



Leicester  
City Council

**RESOURCES AND EQUAL OPPORTUNITIES  
SCRUTINY COMMITTEE  
CABINET  
COUNCIL**

**16<sup>th</sup> SEPTEMBER 2004  
27<sup>th</sup> SEPTEMBER 2004**

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**CAPITAL INVESTMENT STRATEGY 2005/06 TO 2007/08**

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**Report of the Chief Finance Officer**

**1. Purpose of the Report**

- 1.1 The purpose of this report is to seek Cabinet approval of the Council's Capital Strategy 2005/2008.

**2. Background**

- 2.1 The capital strategy is the embodiment of our aims and objectives for capital spending and a key instrument for delivering the corporate plan.
- 2.2 The Council's current 3 year capital strategy runs up to 2004/2005. The capital programme for 2004/05, which is derived from the existing strategy, is the final year of that 3 year programme; subsequent programmes will be based on the new capital strategy which will run from April 2005 to March 2008.
- 2.3 As the Council gained a "good" rating for its capital strategy in 2001 and 2002, the Council no longer has to submit a capital strategy to government. It is, however, considered good practice to have a strategy; furthermore, if we did not have one, our CPA rating for the Capital Programme is likely to reduce from its present (maximum) score of 4.
- 2.4 The draft strategy attached for your consideration has been prepared in consultation with leading members through a cabinet sub-group.

### **3. Key Features of the Strategy**

#### **3.1 Prudential Framework**

3.1.1 The principles of the Prudential Framework, which came into effect on 1 April 2004, have been incorporated in the strategy. Authorities will no longer be told by Government how much they can borrow to fund capital investment, but will be able to set their own borrowing limits based on borrowing being "prudent, affordable and sustainable".

3.1.2 The prudential framework is particularly useful for funding some "spend to save" schemes subject to a robust business case being in place. Cabinet has agreed rules that will apply to such schemes. Other uses of the framework are detailed in the strategy in paragraph 3.4.2. In particular, substantial new investment is expected to be justified with reference to the prudential framework rather than supported capital expenditure which will be directed towards small / medium scale investment.

#### **3.2 Single Capital Pot**

3.2.1 The single capital pot (SCP) continues to identify funding support for local authorities' capital programmes. Under SCP, individual government departments set allocations based on plans submitted by councils for Housing, Transport and Education. Authorities are theoretically free to spend them on whatever capital purposes they determine.

3.2.2 The individual Government departments, however, have an expectation that the allocated sums are ring-fenced to the service involved. In the case of the DfES, the Secretary of State has reserve powers to enforce this. The DoT and Regional Housing Board are each able to back up their expectation with reference to future years' allocations.

3.2.3 Given that there is a substantial service requirement for investment in each of the services, a presumption to ring-fence these allocations is encompassed in the strategy. The presumption is subject to caveats, and can be overridden. This is a change from the previous policy whereby a small proportion (20%) of housing and highways improvement resources were treated as corporate (although these services could, and did, bid for the return of some of those)

#### **3.3 Capital Receipts**

3.3.1 Surplus or redundant assets are identified, jointly with departments, as part of the Asset Management Planning process. Income generated from these receipts is treated as a corporate resource and funds approximately 50% of the corporate capital programme.

3.3.2 Apart from Housing, who are able to retain housing capital receipts, there are no plans to allow other departments to retain any of "their" receipts. The strategy does envisage that an incentive scheme may be introduced if the need arises.

3.3.3 Unlike the previous strategy, the present strategy contains an option for “windfall” housing receipts to be treated as corporate resources.

#### 3.4 Priorities

3.4.1 The Capital Strategy links closely with the priorities identified in the Council’s Corporate Plan. There is a strong presumption that during the bidding process for the capital programme 2005/08, resources will be prioritised towards the Council’s overarching priorities in the first instance and service priorities in the second instance. The overriding priorities are investment in the environment and in maintaining the service infrastructure.

### 4. **Financial / Legal Implications**

4.1 This report relates to the Council’s capital programme and is thus entirely concerned with financial issues. There are no direct legal implications in this report. Peter Nicholls, the Head of Legal Services has been consulted in the preparation of this report.

### 5. **Recommendations**

5.1 The Resources and Equal Opportunities Scrutiny Committee is asked to consider the draft Capital Strategy, and forward its views to Cabinet.

5.2 The Cabinet is asked to consider the draft capital strategy, together with the views of the scrutiny committee, and consider whether it wishes to recommend its adoption to the Council.

5.3 The Cabinet is asked to consider whether it wishes to seek the views of partner organisations prior to recommending it to the Council.

#### **Report Author:**

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