

# Capital Strategy

2023 to 2024



CHELTENHAM  
BOROUGH COUNCIL

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# Introduction

- 1.1** The Council's Capital Strategy outlines the principles and framework that underpin our long term capital investment and expenditure proposals. The Capital Strategy was a new requirement for Councils to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2018.
- 1.2** New development and regeneration in Cheltenham is both necessary and essential to:
- Help facilitate economic growth and recovery
  - Help meet our housing needs
  - Help create commercial space that supports our key employment sectors
  - Stimulate a positive climate for inward investment into Cheltenham
  - Help to deliver on our climate and environmental commitments
- 1.3** The Council's Capital Strategy forms a key part of our overall Corporate Planning Framework. It provides a mechanism by which our capital investment and financing decisions can be aligned with our over-arching corporate priorities and objectives over a medium term planning horizon.
- 1.4** In refreshing the Capital Strategy, it is important that we reset this within the current wider corporate strategy context, together with our priorities for investment, growth, climate change and social value. In setting the vision and key principles around how we plan to invest in the delivery of homes, commercial space and supporting infrastructure with the outcome of creating new places and investing and regenerating in existing places.
- 1.5** The Strategy has direct links to the Council's Asset Management Strategy, Commercial Strategy, Investment Strategy, Treasury Management Strategy and Housing Investment Plan. It forms a key part of the Council's Medium Term Financial Strategy (MTFS) as presented in the table on the next page.
- 1.6** Collectively these plans and strategies will develop a diverse investment programme that allows cross subsidy across the programme to balance the social, economic and environmental outcomes set out in the councils Corporate Plan.

Category	Overall	Revenue	Capital	Treasury Mgmt	Risk Mgmt
Strategies	Medium Term Financial Strategy				
	Commercial Strategy	Investment Strategy	Capital Strategy	Treasury Management (TM) Strategy	Risk Management
			Asset Management Strategy		
Guidance	CIPFA and Technical Guidance	Budget Guidance	Capital Guidelines	CIPFA Code for Practice for TM	Risk Management Guidance
Plans	MTFP Projection	Annual Budget	Capital Programme & Asset Management Plan	Treasury Policy Statements	Risk Register
Governance	Constitution and Annual Governance Statement	Quarterly Performance Reports		Prudential Indicators and Annual Report	Risk Register reporting and regular review
	Contract and Finance Procedure Rules				Audit Committee and Cabinet Reports
	Internal and External Audit Plans and our response to audit review				
Decision Making	Cabinet/Council				

## 2. Our vision and ambitions

- 2.1** As a Council, we have recognised in our Corporate Strategy and Medium Term Financial Plan that building the strength of our town will require both innovation, ambition and a bold vision. To respond to this the Council will need to be agile in the way it responds and how it works with stakeholders and potential investors.
- 2.2** Our vision is grounded in the belief that Cheltenham should be a place in which everyone can thrive. In order that we can lead the economic recovery of our town, we will continue to invest in Cheltenham for the benefit of Cheltenham both in terms of sustainable Council finances, but also in terms of the way we have invested both commercially and for regeneration.
- 2.3** The capital investments outlined in this document are the beginning of our approach to shaping and re-prioritising for Cheltenham. To drive longer term economic recovery in the town will take a fully integrated, whole Council approach focused on strategic outcomes within an understanding of place, commerciality, regeneration and our overarching contribution to climate change.
- 2.4** With the launch of our new Corporate Plan for 2023-2027, we need to take an approach to future investment decisions and our management of our asset portfolio which balances social value, sustainability, regeneration, commercial and housing needs at a strategic level to ensure a positive direction of travel to full economic recovery continues.
- 2.5** A review of our approach to investment activity and the use of our assets and capital resources has been undertaken and the Council's asset management strategy was refreshed and reviewed by Full Council in February 2022. This provides the strategic vision and delivery framework that will help guide management of our current portfolio and, together with our investment strategy, will guide future potential investment by establishing a clear vision, objectives and selection criteria.



# 3. Purpose of this strategy

## 3.1 The key aims of this Capital Strategy are:

- To outline the capital programme in the MTFS and how it has been developed in alignment with the key priorities outlined in the 2023-2027 Corporate Plan. (see Section 4, pages 4-8).
- To set out the required and available funding options for the programme, including how these have been appraised to ensure we are able to achieve the best outcomes for our town and are maximising the benefit of our assets and resources. This includes indirect benefits such as increase in jobs, skills, inclusive growth, increase in tax revenues, place shaping outcomes, climate change deliverables, accelerating delivery of the Cheltenham Plan and Joint Core Strategy. (See Section 5, page 9)
- To present the arrangements that enable a programme wide approach for managing and monitoring the capital schemes in the programme, and assessing potential new schemes; including assessment of outcomes, the use of any financial returns and the continual alignment to our Corporate Plan (See Section 6, page 15)

## What is capital expenditure?

**Capital expenditure is where the Council spends money on assets, such as land, property or vehicles, which will be used for more than one year. The Council has a minimum threshold of £10,000 for capital and spend below £10,000 is not capitalised and are charged to the revenue budget.**

## 4. How we invest our money

**4.1** In 2023/24, the Council is planning capital expenditure of £45.032m as summarised below:

**Table 1: Prudential Indicator: Estimates of Capital Expenditure**

	2021/22 actual £000	2022/23 forecast £000	2023/24 budget £000	2024/25 budget £000	2025/26 budget £000
General Fund services	2,277	5,262	3,946	1,018	718
Council housing (HRA)	14,065	16,968	34,816	37,133	36,636
Capital investments	5,907	9,219	6,270	4,500	4,500
<b>TOTAL</b>	<b>22,249</b>	<b>31,449</b>	<b>45,032</b>	<b>42,651</b>	<b>41,854</b>

### What is the HRA?

**The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services.**

**4.2** The 2023-2027 Corporate Plan outlines our strategic priorities for Cheltenham, what we have chosen to focus on and why we think these are important for our town. The sections below summarise the key commitments made in the capital programme to support the key priorities in the Corporate Plan.

## Key Priority 1

# Enhance Cheltenham's reputation as the cyber capital of the UK

- At the end of August 2019, we completed the purchase of 112 acres of strategically important land for £37.5m which forms part of the Cyber Central Golden Valley development. This was the most expensive land purchase ever made by the Council. It will enable the delivery of the Cyber Central vision and has been specifically named in the Government's National Cyber Strategy launched in February 2022. Exhibition Work in partnership with our development partner HBD X Factory is being presented to the public regarding the current thinking for the land as part of its first round of consultation. A submission of planning applications is due to go forward in the summer of 2023.
- In addition to the flagship Golden Valley development, the Council are also working in partnership with the Workshop Group responsible for Hub8 to establish a brand new business and cultural hub in the town centre. The Minister Innovation Exchange will be a critical strand of our economic recovery strategy; continuing the momentum created at Hub8 ahead of the opening of Cyber Central at Golden Valley and establishing Cheltenham as the UK's foremost cyber tech cluster with a global reach.
- The £7.7m scheme is due for completion in late summer of 2023, following a successful bid for £3.114m of funding via GFirst LEP from the Government's 'Getting Building Fund'. The Council has committed £4.586m of funding from 2021-22 through to 2023-24 within the capital programme for the project which also includes the redevelopment of the Minister Gardens.
- In February 2021, approval was granted by Tewksbury Borough Council's planning committee for the closure of a runway at Gloucestershire Airport to build a business park and a new access road from the B4063. The Airport is jointly owned by Gloucester City Council and Cheltenham Borough Council and is a vital partner in regenerating our town and delivering on our vision to be the cyber capital of the UK. The creation of the business park nearby to the Golden Valley development will create jobs, infrastructure and vital economic links in the area. In order to fulfil this vision, the Council have provided a loan of £5.2m to the airport over the financial years covering 2021/22 and 2022/23 to fund the delivery of this project.



## Key Priority 2

### **Working with residents, communities and businesses to help make Cheltenham net zero by 2030**

- Our Climate Emergency Action Plan: Pathway to Net Zero is to target residents, communities, businesses, public and voluntary organisations
- To demonstrate our commitment to this vision and lead the response to the climate challenge in Cheltenham, £300k of capital investment has been committed to the Carbon Neutrality programme in 2023-24. Additionally, the Council have also successfully secured £382k of capital funding from the central Government's Public Sector Decarbonisation Scheme which has been invested in installing submeters across our buildings..
- Funding of over £1.178m from the UK Shared Prosperity Funding was secured in 2022/23, which is to be spent on a number of carbon reduction projects over the next three years. The projects include the development of a town centre cycle hub for safe bicycle parking and associated activities, carbon footprint and reporting for businesses to develop and carry out carbon reduction plans, address fuel poverty, installation of electricity infrastructure in key locations around the town to remove reliance on generators for key events and to fund our commitment to climate change.

## Key Priority 3

### **Increasing the number of affordable homes through our £180m housing investment plan**

- Together with our partner Cheltenham Borough Homes (CBH) we are committed to delivering the affordable homes which the market fails to provide and we will prioritise those people on our Housing Register.
- No more so is this demonstrated than by the Housing Investment Plan which has now committed £100m of service investment to fund mixed tenure housing in the private rented sector and £80m of investment from the Housing Revenue Account to fund affordable housing. The purpose of these investments is to shape sustainable and resilient communities and allow residents secure homes in which they and their families can thrive.
- We have already spent £35m delivering 136 homes, with a strong pipeline set to deliver significant numbers of additional affordable homes over the current and following four years. A further £34m is forecast to be spent within the HRA capital programme in 2023-24.
- Additionally, the Council will continue to work with the private sector to utilise redundant assets and vacant land to bring them into a useful economic purpose to facilitate regeneration and employment creation. The 2023-24 capital programme commits a further £4.5m a year for three years to 2025-26 to increase the supply of housing in the town.

## Key Priority 4

### **Ensuring residents, communities and businesses benefit from Cheltenham's future growth and prosperity**

- Cheltenham will see huge investment over the coming years through expansion of the cyber industry, more affordable homes and infrastructure. This presents a once-in-a-generation chance to ensure all of our communities can benefit from sustainable growth in jobs, skills and housing.
- Upgrading some of the parks and town centre toilets to include changing rooms and much improved disabled facilities has capital of £268k earmarked in 2023-24 after a further £25k was spent in 22-23.
- Improvement of linkages to the High Street, signage and decoration plus playgrounds, pathways, and provision of grants for the provision of building work, equipment or modifying a dwelling to enable independent living has been earmarked for expenditure in 2023-24.
- We have previously committed £600k of capital funding to support investments made by the Trust into their venues and infrastructure. The 2023/24 capital programme includes an additional £400k of funding to continue to support their recovery. £250k was spent in 2022/23 for the refurb of the Wilson Art Gallery.
- Refurbishing of Clarence Fountain area has had £90k investment spent on it in 2022/23
- The acquisition of several shops and premises to help regenerate the High Street commenced in 2022 with an investment of over £3.3m.

## Key Priority 5

### **Being a more modern, efficient and financially-sustainable council**

- Beyond the above, our Capital Strategy also helps us meet our need to upgrade and maintain:
  - Operational buildings;
  - Our vehicle fleet;
  - Infrastructure in the Borough;
  - Our ICT infrastructure.

**Put simply, our Capital Strategy aims to invest and deliver for the residents, communities and businesses in Cheltenham.**



# 5. How we fund capital spending

## Capital Programme Funding Overview

**5.1** All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing and leasing). The planned financing of the current capital programme is as follows:

**Table 2: Capital financing**

	2021/22 actual £000	2022/23 forecast £000	2023/24 budget £000	2024/25 budget £000	2025/26 budget £000
External sources	5,755	3,117	10,215	8,936	4,833
Own resources	8,861	13,161	12,724	9,267	9,996
Debt	7,633	15,171	22,093	24,448	27,025
<b>TOTAL</b>	<b>22,249</b>	<b>31,449</b>	<b>45,032</b>	<b>42,651</b>	<b>41,854</b>

**5.2** In order to maximise the resources available to us, we look to fund new capital programmes from external resources and capital receipts from disposal of surplus assets where possible. The Council would only look to fund schemes through borrowing if no other funding source was available. Taking account of our experience being developed through projects such as Golden Valley Development and Minster Innovation Exchange, this includes investigating opportunities to work alongside investment partners.

**5.3** Council resources will be allocated to programmes based on asset values to manage the long term yield and revenue implications. Capital receipts and reserves will be focused on those assets with short term life span (e.g. vehicles and IT investments) and the unsupported borrowing on long term assets (e.g. land and buildings). In assessing value, those outside capital receipts will be fully taken into account.



## Capital Funding from External Sources

**5.4** There are a number of external sources of capital funding which are proposed to be used to fund the 2023-24 capital programme. The most significant are:

- Funding through the Local Enterprise Partnership (LEP) from the Government's 'Getting Building Fund';
- Funding through the Government's UK Shared Prosperity Funding (UKSPF)
- Better Care Fund grant funding;
- Funding from the Government's Public Sector Decarbonisation Scheme
- External funding from partner organisations

**5.5** Throughout the financial year, available sources of funding will continue to be reviewed as new schemes are announced by the Government to support local government.

## Capital Funding from our own Resources

### Service Investments - Loans

**5.6** Capital receipts from the disposal of assets represent a finite funding source and it is important that a planned and structured manner of disposals is created to support our priorities and fully considered within the context of our strategic context and wider place shaping outcomes. The Council's estate is managed through the Asset Management Plan which identifies property requirements and, where appropriate, properties which are surplus to requirements and which may be disposed. This strategy is under review and will be assessed within the vision and principles of economic recovery and place vision.

**5.7** The capital receipts funding the programme for the 2023/24 financial year is:

**Table 3: Capital receipts**

	2021/22 actual £000	2022/23 forecast £000	2023/24 budget £000	2024/25 budget £000	2025/26 budget £000
GF capital programme	0,932	4,242	4,686	150	150
HRA capital programme	2,252	1,511	1,511	1,511	1,511
<b>TOTAL</b>	<b>3,184</b>	<b>5,753</b>	<b>6,197</b>	<b>1,661</b>	<b>1,661</b>

**5.8** As part of the November 2015 Spending Review, the Government announced greater flexibility in the use of capital receipts to fund the revenue costs of service reform and transformation. In February 2021, the Government announced that this policy will be extended to 2025/26.

**5.9** The Council approved the flexible use of capital receipts policy for 2023/24 on 20 February 2023 which outlined the definition of qualifying expenditure but did not identify any specific initiatives that would require the use of this funding for 2023/24.

**5.10** We will continue to maintain a policy of not ring-fencing the use of such capital receipts to fund new investment in specific schemes or service areas, but instead, to allocate resources in accordance with key aims and priorities, subject to the following exceptions:

- capital receipts received in respect of right to buy sales will be wholly invested in the provision of additional housing;
- any receipts from the sales of properties previously acquired for site assembly where borrowing has previously incurred will be used to repay the debt incurred on that particular acquisition.

## Capital Funding from Borrowing

**5.11** The Prudential Code for Capital Finance in Local Authorities (“the Code”) was introduced throughout Great Britain in April 2004. The Code allows Councils to undertake borrowing to meet its objectives if this is considered to be affordable, prudent and sustainable, measured using prudential indicators. When undertaking borrowing, we must make sure we are satisfied that these conditions are met.

**5.12** The schemes included in our capital programme have been assessed as clearly focused on our corporate priorities, attract significant third party investment and generate financial and non-financial benefits to our residents and communities in future financial years.

**5.13** The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and we seek to strike a balance between short-term loans (currently available at around 4%) and long-term fixed rate loans where the future cost is known but higher (currently 4.6% to 5%).

**5.14** Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. We plan to borrow in 2023/24 only to provide capital loans. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

**5.15** The role of public estate management and investment can act as a lever that maximises co investment from other public funding sources or the private sector. Our focus will therefore be on clear commercial investment aligned to our priorities as opposed to speculative development.

**5.16** Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing. Alternatively, proceeds from selling capital assets may also be used to replace debt finance. The planned replacement of our borrowing is outlined in the table below:

**Table 4: Replacement of debt finance**

	2021/22 actual £000	2022/23 forecast £000	2023/24 budget £000	2024/25 budget £000	2025/26 budget £000
Own resources	3,739	2,354	2,405	2,313	1,879



**5.17** The cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases when new borrowing is taken out and reduces when debt is repaid through revenue or other capital receipts. Statutory guidance is that our debt should remain below the capital financing requirement, except in the short-term.

**5.18** The CFR for our Council is expected to increase by £14.238m during 2023/24 mainly due to the capital expenditure forecast for the HRA. Our projected total outstanding debt from borrowing is shown below, compared with the CPR.

**Table 5: Prudential Indicator: Estimates of Capital Financing Requirement**

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m
General Fund services	103,597	112,410	114,506	116,692	119,313
Council housing (HRA)	78,405	84,616	96,758	116,989	139,867
<b>TOTAL CFR</b>	<b>182,002</b>	<b>197,026</b>	<b>211,264</b>	<b>233,681</b>	<b>259,180</b>

**5.19** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. The liability benchmark is the total amount borrowed less investments held at year end or forecast. This assumes that cash and investment balances are kept to a minimum level of £17m at each year-end. This benchmark is currently £15m and is forecast to remain a similar amount over the next three years. More information is provided in the Treasury Management Strategy.

**5.20** The Council is also legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

**Table 6: Prudential Indicators: Authorised limit and operational boundary for external debt**

	2022/23 limit £0	2023/24 limit £0	2024/25 limit £0	2025/26 limit £0
Authorised limit – total external debt	317,000	272,000	289,000	302,000
Operational boundary – total external debt	307,000	262,000	279,000	292,000

**5.21** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to our net revenue spending to assess affordability of the borrowing we have. With increasing interest rates in 2022 and 2023, the financing of capital expenditure has become more expensive however investment returns have been higher too enabling to keep financing costs fairly level over the period.

**Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream**

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	7,106	6,104	6,945	4,540	6,419
Proportion of revenue	8.69%	7.29%	7.98%	5.06%	6.98%

## 6. How we monitor the capital programme

- 6.1** The staff responsible for making capital expenditure, borrowing and investment decisions are professionally qualified and experienced. We are led by an Executive Director for Finance, Assets and Regeneration with over 20 years of experience in the sector and a Director of Finance and Assets and supporting team of qualified accountants committed to the financial sustainability of the Council. We are passionate about investing in the training and development of our staff and ensure that those involved in the planning and delivery of capital programmes have the relevant knowledge and skills to be successful.
- 6.2** Use is also made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and other specialist advisers to advise upon specific, extra-ordinary transactions as required. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills aligned with its risk appetite.
- 6.3** We have various mechanisms in place to monitor and continually assess how the capital programme continues to meet the key priorities in our Corporate Plan. These include:
- The Council which is ultimately responsible for approving investment and the capital programme;
  - The Cabinet who are responsible for setting the corporate framework and receive and scrutinise regular performance and monitoring reports;
  - Officer Groups which bring together a range of service interests and professional expertise;
  - An integrated service and financial planning process, including the corporate performance management framework. Within this framework, all proposals for capital investment are required to demonstrate how they contribute to the achievement of the Council's aims and priorities. This includes an evaluation process for investment proposals which ensures cross-cutting appraisal of projects which are aligned to the Council's key aims and priorities and deliver on the efficiency and value for money agendas.



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