Capital Strategy **Appendix F**

1. **Capital Expenditure and Financing:** The Council is asked to approve the projected capital expenditure and financing below. It includes the capital programme in this report and estimates of capital spend that may become necessary in the medium term. It is one of the required prudential indicators.

£millions	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Projected Capital Expenditure	9.9	5.9	6.4	10.6	8.2
Financed by:					
External resources	3.1	2.5	3.1	4.1	7.1
Internal Resources	5.3	2.2	2.6	4.6	1.1
Debt	1.5	1.2	0.7	1.9	0.0
Total Financing	9.9	5.9	6.4	10.6	8.2

2. The term 'Debt' used above does not automatically lead to external borrowing as the Council can use funds it holds in reserves and working capital which is usually termed 'internal borrowing'. Over time all debt whether it be internal or external borrowing must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). The current planned MRP payments are as follows:

£millions	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
MRP	0.84	0.9	0.9	0.9	1.0

3. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and any capital receipts used to replace debt. The CFR is expected to reduce slightly during 2021/22. The Council's estimated CFR is as follows:

£millions	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
CFR	33.9	34.2	34.0	35.0	34.1

4. **Asset disposals:** Capital assets may be sold and the proceeds, known as capital receipts, spent on new assets. Repayments of capital grants, loans and investments also generate capital receipts. Projected capital receipts are:

£millions	2019/20	2020/21	2021/22	2022/23	2023/24
TOTAL	**1.7**	**1.1**	**1.8**	**3.3**	**2.2**

Treasury Management

5. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. It involves both borrowing and investing both of which activities have their own control framework.

6. **Borrowing strategy** The Council has no plans to borrow but could find itself in a position which calls for some borrowing. In that circumstance the main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility.

7. **Debt compared to CFR**: Projected levels of the Council's total outstanding debt) are shown below, compared with the Capital Financing Requirement. Statutory guidance is that debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from the table the Council expects to comply with this in the medium term. The Council is relying on 'internal borrowing' i.e. using reserves and other cash resources that it holds rather than borrow from external sources, which is considered to be sustainable in the medium term.

£millions	**31.3.2020 actual**	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**
Debt (incl. leases)	0	0	0	0	0
CFR	33.9	34.2	34.0	35.0	34.1

8. **The affordable borrowing limit**: Irrespective of plans to borrow or not the Council is 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. Although no borrowing is planned, limits are set in case a need develops.

£millions	**2020/21 limit**	**2021/22 limit**	**2022/23 limit**	**2023/24 limit**
Authorised limit – borrowing	15	15	15	15
Authorised limit – leases	1	6	6	6
Authorised limit – total external debt	16	21	21	21
Operational boundary – borrowing	0	0	0	0
Operational boundary – leases	4	0	0	0
Operational boundary – total external debt	4	0	0	0

9. **Treasury investments:** The Council prioritises security and liquidity over yield, minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice. The future longer term investments in the table below are strategic pooled funds that the council intends to hold for the longer term although they can be sold if required. The projections show cash balances at year-end, which is a cash low point, remaining above £30m until 2023/24.

	31.3.2020 actual	**31.3.2021 forecast**	**31.3.2022 budget**	**31.3.2023 budget**	**31.3.2024 budget**
Near-term investments	19	9	12	12	10
Longer-term investments	20	22	22	22	22
TOTAL	**39**	**31**	**34**	**34**	**32**

10. **Treasury investment governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Corporate Resources and staff, who must act in line with the Treasury Management Strategy as approved by the Council following scrutiny and recommendation by the Audit Committee. The Audit Committee also receives a mid-year and full year report and is responsible for scrutinising treasury management.

11. **Treasury investment in detail:** The more detailed Treasury Management Strategy was recommended by the Audit Committee on 16th December 2020 to be approved by the Council. It covers a series of limits, benchmarks and indicators that form a risk management framework.

Service and Commercial Investment Strategy

12. **Investments other than the traditional treasury:** This section concerns investments other than the traditional treasury instruments. It was introduced last year as required by new CIPFA and MHCLG guidance. Both bodies acted on their concerns over the increasing risks that they saw in councils' commercial operations. The main categories dealt with are loans to or shares in other bodies to provide services on behalf of the Council and property investments where the income earned supports services.

13. **Investment for service purposes:** The Council can make investments to assist local public services, including making loans to local service providers and buying shares and making loans to any Council subsidiaries that provide services. Overall limits are set at £3m on the total exposure to loans for service purposes and £0.5m exposure permitted for shares being held. These limits were recommended by the Audit Committee on 16th December 2020 for adoption by the Council.

14. **Investment for service purposes - Governance:** Decisions on service investments are made by the full Council after the relevant Head of Service has submitted a comprehensive analysis in consultation with the Director of Corporate Resources and must meet the criteria and limits. Most loans and shares are capital expenditure and will therefore also have to be approved as part of the capital programme in the Budget report or by full Council.

15. **Commercial activities:** To support its services the Council invests in commercial property. Commercial property investments were valued at £55m on 31 March 2020 and they provide a net return after direct costs of just under 7%.

16. **Risks of commercial property:** The Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include individual vacancies, falls in market value, and economic factors. Individual property risks are monitored and managed by the Head of Property. In order that commercial investments remain proportionate to the financial capacity of the Council, this strategy sets an overall maximum investment limit at £70m. Should income not meet expectations the Council holds at least £6m of general reserves to cover any shortfall in the short term while the Head of Property reviews the performance of the portfolio.

17. **Commercial property - governance:** Decisions on new commercial investments are made by the Cabinet after recommendation from the Policy Development Advisory Group for Finance & Assets. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

18. **Other liabilities:** The Council also has liabilities that it must seek to risk manage which this strategy covers. The Council has set aside £1.1m to cover risks of Business Rates Appeals. The Council is also at risk of having to pay for historic insurance claims but has not put aside any money because there is no reasonable assessment of the amount required.

19. **Other liabilities - governance:** Decisions on incurring new discretionary liabilities are taken by the relevant Director whose directorate budget would cover the crystallisation of a liability. These would be discussed at the quarterly corporate risk management meeting and final decisions as to recognition taken

by the Director of Corporate Resources. New liabilities exceeding £1m are reported to full Council for approval or notification as appropriate. Further details on historic liabilities are in note 18 of the 2019/20 statement of accounts.

20. The more detailed strategy on the non-treasury investments was included in the Investment strategy incorporated in the Capital Strategy report that was recommended by Audit Committee on 16 December 2020 to be approved by the Council. That report includes detailed limits and indicators designed to demonstrate a prudent risk management approach.

21. **Revenue Budget Implications:** Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. The table below shows the proportion is small as the investment income earned largely balance out financing costs.

	2019/20 actual	**2020/21 forecast**	**2021/22 budget**	**2022/23 budget**	**2023/24 budget**
Financing costs (£m)	0.0	0.1	0.4	0.3	0.1
Proportion of net revenue stream	0%	1%	4%	3%	1%

22. **Sustainability of the capital programme and financing:** Due to the 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 40 years into the future. The Director of Corporate Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable because the net budget demand on the Council and the risks in the programme have been reviewed and fall within the Council's tolerances.

23. **Knowledge and Skills:** The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Corporate Resources and S151 Officer is a qualified accountant with 30 years' experience and the Head of Property is a fellow of RICS with 35 years' of experience in commercial property. The Council will also support more junior staff to study towards relevant professional qualifications. Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and for any significant property investment would use property consultants with specialist knowledge of the appropriate property sector.