Capital Strategy

Introduction

This capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of services.

It also includes the prudential indicators to be approved by the Council.

Prudential Indicators

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) requires that councils set a range of Prudential Indicators which provide assurance that the Council's capital expenditure plans are affordable and proportionate.

There are five Prudential Indicators which are defined and quantified within this strategy. For ease, they are also summarised in appendix A.

The Prudential Indicators are:

- Estimates of Capital Expenditure
- Estimates of Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- Authorised Limit and Operational Boundary for Borrowing
- Proportion of Financing Costs to Net Revenue Stream

Capital Expenditure and Financing

Capital expenditure is the money the Council spends on assets, such as equipment, property and vehicles, which will be used for more than one year. In local government this includes spending money on assets owned by other organisations and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £3,000 are not capitalised and are charged to revenue in year.

In 2021/22, the Council has planned capital expenditure of £58.5 million as summarised below:

	2019/20 Actual	**2020/21 Forecast**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Capital Projects	10,162	10,089	27,155	11,711	7,500
Investments	4,940	13,632	31,304	0	0
Total	**15,102**	**23,721**	**58,459**	**11,711**	**7,500**

Table 1: Prudential Indicator: Estimates of Capital Expenditure

The main capital projects include funding for work on the business and technology centre at the Maxwells site (£8.4 million) which will be funded by a combination of LEP funding and section 106 contributions, construction of short term accommodation in

Burford Street car park (£1.8 million) and Bishops College office refurbishment (£1.1 million).

Setting the Capital Programme

Service Managers complete business cases for potential projects to be included in the Council's capital programme. These are collated by the finance team and assessed to confirm that they qualify as capital expenditure. All qualifying projects are then presented to the Corporate Management Team (CMT) who evaluate them in the context of the Council's corporate priorities and the level of resources available to fund the programme. The final capital programme is then presented to Cabinet and approved at Council in February each year.

Full details of the Council's capital programme can be found in the Capital Programme report which forms part of the February Cabinet agenda.

All capital expenditure must be financed either from external sources (such as grants and s106 contributions), the Council's own resources (revenue contribution to capital, reserves and capital receipts) or prudential borrowing. The planned financing of the above expenditure is as follows:

	2019/20 Actual	**2020/21 Forecast**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
External sources	245	420	5,629	130	170
Own resources	10,287	2,788	21,526	6,581	3,530
Borrowing	4,570	20,513	31,304	5,000	3,800
Total	**15,102**	**23,721**	**58,459**	**11,711**	**7,500**

Table 2: Capital financing

The Council's total outstanding amount of borrowing is measured by the capital financing requirement (CFR). This increases with any new capital expenditure financed by borrowing and reduces with any minimum revenue provision (MRP) payments or any use of the Council's own resources to pay off borrowing.

The Council's MRP policy is approved each year by the Council as part of the annual Treasury Management Strategy. This can be found as part of the February Cabinet agenda.

If all the projects currently approved and included in the capital programme which have been identified as being funded from borrowing are undertaken then the Council's CFR (need to borrow) would increase by £31.3m in 2021/22.

Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

	31 March 2020 Actual	31 March 2021 Forecast	31 March 2022 Estimate	31 March 2023 Estimate	31 March 2024 Estimate
	£000	**£000**	**£000**	**£000**	**£000**
Capital Projects	0	0	0	5,000	8,800
Investments	43,726	57,650	88,954	88,954	88,954
Total	**43,726**	**57,650**	**88,954**	**93,954**	**97,754**

Table 3: Prudential Indicator: Estimates of Capital Financing Requirement

Asset Management

To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This strategy is used to identify opportunities to expand the Council's property assets or dispose of surplus assets where appropriate. It also allows for a review of the state of repair of the Council's assets and provides the basis for recommending a rolling investment programme in the Council's property assets so as to be able to maintain and enhance the income derived from them.

Asset Disposals

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of loans made to other organisations (such as its wholly-owned subsidiary Badger BC Investments Ltd) also generate capital receipts. The Council anticipates receiving £6.97 million of capital receipts in the current financial year (2020/21) as follows:

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£000	**£000**	**£000**	**£000**	**£000**
Asset sales	265	5,320	670	20	20
Residual right to buy receipts	1,040	1,603	1,600	1,600	1,600
Loans repaid	42	50	50	50	50
Total	**1,347**	**6,973**	**2,320**	**1,670**	**1,670**

Table 4: Capital receipts

Borrowing Strategy

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change. These objectives can be conflicting and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.3%) and long-term fixed rate loans where the future cost is known but higher (currently 0.8% to 1%).

Projected levels of the Council's total outstanding borrowing are shown below, compared with the capital financing requirement.

	31 March 2020 Actual	31 March 2021 Forecast	31 March 2022 Estimate	31 March 2023 Estimate	31 March 2024 Estimate
	£000	£000	£000	£000	£000
Borrowing	44,356	57,650	88,954	93,954	97,754
Capital Financing Requirement	43,726	57,650	88,954	93,954	97,754

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

Affordable Borrowing Limit

The Council is required to set an affordable borrowing limit each year (also known as the authorised limit). In line with statutory guidance, a lower “operational boundary” is also set as a trigger point to alert that the borrowing is approaching the authorised limit.

	2020/21 Limit	2021/23 Limit	2022/23 Limit	2023/24 Limit
	£000	£000	£000	£000
Affordable Borrowing Limit	105,000	130,000	140,000	160,000
Operational Boundary	100,000	125,000	135,000	155,000

Table 6: Prudential Indicators: Authorised Limit and Operational Boundary for Borrowing

Treasury Management Investments

Treasury management investments arise from the Council receiving cash (from, for example, the collection of council tax and business rates and income from fees and charges) before it is required to pay for its expenditure in cash (e.g. paying staff and suppliers).

The Council’s treasury management investments range from short term investments in money market funds to longer term investments with other local authorities or established financial institutions.

The principles which underpin these investments are contained within the Treasury Management Strategy which is approved by the Council each year.

The Council uses any interest earned from treasury management investments to fund the capital programme.

Decisions on treasury management investments are made daily and are delegated to the Treasury, Insurance and Risk Manager and other key members of the finance team who must act in line with the Treasury Management Strategy. Regular reports on treasury management activity are presented to the Cabinet.

Other Investments

The Council invests in commercial properties for the sole purpose of using the income from these properties to fund services. It chooses to do this in preference to reducing services, which would be necessary in order to set a balanced budget when expenditure is increasing due to inflationary pressures and changes in demand for services.

The Council also acts as a lender, making loans to its wholly-owned subsidiaries and other bodies.

The principles that govern these types of investments, along with details of the returns they generate, are contained within the Investment Strategy which is approved by the Council each year and all decisions on making investments are made in line with this strategy.

Property purchases and loans the Council makes are capital expenditure and will therefore also be approved as part of the capital programme.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on borrowing and any MRP is charged to revenue, offset by any investment income received. The net annual charge is known as the financing cost. The Prudential Code specifies that to ensure the financing costs are affordable, they are compared to the Council's net revenue stream which is defined as the income received from council tax, business rates and any other general government grants.

Currently the Council's interest payable on borrowing is lower than the interest income it receives on treasury management investments and from the loans it makes. Therefore, this prudential indicator is not predicted to be applicable until 2023/24 onwards.

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Financing costs (£000)	(195)	(255)	(140)	(44)	73
Proportion of net revenue stream	N/A	N/A	N/A	N/A	1%

Table 7: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

Whilst this indicator is presented in line with the Prudential Code, it does not take into account the fact that when the Council uses borrowing to fund capital expenditure, it does so on assets which will generate additional income at a level which more than covers the cost of the borrowing. Utilising the local taxation income level as the key comparator in the indicator, misrepresents the way in which the Council makes decisions about borrowing and ignores the fact that the Council has maintained low council tax charges and used other sources of income to support services and offset the loss of grants from central government.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable because it is funded from a mixture of the Council's own resources (including section 106 contributions) and external borrowing which looks to minimise the impact of financing costs. In addition, the focus within the capital programme is on acquiring new income generating assets and enhancing the Council's existing income generating assets to safeguarding long-term revenue income streams.

Knowledge and Skills

The Council employs qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

Where Council staff do not have the knowledge and skills required, or where further support is needed, use is made of external advisors and consultants that are specialists in their field. The Council currently employs Link Treasury Services Ltd as treasury management advisors.

Appendix A

Prudential Indicators

Estimates of Capital Expenditure

	2019/20 Actual	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
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Estimates of Capital Financing Requirement

	31 March 2020 Actual	31 March 2021 Forecast	31 March 2022 Estimate	31 March 2023 Estimate	31 March 2024 Estimate
	£000	£000	£000	£000	£000
Capital Projects	0	0	0	5,000	8,800
Investments	43,726	57,650	88,954	88,954	88,954
Total	**43,726**	**57,650**	**88,954**	**93,954**	**97,754**

Gross Debt and the Capital Financing Requirement

	31 March 2020 Actual	31 March 2021 Forecast	31 March 2022 Estimate	31 March 2023 Estimate	31 March 2024 Estimate
	£000	£000	£000	£000	£000
Borrowing	44,356	57,650	88,954	93,954	97,754
Capital Financing Requirement	43,726	57,650	88,954	93,954	97,754

Authorised Limit and Operational Boundary for Borrowing

	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit
	£000	£000	£000	£000
Affordable Borrowing Limit	105,000	130,000	140,000	160,000
Operational Boundary	100,000	125,000	135,000	155,000

Proportion of Financing Costs to Net Revenue Stream

	2019/20 Actual	**2020/21 Forecast**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**
Financing costs (£000)	(195)	(255)	(140)	(44)	73
Proportion of net revenue stream	N/A	N/A	N/A	N/A	1%