general capital grant is applied to core allocations only and not to individually funded models (e.g. SEMP).

a Includes loan charges for new LD Centre based on spend between 2021/22, 2022/23, 2023/24 and 2024/25.
£100k annual cost increase from 2023/24 to reflect increased prudential borrowing of £1.5m.
Projected principal repayments on new projects from 2021/22 onwards are calculated on annuity basis.

b Adjustments to Available Budget:
For 2021/22
£650k removed from ongoing budget and transferred to SEMP relating to SEMP acceleration, as agreed in March 2016.
Budget from 2018/19 onwards reduced by £300k annually to 2022/23 to reflect reduction in Scottish Government grant support resulting from repayment of historic debt.
Budget increased by £1,191k annually due to budget and projected AMP loan charges now included above and not separately budgeted for.
Budget increased by £1,130k annually due to budget and projected VRP loan charges now included above and not separately budgeted for.
For 2022/23
£400k reduction in budget.
For 2023/24
Budget from 2023/24 onwards increased by £100k annually for annual Prudential Borrowing.

c Transfer to General Fund Reserves as agreed in December 2021.

Finance Services
February 2022.

Appendix c

LONG TERM LOANS FUND PROJECTIONS BASED ON CAPITAL STRATEGY

	Loans Fund Debt End of Year	Total Loan Charges	Assumed Interest Rate	Revenue Stream	% of Loans Fund Debt to Revenue Stream	% of Loan Charges to Revenue Stream
	£000	£000	£000	£000		
2022/23	226,620	16,339	3.49%	218,230	103.84%	7.49%
2023/24	233,333	16,679	3.60%	215,372	108.34%	7.74%
2024/25	235,073	16,960	3.54%	214,372	109.66%	7.91%
2025/26	223,899	17,347	3.60%	213,372	104.93%	8.13%
2026/27	217,687	17,050	3.67%	214,372	101.55%	7.95%
2027/28	211,216	17,180	3.72%	215,372	98.07%	7.98%
2028/29	204,385	17,395	3.77%	216,372	94.46%	8.04%
2029/30	197,557	17,287	3.85%	217,272	90.93%	7.96%
2030/31	190,651	17,389	4.00%	218,372	87.31%	7.96%
2031/32	183,641	17,494	4.15%	219,472	83.67%	7.97%
2032/33	176,656	17,461	4.31%	220,672	80.05%	7.91%
2033/34	169,489	17,634	4.48%	221,872	76.39%	7.95%
2034/35	161,866	17,962	4.60%	223,072	72.56%	8.05%
2035/36	153,962	18,148	4.76%	224,372	68.62%	8.09%
2036/37	147,101	17,070	4.98%	225,672	65.18%	7.56%
2037/38	140,403	16,832	5.16%	226,972	61.86%	7.42%
2038/39	133,537	16,952	5.37%	228,372	58.47%	7.42%
2039/40	126,431	17,134	5.60%	229,772	55.02%	7.46%
2040/41	118,939	17,427	5.84%	231,172	51.45%	7.54%
2041/42	111,188	17,622	6.15%	232,572	47.81%	7.58%

Notes:
1. The Revenue Stream is an estimate of GRG/NDRI plus Council Tax.
2. The % of Loan Charges to Revenue Stream above excludes debt charges on PPP assets and so is not comparable with the Ratio of Financing Costs to Net Revenue Stream included in the Treasury Strategy.