

**CAPITAL STRATEGY AND PRUDENTIAL INDICATORS
2019/20 TO 2023/24**

Presented by the Chief Accountant

EXECUTIVE SUMMARY

This paper sets out a Capital Strategy that gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. This Strategy integrates the Capital Programme, the Annual Investment Strategy and the Land and Property Strategy.

It also includes the Prudential Indicators to be approved by the Authority.

RECOMMENDATIONS

- Members Approve:
- (1) the Capital Strategy which encompasses the Capital Programme, Land & Property Strategy and Annual Investment Strategy; and
 - (2) the Prudential Indicators for 2019/20 to 2023/24 as set out in paragraphs 4 to 20 of this report.

BACKGROUND

- 1 Publication of CIPFA's Prudential Code 2017 and Treasury Management Code 2017 introduced a change to the reporting requirements around investment within local authorities.
- 2 The Capital Strategy is an overarching document with a simple guide on the capital programme, borrowing, investments, and sets out the Prudential Indicators that the Authority defines as parameters to work within when setting a prudent and sustainable approach to its investment to meet service needs.
- 3 The Capital Programme provides more details on capital expenditure and financing from the information provided in the Capital Strategy.

PRUDENTIAL INDICATORS

- 4 The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) requires a range of Prudential Indicators which provide assurance that the Authority's capital expenditure plans are affordable and proportionate.
- 5 There are five Prudential Indicators which are defined and quantified within this strategy.

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; and
- Proportion of Financing Costs to Net Revenue Stream.

CAPITAL EXPENDITURE AND FINANCING

- 6 Capital expenditure is the money the Authority spends on assets, such as equipment, property and vehicles, which will be used for more than one year. The Authority's capital development programme is geared to the management and development of its existing assets, legacy venues on its land and business development schemes to generate further income for the Regional Park. The capital programme reflects the Authority's key role as a development and enabling organisation and includes a number of projects which are crucial in achieving the objectives set out in the Strategic Business Plan.
- 7 The current projected capital programme and financing is shown elsewhere on this agenda (Paper E/646/19) and is summarised below. It includes current estimates for capital expenditure for 2019/20 and beyond.

Table 1 : Prudential Indicator: Estimates of Capital Expenditure

	2018/19 Actual	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Expenditure	£2.6m	£5.3m	£11.0m	£26.3m	£1.6m	£1.6m
Financed by						
External resources*	£0.1m	£0.0m	£0.0m	£0.0m	£0.0m	£0.0m
Internal resources*	£2.5m	£5.3m	£11.0m	£12.7m	£1.6m	£1.6m
Debt	£0.0m	£0.0m	£0.0m	£13.6m	£0.0m	£0.0m
Total Financing	£2.6m	£5.3m	£11.0m	£26.3m	£1.6m	£1.6m

- 8 External resources are principally from grants made to the Authority. Internal resources include capital receipts, existing capital reserves, and revenue.

Debt is where the Authority does not fully finance capital expenditure in year, but uses its own cash reserves, which is termed as internal borrowing or external borrowing from loans. However, all debt must be repaid and this is therefore replaced over time by other forms of financing, usually from revenue which is known as the minimum revenue provision (MRP), or from capital receipts used

to finance external debt.

ESTIMATE OF CAPITAL FINANCING REQUIREMENT

- 9 The Authority'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 decrease by £0.5m during 2019/20. The Authority's estimated CFR is as follows:

Table 2 : Prudential Indicator: Estimates of Capital Financing Requirement

	2018/19 Actual	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Opening CFR	£13.2m	£12.7m	£12.2m	£11.7m	£24.8m	£18.8m
Debt	£0.0m	£0.0m	£0.0m	£13.6m	£0.0m	£0.0m
Capital Receipts	£0.0m	£0.0m	£0.0m	£0.0m	(£5.0m)	(£8.6m)
Minimum Revenue Provision	(£0.5m)	(£0.5m)	(£0.5m)	(£0.5m)	(£1.0m)	(£0.7m)
Closing CFR	£12.7m	£12.2m	£11.7m	£24.8m	£18.8m	£9.5m

- 10 MRP is calculated at 4% of the closing CFR from the previous year.

ASSET DISPOSALS

- 11 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. The Authority, via the Land and Property Review/Levy Strategy Working Groups, has identified a number of opportunities for disposal of assets, and seeks to utilise receipts generated from these disposals to support funding for future capital investment, whilst placing less reliance in generating these resources from the tax payer via the levy.

Table 3 : Estimate of Capital Receipts

	2018/19 Actual	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Receipts	£0.1m	£1.1m	£3.7m	£5.2m	£5.0m	£29.0m

- 12 The Authority's capital programme will utilise land sales being achieved to the estimated values shown, and received as per the budgeted provision. Any variation to this (due to timing or value of sale) could impact on the programme, so it would be prudent to make provision for external borrowing to allow the programme to continue.

BORROWING STRATEGY

- 13 The Authority currently has no external borrowing, and has been free from external debt since March 2016. Should the Authority find itself in a position where it needs to borrow, its main objectives would be to achieve low, but a certain cost of finance, whilst retaining flexibility, should plans change. These objectives are often conflicting, and the Authority would seek to strike a balance

between cheap short-term loans (currently available at around 1.0%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

- 14 Projected levels of Authority outstanding debt, based upon a possible need to borrow up to £25m in the latter part of 2020/21 or early 2021/22 (subject to decisions regarding the Ice Centre redevelopment), for cash flow purposes to fund capital expenditure are shown below, compared with the projected capital financing requirement.

Table 4 : Prudential Indicator: Gross Debt and the Capital Financing Requirement

	2018/19 Actual	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External debt	£0.0m	£0.0m	£25.0m	£24.4m	£23.8m	£23.1m
Capital financing requirement	£12.7m	£12.2m	£11.7m	£24.8m	£18.8m	£9.5m

- 15 Capital expenditure is usually financed from existing reserves and capital receipts. However, the proposed timing of capital receipts and potential expenditure from the latter part of 2020/21 indicate a need for external borrowing which, in turn, will have an impact on the CFR. The financing of debt, and thus CFR, will be reduced by applying the capital receipts, but the external borrowing liability will remain.

AFFORDABLE BORROWING LIMIT

- 16 Irrespective of plans to borrow or not, the Authority is required to set an affordable borrowing limit (also known as 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 currently planned, limits are set in case a need develops from 2020/21. The limit reflects the possible need to borrow, subject to timing of capital receipts, to finance the capital programme. It does not mean that the Authority will actually borrow, rather that it is authorised, subject to further Member approval, to borrow up to that limit.

Table 5 : Prudential Indicator: Authorised Limit and Operational Boundary for Borrowing

	2020/21 Limit	2021/22 Limit	2022/23 Limit	2023/24 Limit
Authorised limit	£25.0m	£25.0m	£25.0m	£25.0m
Operational limit	£2.0m	£2.0m	£2.0m	£2.0m

TREASURY INVESTMENT STRATEGY

- 17 Treasury management investments arise from the Authority receiving cash (from, for example, the levy and income from fees and charges) before it is required to pay for its expenditure in cash (e.g. paying staff and suppliers).
- 18 The Authority’s treasury management investments range from overnight investments in interest bearing current bank accounts to longer term investments with established financial institutions. The principles which underpin these investments are contained within the Treasury Management Report and Annual Investment Strategy which is approved each year by Executive Committee.

- 19 Decisions on treasury management investment and borrowing are made daily and are delegated to the Director of Finance & Resources and specifically nominated finance staff, who must act in line with the treasury management policy and Annual Investment Strategy.

REVENUE BUDGET IMPLICATIONS

- 20 Although capital expenditure is not charged directly to the revenue budget, the MRP, and if applicable, interest payable on loans, 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 of revenue budget to be met from the levy.
- 21 Currently the Authority does not have any external borrowing, so the financing costs for 2019/20 are made up of the MRP and investment interest received. The potential change in financing costs from 2021/22 is based on the Authority borrowing £25m in the latter part of 2020/21, with the repayments commencing in 2021/22, and with the receipts from disposals being achieved.

Table 6 : Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

	2018/19 Actual	2019/20 Revised Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Financing Costs	£0.4m	£0.4m	£0.4m	£1.1m	£1.6m	£1.3m
Proportions of net revenue cost %	4.7%	4.5%	3.8%	11.5%	17.5%	13.5%

KNOWLEDGE AND SKILLS

- 22 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Authority has a training panel which identifies and pays for staff to study towards relevant professional qualifications including CIPFA and AAT for example.
- 23 Where Authority 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 Authority currently employs Tullet Prebon as treasury management advisors.

ENVIRONMENTAL IMPLICATIONS

- 24 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 25 These are dealt with within the body of the report.

HUMAN RESOURCE IMPLICATIONS

- 26 There are no human resource implications arising directly from the

recommendations in this report.

LEGAL IMPLICATIONS

27 These are dealt with within the body of the report.

RISK MANAGEMENT IMPLICATIONS

28 There are no risk management implications arising directly from the recommendations in this report. However future capital expenditure and its phasing may require support from borrowing as the level of cash receipts is dependent on future land sales that are yet to be fully determined in both terms of value and timing.

EQUALITY IMPLICATIONS

29 There are no equality implications arising directly from the recommendations in this report.

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BACKGROUND REPORTS

Executive	E/646/19	Proposed Capital Programme 2019/20 (Revised) to 2023/24	19 December 2019
Executive	E/625/19	Annual Report on Treasury Management Activity 2018/19 and Annual Investment Strategy 2019/20	23 May 2019

PREVIOUS COMMITTEE REPORTS

Executive	E/601/18	Borrowing Limits and Prudential Indicators 2018/19 (Revised) – 2022/23	13 December 2018
Executive	E/536/17	Borrowing Limits and Prudential Indicators 2017/18 (Revised) – 2021/22	14 December 2019

LIST OF ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy
AAT	Association of Accounting Technicians
CFR	Capital Financing Requirement
MRP	Minimum Revenue Provision