Meeting:

2021/22 CAPITAL STRATEGY AND CAPITAL PROGRAMME

Report of the Corporate Director (Corporate and Support Services) and Deputy Chief
Executive

1. INTRODUCTION

- 1.1 The Council has ambitious capital investment plans for the Borough helping to regenerate the economy, create jobs and develop strong communities. Future capital investment plans are extensive and varied and the Capital Strategy and three-year Capital Programme will enable significant improvements to the Council's infrastructure, deliver new housing and boost the local economy.
- 1.2 CIPFA's Prudential Code for Capital Finance in Local Authorities provides a framework for ensuring that capital investment is prudent, affordable and sustainable.
- 1.3 The CIPFA Prudential Code requires local authorities to produce a Capital Strategy each year. The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are being made and gives consideration to both risk and reward, and the impact on the achievement of priority outcomes.
- 1.4 In addition, the Prudential Code requires local authorities to set a capital programme for the next year and following two years. The 2021/21 Capital Programme therefore includes schemes and resources for financial years 2021/22, 2022/23 and 2023/24.

2. Capital Plans and Council Priorities

- 2.1 The 2021/22 Capital Strategy and Capital Programme has been set to support the delivery of outcomes and outputs associated with the priorities of the Council. There are a number of overarching key Council strategies and plans that impact on the Capital Strategy and Programme including the following (all of which can be found elsewhere on the Agenda):
 - Council Plan 2021/22 this document sets out the Council's ambitions for the next 12 months and places the people, places and communities of Stockport at the heart of the Council Plan;
 - Medium Term Financial Plan this is a review of the Council's revenue budget position, providing a framework for forecasting future resources based on known factors affecting the Council's financial position as well as incorporating local and national trends on budget pressures; and,
 - Treasury Management Strategy this includes the Annual Investment Strategy, Minimum Revenue Provision Policy and Prudential Indicators. This is a comprehensive strategy on the Council's treasury management activities and clearly demonstrates the interdependent relationship between the Council's capital expenditure plans and treasury management activities.

2.2 The Covid-19 pandemic has had a wide-ranging impact on budgets and service performance and the planning and delivery of the Capital Programme. However, the Council has responded and continues to respond to overcome the challenges raised. The Council Plan for 2021/22 sets out the Council's approach to delivering Stockport through the pandemic, including the development of One Stockport, which came about as a response to the crisis, enabling the Council to work collaboratively with its partners and communities to deliver the collective Borough Plan.

3. 2021/22 Capital Strategy

- 3.1 The Capital Strategy, which can be found at Appendix One, underpins the Council's capital investment plans and includes a key objective to deliver an annual capital programme. It outlines the planned programme of expenditure and financing, allowing member engagement, risk management and governance.
- 3.2 The Capital Strategy has regard to the Council's wider strategic framework, including alignment with priorities set out in the Council Plan, and also takes a longterm view of capital investment, including debt, borrowing and Treasury Management linking in with the Treasury Management Strategy. It demonstrates that the Council's capital investment plans have due regard to service objectives, stewardship of assets, value for money, prudence, sustainability and affordability.
- 3.3 Effective management of the Council's available capital resources is fundamental to achieving its corporate priorities and realising its local and regional ambitions. The Capital Strategy provides a framework for optimising and managing the capital resources available to the Council and the implications for future financial sustainability of the Council. It sets out the principles, policies and elements underlying the management of capital resources, which are in line with and supplement those within the Council's Medium Term Financial Plan (MTFP).
- 3.4 The Capital Strategy extends beyond the Council's individual activities. Increased powers around commercialism have led to the Council becoming increasingly complex, including the creation of subsidiary companies. It is vital that those tasked with governance fully understand the financial risks that the Council is exposed to, including the residual risks and liabilities that it is subject to.
- 3.5 The Prudential Code sets out the requirements of the Capital Strategy and these are as follows:
 - The Capital Strategy must articulate effective planning, option appraisal, risk management and governance processes in relation to capital investment;
 - The Capital Strategy needs to include sufficient detail to allow Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured; and,
 - Local authorities are encouraged to produce a suite of local prudential indicators to demonstrate affordability, prudence and sustainability over the longer term. The prudential indicators included in the Capital Strategy demonstrate the impact of planned capital investment on future Council revenue budgets over a much longer term (up to 40 years (50 years for land assets), which is the maximum asset life for Minimum Revenue Provision (MRP) as set out in MHCLG's statutory guidance on MRP).

- 3.6 In order to meet these requirements, the Capital Strategy will focus on the following key areas:
 - **Capital Expenditure** Provide an overview of governance processes for approval and monitoring of capital expenditure, provide a long-term view of the Council's capital expenditure plans and an overview of its asset management planning, and provide detail of any restrictions to borrowing or funding linked to these plans;
 - **Debt, Borrowing and Treasury Management** Provide projections of the capital financing requirement (i.e. unfunded capital expenditure requiring external borrowing) and provide details of the required provision for repayment of debt over the life of the underlying asset (MRP);
 - **Commercial Activity** Provide details of the Council's approach to commercial investment activities, including ensuring effective due diligence and risk appetite and the requirements for independent and expert advice;
 - **Knowledge and Skills** Provide detail of the knowledge and skills required both internally by Officers and externally by external advisors; and,
 - Affordability and Risk ensure the Section 151 Officer reports explicitly on the deliverability, affordability and risk associated with the Capital Strategy.
- 3.7 A fundamental principle of the Capital Strategy is accountability. This will need to be promoted and demonstrated by Officers and Members throughout the capital investment and planning process and includes the use of effective monitoring and reporting mechanisms.
- 3.8 The Capital Strategy includes a comprehensive section on governance. This includes the approval process for capital investment decisions, setting out the roles and responsibilities of Officers and Members with respect to decision-making and subsequent monitoring of projects to ensure full accountability and stewardship for the capital investment decisions made.
- 3.9 The Deputy Chief Executive (Section 151 Officer) reports that the Council has complied with the Prudential Code and that the 2021/22 Capital Strategy demonstrates that the Council's capital investment plans have due regard to service objectives, stewardship of assets, value for money, prudence, sustainability and affordability.

4. 2021/22 Capital Programme

- 4.1 Under CIPFA's Prudential Code, the Council is required to set a capital programme for the next three years. Therefore, the 2021/22 Capital Programme includes schemes and resources for financial years 2021/22, 2022/23 and 2023/24. The Programme contains schemes where funding is confirmed, including approved prudential borrowing schemes. In addition, information about approved schemes that span beyond the three years is also included.
- 4.2 The 2020/21 Capital Programme set out in the Quarter 3 Budget Monitoring Update forms the basis for the Council's proposed Capital Programme for 2021/22.
- 4.3 The 2021/22 three-year Capital Programme is £262.806m in total. The following table sets out the proposed 2021/22 2023/24 Capital Programme by portfolio and includes schemes that span 2024/25 and beyond.

Portfolio	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 Onwards £000
Adult Care and Health	280			
Economy and Regeneration	50,102	27,147	14,603	
Resources, Commissioning and	50,671	3,023		40,297
Governance				
Sustainable Stockport	59,165	40,749	17,066	75,026
TOTAL	160,218	70,919	31,669	115,323

4.4 As part of the 2020/21 budget setting process, the Capital Programme for 2021/22 was set at £106.474m. Since then, the Programme has increased significantly largely through the re-phasing of schemes from 2020/21, and it now stands at £160.218m. Further details of these changes by portfolio are set out in the table below.

Portfolio	Approved Programme Feb-2020 £000	New and amended Schemes £000	Re-phasing and Virements £000	Proposed 2021/22 Programme £000
Adult Care and Health			280	280
Economy and Regeneration	32,923	3,835	13,344	50,102
Resources, Commissioning and Governance	19,997	823	29,851	50,671
Sustainable Stockport	53,554	(6,007)	11,618	59,165
TOTAL	106,474	(1,349)	55,093	160,218

- 4.5 There have been a number of amendments to the 2021/22 Capital Programme since it was originally approved in February 2020. Overall there is a net increase of £53.744m funding for the year but this is largely as a result of the re-phasing of schemes. The most significant amendments to the funding of the 2021/22 Programme, include the following:
 - £2.868m grant funding added to the Highways Programme for the Poynton Relief Road scheme (Economy and Regeneration);
 - £0.751m directly funded borrowing provided for the Weir Mill Development (Economy and Regeneration);
 - £1m grant funding and directly funded borrowing allocated to the Solar PV Scheme (Economy and Regeneration);
 - £0.847m of grant funding allocated to support Schools Estate schemes in the Primary and Secondary Sectors (Resources, Commissioning and Governance); and,
 - £4.918m reduction in loans to Stockport Homes for Affordable Homes schemes following a review of the schemes (Sustainable Stockport).
- 4.6 There has been a net total of £55.093m in funds re-phased to the 2021/22 Capital Programme since it was approved in February 2020. Schemes where significant funds have been re-phased to or from the 2021/22 Capital Programme include the following:
 - A net total of £9.096m for Highways schemes, including £5.379m grant funding for the Mayoral Walking and Cycling Challenge, £1.834m grant

funding for the Poynton Relief Road, and £1.883m RCCO for Town Centre Structures Merseyway (Economy and Regeneration);

- £0.580m directly funded borrowing and RCCO for Merseyway Development (Economy and Regeneration);
- £0.895m of directly funded borrowing for the Markets and Underbanks Schemes (Economy and Regeneration);
- £0.513m of directly funded borrowing for Redrock Development (Economy and Regeneration);
- £38.428m of grant funding and unsupported borrowing for School Estate capital schemes, £8.792m to the Primary Sector, £13.579m to the Secondary Sector and £16.057m of funding that will be allocated as plans develop (Resources, Commissioning and Governance);
- £7.332m of unsupported borrowing for the Asset Management Plan (Resources, Commissioning and Governance);
- £2.988m in capital receipts for the Re-provision of the Dialstone Facility (Resources, Commissioning and Governance);
- A net total of £18.897m of directly funded borrowing for Borough Care schemes has been re-phased from 2021/22 to later years beyond the 2021/22 three-year Programme (Resources, Commissioning and Governance);
- £5.248m of grant funding and directly funded borrowing for HRA New Build schemes (Sustainable Stockport);
- £4.752m of funding for loans to Stockport Homes for Affordable Homes schemes (Sustainable Stockport);
- £2m of grant funding for Disabled Facilities Grant schemes (Sustainable Stockport); and,
- £0.980m of directly funded borrowing re-phased to 2023/24 for the Street Lighting Programme (Sustainable Stockport).

4.7 **Portfolio Programmes**

The following paragraphs give a brief overview of significant schemes in the Portfolio programmes for 2021/22. The 2021/22 to 2023/24 Capital Programme is set out in detail by Portfolio at Appendix Two.

4.8 Adult Social Care

Adult Social Care has £0.280m of funding for the 2020/21 Capital Programme. This is largely made up of Department of Health grant funding, of which £0.088m is allocated to continuing schemes for Residential Care Sector Support and IT Infrastructure, and the remaining £0.192m is available for allocation to priorities.

4.9 **Economy and Regeneration**

- 4.9.1 The Economy and Regeneration Portfolio Capital Programme is £50.102m for 2021/22.
- 4.9.2 Highways schemes make up a large proportion of the Portfolio's Capital Programme for 2021/22, with a planned expenditure of £45.548m. Within Highways there are three major schemes, SEMMMS A6 to Manchester Airport Relief Road, Highways Investment Programme and Town Centre Access Plan, which have been on-going for a number of years. There is a total of £17.248m planned capital spend on these schemes for 2021/22, of which £12.826m relates

to the Highways Investment Programme. The scheme aims to maintain and improve transport networks and 2021/22 will be year eight of the overall nine-year Programme. The total nine-year investment is £100.165m, largely funded by corporate unsupported borrowing supported by £8m capital grant funding from Greater Manchester LTP3. The overall spend to date, including forecast figures to the end of 2020/21, is £77.392m with £22.773m of funding remaining.

- 4.9.3 The Mayoral Walking and Cycling Challenge Fund is a significant scheme within the 2021/22 Capital Programme, with £19.416m of planned expenditure during the year, including £10.570m for the Interchange element.
- 4.9.4 The remaining Highways schemes in 2021/22 include the following:
 - Poynton Relief Road this was a new Highways scheme added to the Capital Programme during 2020/21 and will link the A555 at Chester Road to the A523 at Adlington. Main construction is expected to start in 2021/22 and there is £4.702m grant funding in the Programme for 2021/22;
 - Town Centre Structures Merseyway £1.883m RCCO funding; and,
 - £1.200m developer commuted sums for Section 278 and Section 106 schemes.
- 4.9.5 2020/21 was the last year of the LTP Funding Plan and the Council has not yet received any information as to the Funding Plan beyond 2020/21. Once the future funding has been published, Officers will work with individual Members to determine the schemes it is to be allocated to, following consultation with the Economy and Regeneration Scrutiny Committee meeting due in March this year.
- 4.9.6 There is £4.554m in the Economy and Regeneration 2021/22 Programme relating to non-highways schemes and this is largely made up of the following schemes:
 - £0.593m directly funded borrowing for remaining expenditure in relation to Stockport Exchange Phase 3, which achieved practical completion in May 2020;
 - £0.580m directly funded borrowing towards Merseyway Development, which has an ongoing strategy to improve, manage and redevelop the centre to ensure that it has a sustainable future;
 - £0.895m for the on-going Markets and Underbanks regeneration scheme;
 - £0.871m of ERDF grant funding with the Council providing match funding by way of directly funded borrowing for Solar PV Schemes. This scheme will see the installation of Solar PV and Solar Car Ports across several sites in the Borough; and,
 - £0.751m directly funded borrowing to support the development of Weir Mill, which is a key strategic site within the Town Centre West area.

4.10 Resources, Commissioning and Governance

- 4.10.1 This Portfolio has a large Capital Programme of £50.671m for 2021/22.
- 4.10.2 £39.251m of the 2021/22 Capital Programme relates to Schools Estate schemes, £24.822m of which is funded from corporate unsupported borrowing. Schemes relating to the maintenance and condition and basic need provision of school places are continuing. School projects are being reviewed and assessed and aligned to the latest asset management plan reviews of all school buildings

identifying works required. Lisburne Special School expansion and relocation is on target to be completed in 2022.

4.10.3 There is £11.420m for non-educational capital schemes. The 2021/22 Capital Programme for the Asset Management Plan is £8.432m and includes funding rephased from 2020/21 as a result of delays due to the impact of COVID-19.

4.11 Sustainable Stockport

- 4.11.1 The Sustainable Stockport Portfolio has the largest Capital Programme for 2021/22 with funding of £59.165m for the year.
- 4.11.2 HRA schemes make up £40.920m of the 2021/22 Programme. There is £17.093m allocated for HRA general capital schemes in 2021/22, this is financed £11.907m RCCO and £5.186m directly funded borrowing, and £23.827m towards HRA New Build schemes (£13.937m is being financed by directly funded borrowing and the remaining £9.890m is largely grant funding). There are a number of HRA New Build schemes planned for 2021/22, the most significant of these include, St Thomas Phase 2 (£7.358m), Edinburgh Close (£5.222m) and London Road (£5.297m).
- 4.11.3 The loan facility available to Stockport Homes for the delivery of affordable homes was increased last year from £77m to £91.900m to enable the delivery of the large new build opportunities, which have recently arisen. £10.835m has been included in the 2021/22 Programme for schemes that have received approval to start on site. Funding will be added to the Programme
- 4.11.4 Other significant schemes within this Portfolio's 2021/22 Capital Programme include the following:
 - £2m grant funding for Disabled Facilities Grant schemes which help meet the cost of adapting a property where a disabled person lives;
 - £3.940m of directly funded borrowing in both 2021/22 for the Street Lighting Investment Programme; and,
 - £0.534m for Schemes in Parks in 2020/21, funding is mostly from external contributions (Section 106 commuted sums for Play and Investment Fund).

5. Future Capital Investment

- 5.1 A number of the schemes making up the 2021/22 Capital Programme span a number of years and extend into 2022/23 and 2023/24. In addition, there are a number of capital projects that have received approval but not yet included in the three-year Capital Programme. As the plans for these schemes are developed and expenditure profiles established, they will be included in the Capital Programme.
- 5.2 The Council is looking to bring forward the next phase of the Stockport Exchange development, Stockport Exchange Phase 4, which aims to build a new prime office block and multi-storey car park. On 22 December 2020, Cabinet approved initial funds to develop proposals for this scheme and once this has been done, the scheme will be added to the Economy and Regeneration Portfolio Capital Programme in due course.

- 5.3 At its meeting on 22 December 2020, Cabinet approved the programme of work for the Asset Management Plan (Resources, Commissioning and Governance). An additional £4.119m of capital funding, which will be financed by corporate unsupported borrowing, was approved for the Operational Estate to meet the requirements of the updated programme of works. At this stage, the additional funding has been added to the approved funding requirements for 2024/25 and beyond but will be brought forward into the three-year Capital Programme once phasing of the new programme of works is fully established.
- 5.4 HRA schemes make up a substantial part of the Council's Capital Programme (Sustainable Stockport Portfolio). There is a total of £98.225m of investment planned for the 2021/22 three-year Programme. The HRA Business Plan spans beyond this and funds of £74.946m are included in Programme for 2024/25 Onwards.
- 5.5 The Mayoral Development Corporation (MDC) was created to deliver the Borough's Strategic Regeneration Framework. The Framework sets out an ambitious long-term vision for the future of Stockport's Town Centre, including the delivery of new homes, increase the viability of the whole town centre and regeneration Stockport's Town Centre West. On 23 June 2020, Cabinet approved the MDC's Strategic Business Plan 2020-2025. The MDC has a recyclable equity and loan facility of £100m to support its delivery strategy, some of which has already been allocated to the Weir Mill Development. Funding will be brought into the Capital Programme as new regeneration works develop and the loan facility is required. The loan facility will be funded by prudential borrowing so there will be a subsequent impact on the Council's prudential indicators, in particular the Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP). The Council's prudential indicators will be reviewed and updated in line with the Capital Programme to reflect the investment.

6. Capital Resources

6.1 The resources available to fund the 2021/22 three-year Capital Programme are set out in the table below. In addition, resources approved for schemes that span beyond 2023/24 are included.

	2021/22	2022/23	2023/24	2024/25 Onwards
Resources	£000	£000	£000	£000
Capital Grants	54,959	14,313	12,010	14,239
Directly Funded Borrowing	38,890	25,471	4,170	53,617
Unsupported Borrowing	45,437	9,014	3,040	4,199
Capital Receipts	3,611	3,591	33	16,788
External Contributions	1,197	23		
Commuted Sums	2,044	1,470		
Revenue Contributions (RCCO)	2,173	4,892	28	
HRA funding from MRR	11,907	12,145	12,388	26,480
TOTAL	160,218	70,919	31,669	115,323

6.2 Government grant funding traditionally makes up a large part of the funding of the three-year Capital Programme and 31% of the proposed three-year Programme is

funded from grants. Highways grant funding, for schemes such as, SEMMMS A6 to Manchester Airport Relief Road, Poynton Relief Road and the Mayoral Walking and Cycling Challenge Fund, makes up a large proportion (60%) of the grant funding in the three-year Programme.

- 6.3 Prudential borrowing (directly funded and corporate unsupported borrowing) makes up the large proportion (48%) of the resources funding the three-year Capital Programme. Prudential borrowing must be sustainable and affordable and should only be used when a demonstrable benefit can be gained from the investment. Prudential borrowing could be seen as a substitute for reductions in other resources and the Council will continue to manage borrowing within the boundaries of the Prudential Code.
- 6.4 The borrowing costs for directly funded borrowing (DFB) schemes are met from repayments from portfolio cash limits or by annual repayments where the scheme is external to the Council. The DFB schemes in the 2021/22 three-year Capital Programme are set out in the table below.

	2021/22	2022/23	2023/24	2024/25 Onwards
Scheme	£000	£000	£000	£000
Economy and Regeneration:				
Town Centre Access Plan	1,035			
Stockport Exchange Phase 3	593			
Redrock Development	513			
Markets and Underbanks	895	1,851		
Merseyway Redevelopment	500	4,513		
Solar PV Schemes	505	368		
Weir Mill Development	751			
	4,792	6,732	0	0
Resources, Commissioning and				
<u>Governance</u>				
Primary Sector	200			
Borough Care				26,485
TLC Fleet Vehicle Loan Facility				8,800
	200	0	0	35,285
Sustainable Stockport				
HRA General Schemes	5,186	931	237	
HRA New Builds	13,937	13,868		18,332
Affordable Homes	10,835			
Street Lighting Investment Programme	3,940	3,940	3,933	
	33,898	18,739	4,170	18,332
TOTAL	38,890	25,471	4,170	53,617

6.5 The borrowing costs for unsupported prudential borrowing schemes (USB) are met corporately and accounted for within the Medium Term Financial Plan process.

The USB schemes included in the 2021/22 three-year Capital Programme are set out in the table below.

	2021/22	2022/23	2023/24	2024/25 Onwards
Scheme	£000	£000	£000	£000
<u>Economy and Regeneration:</u> Highways Investment Programme Roscoe Roundabout Highways Drainage	11,993 150	6,647 150	3,000	
	12,143	6,797	3,000	0
<u>Resources, Commissioning and</u> <u>Governance</u> Primary School Sector Secondary School Sector Special School Sector Education Estate funding to be allocated	5,097 1,130 10,950 7,645	2,177	.,	4 4 4 0
Asset Management Plan	8,432	0 177	0	4,119
<u>Sustainable Stockport</u> Schemes in Parks	33,254 40 40	2,177 40 40	40 40	4,119 80 80
TOTAL	45,437	9,014	3,040	4,199

- 6.6 There is £7.235m of capital receipts funding for schemes in the 2021/22 three-year Programme. £2.988m of this is attributable to the re-provision of the Dialstone Facility, which has been re-phased from 2020/21, and £3.040m is to fund HRA New Build schemes in 2022/23. The Council has a number of assets in its disposal schedule and non-ringfenced capital receipts may be allocated to specific schemes or used to finance prudential borrowing schemes.
- 6.7 Revenue funding, i.e. revenue contributions to capital outlay (RCCO) and HRA funding from the Major Repairs Reserve (MRR), is being used to finance £43.533m of capital expenditure in the 2021/22 three-year Programme. Most of this, £37.298m is attributable to the HRA Capital Programme, with MRR providing £36.440m of this. The HRA is required to charge depreciation on its assets; this is an actual charge and is credited to the MRR. The funds in the MRR can then be used to lower the HRA Capital Financing Requirement or invest in capital expenditure.
- 6.8 The Council's investment of its own resources directly in Town Centre redevelopment has been instrumental in attracting significant external grant funding (including allocations from Future High Streets fund, Get Building Fund, Housing Infrastructure Fund, and from the Brownfield Land Fund) as well as

private sector investment from Muse Developments to support future regeneration schemes.

7. Prudential Indicators

- 7.1 The Prudential Code requires Local Authorities to set prudential indicators with respect to their Capital Programme and borrowing position to ensure that its capital plans are affordable, prudent and sustainable.
- 7.2 The Council is required to report on a number of prescribed prudential indicators to demonstrate that it is fulfilling these objectives. These indicators highlight how much of the Council's revenue budget or HRA budget is being committed to servicing the prudential borrowing, i.e. the Ratio of Capital Financing Costs to Net Revenue Stream.
- 7.3 As well as the regulatory indicators, the Council has developed a further set of local Prudential Indicators to support the scrutiny and monitoring of capital investment plans. These are included in the Capital Strategy, which can be found at Appendix One.
- 7.4 The prudential indicators, based on current commitments, existing plans and the proposals in the 2021/22 to 2023/24 Capital Programme are set out at Appendix Three for approval.

8. Recommendations

- 8.1 Cabinet is recommended to ask the Council Meeting to approve:
 - The Capital Strategy at Appendix One;
 - The 2021/22 to 2023/24 Capital Programme and the funding arrangements as described in the report and set out at Appendix Two; and,
 - The prudential indicators set out in Appendix Three.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies

on Tel: 218 1025 or by email on jonathan.davies@stockport.gov.uk