

Capital Strategy 2020/21 to 2024/25

Introduction

1. This Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

Capital Expenditure and Financing

2. Capital expenditure is where the Council spends money on assets, such as property or major equipment that will be used for more than one year. In local government this includes spending on assets owned by other bodies or individuals (e.g. disabled adaptations) 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 £10,000 are not normally capitalised and are charged to revenue in year. Further details of the Council’s policies on capital expenditure are contained in its annual Statement of Accounts.
3. In 2020/21, the Council is planning capital expenditure of £20.1m, as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £’000

	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
General Fund Serv	5,322	9,328	2,204	6,209	7,209	718
Regen Investments	11,923	10,820	8,495	500		
TOTAL	17,245	20,148	10,699	6,709	7,209	718

4. The main capital projects in 2020/21 include the Property Investment Strategy, £10.8m, temporary accommodation purchases, £2m and Blackfriars housing development, £3m. At this stage the programme does not reflect the grant awarded from Homes England. As the project is developed and costs become clearer the Programme will be updated.
5. In terms of governance around new capital items, Services have two main opportunities to bid for projects to be included in the Council’s Capital Programme, mid-year at the time of the Medium Term Financial Strategy Review and at year end when setting the following years’ budgets. Depending on circumstances bids can come forward at other times of the year. The Strategic Management Team appraises all bids and now that the Capital Programme is not fully funded, will assess their relevant priority against other schemes and the affordability of any associated financing costs. This then forms part of the financial reporting to Cabinet for approval and recommendation to full Council.
6. 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, leasing and Private Finance Initiative). The Council is currently reviewing its financing of those schemes where funding is yet to be identified. This is shown as unfunded in the table below. The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £'000

	2019/20 Forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
Own Resources	1,073	2,599	1,828	291	291	291
External Resources	2,859	4,262	359	1,948	0	0
Debt	13,263	12,820	8,495	500	0	0
Unfunded	50	467	17	3,970	6,918	427
TOTAL	17,245	20,148	10,699	6,709	7,209	718

7. 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, usually from revenue which is known as the minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £'000

	2019/20 Forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
MRP	111	242	353	407	420	431

8. 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 capital receipts used to replace debt. The CFR is expected to £30.6m during 2020/21. Based on the above figures for expenditure (excluding unfinanced) and financing, the Council's estimated CFR moves as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	2019/20 Forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
General Fund services#	2,422	4,395	4,349	4,301	4,252	4,202
Regen Investments	15,536	26,209	34,420	34,584	34,235	33,877
TOTAL	17,958	30,604	38,769	38,885	38,487	38,079

#including adjustment "A" £1.091m

Asset management

9. To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. This ensures that capital assets continue to be of long-term use, and the Council has an Asset Management Plan in place. This sets out the Council's strategy for acquisitions, disposals, and development to meet its corporate plan objectives and statutory requirements. It includes taking a proactive approach to acquisitions to invest

in the local economy and generate income to the Council, in accordance with the Council's Property Investment Strategy. It sets out the Council's approach to maintaining its assets in a useable state of repair, and towards the management of data. The Asset Management Plan also addresses issues relating to governance, risk management, performance management and monitoring.

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. The Council is currently also permitted (but no plans to do so) to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council has a number of small potential disposals in 2020/21. However, it is prudent not to rely on these until the sale is agreed.

Treasury Management

- Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by short term borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

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 in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term loans (currently available at around 2.49%) and long-term fixed rate loans where the future cost is known but higher (currently 3.09%). It is worth noting that the spread between short and long term financing through the PWLB is considerably tighter than last year.
- Projected levels of the Council's total outstanding debt is shown below, compared with the capital financing requirement (see above).

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

	31.3.20 forecast	31.3.21 budget	31.3.22 budget	31.3.23 budget	31.3.24 budget	31.3.25 budget
Gross Debt (incl. PFI & leases)	16,867	29,513	37,678	37,794	37,396	36,988
Capital Financing Requirement	17,958	30,604	38,769	38,885	38,487	38,079

- Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit

15. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. 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 in £'000

	2019/20 limit £'000	2020/21 limit £'000	2021/22 limit £'000	2022/23 limit £'000	2023/24 limit £'000	2024/25 limit £'000
Authorised limit – total external debt	57,400	57,400	57,400	57,400	57,400	57,400
Operational boundary – total external debt	52,000	52,000	52,000	52,000	52,000	52,000

16. Further details on the borrowing strategy is contained in the Council’s treasury management strategy.

Other Liabilities

17. In addition to the debt detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £25.3m as at 31 March 2019). It has also set aside provision to cover risks to business rate income from appeals. The Council is also at risk of having to pay for a share of any unfunded liabilities of the Councils’ former insurer Municipal Mutual Insurance Ltd (MMI) but has not put aside any money because the amount of any payment is uncertain. This is common to all local authorities insuring with MMI prior to 1993. Further details on liabilities and guarantees are shown in the 2018/19 statement of accounts.

Investment strategy

18. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
19. The Council’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on 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.

Table 7: Treasury management investments in £'000

	31.3.20 forecast	31.3.21 budget	31.3.22 budget	31.3.23 budget	31.3.24 budget	31.3.25 budget
Near-term investments	12,043	7,677	8,012	6,913	6,800	6,800
Longer-term investments	8,000	8,000	5,000	5,000	3,801	2,607
TOTAL	20,043	15,677	13,012	11,913	10,601	9,407

20. Further details on treasury investments are contained in the Council's Treasury Management Strategy.
21. In terms of governance around treasury activities, decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Executive Director and relevant staff, who must act in line with the treasury management strategy approved by Cabinet each year. Regular reports on treasury management activity are presented to the Audit and Standards Committee who scrutinise treasury management decisions.

Investment in Commercial Property

22. The Council currently invests in existing and developing new commercial property in its area. Due to the low net returns (in the region of 2% after all costs), the main driver for the activity is to support the areas economic sustainability by retaining employment space and delivering new employment opportunities. This activity is driven through the Council's Property Investment Strategy. This current activity is in addition to historic investments the Council has made to providing commercial work space in its area.
23. With this type of investment the Council accepts higher risk on commercial investment than with treasury investments. In relation to the reacquisition of the Beeching Road head leases the principal risk exposure relates to long term vacancies and the cost of any necessary improvements to the properties. Long term vacancies also feature as the main risk to the Council's finances with the remainder of the properties. These risks are actively managed by the Council. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £35m and contingency plans are in place, which include disposing of assets and restructuring debt arrangements, should expected yields not materialise.
24. Decisions on commercial investments are made by the relevant Executive Director subject to the support of the Property Investment Panel. The Panel comprises 5 Members and 4 officers. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the Capital Programme.

Investments for Service Purposes

25. In the past, the Council has made on occasion investments through loans to assist local public services, such as the Hastings Furniture Service. In light of the public service objective, the Council can, if it wishes, take more risk than with treasury investments, however it still should ensure such investments break even after all costs. Decisions on service investments are made by

Cabinet and Council. Most loans will be treated as capital expenditure and therefore will also be approved as part of the Capital Programme.

Revenue Budget Implications

26. 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.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream £'000

	2019/20 Forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
Financing costs (£'000)	318	852	1,227	1,451	1,460	1,459
Proportion of net revenue stream	2.7%	6.9%	10.5%	12.3%	12.1%	11.9%

27. Further details on the revenue implications of capital expenditure are contained in the 2020/21 revenue budget.
28. 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 Section 151 Officer is satisfied that the proposed Capital Programme is prudent, affordable and sustainable because borrowing is linked to assets that will make a financial return sufficient to meet these costs.

Knowledge and Skills

29. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with 29 years' post qualification experience and the Property Investment and Regeneration Manager is a qualified Chartered Surveyor with approximately 30 years post qualification experience, and is supported by a team which includes RICS and CIH qualified staff. The Council has access to specialist legal, valuation, surveying and procurement advice services. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, AAT, RICS and other relevant qualifications.
30. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Asset Services as treasury management advisers and Savills. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Conclusion

31. This strategy sets out the Councils' approach to its Capital spending and its treasury activities including borrowing. It should be read in conjunction with the Council's revenue budget and the Treasury Management Strategy.

Capital Programme 2019/20 to 2024/25

Line	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	Total £ (000)
1 Acquisitions, Transformation and Regeneration							
2 Community Grants	130	130	130	130	130	130	780
3 East Parade - project A - Bexhill East Beach		288					288
4 East Parade - project B - Shelters & Heritage Hub	32						32
5 Cemetery Entrance	240						240
6 Community Led Housing Schemes		450	150				600
7 Blackfriars Housing Development		3,052					3,052
8 1066 Pathways	164						164
9 Property Investment Strategy - uncommitted	0	6,820					6,820
10 Market Square, Battle	3,256						3,256
11 PIS - Beeching Road/Wainwright Road	250	3,000					3,250
12 PIS - Glovers House	7,812						7,812
13 PIS - Barnhorn Road	605	1,000	8,495	500			10,600
14 PIS - Beeching Road 18-40	500	460					960
15 Rother Transformation ICT Investment	45	345					390
16 Corporate Document Image Processing System		435					435
17 Housing and Community Services							
18 De La Warr Pavilion - Capital Grant	53	53	53	53	53	53	318
19 Bexhill Seafront - fountain		350					350
20 Fairlight Coastal Protection	70						70
21 Sidley Sports and Recreation		300					300
22 Land Swap re Former High School Site		1,085					1,085
23 Bexhill Leisure Centre - site development	415	155	1,746	5,901	6,901	410	15,528
24 Disabled Facilities Grant	1,625						1,625
25 New bins	121	125	125	125	125	125	746
26 Bexhill Promenade - Outflow pipe		100					100
27 Bexhill Promenade - Protective Barriers	50						50
28 Housing (purchases - temp accommodation)	1,000	2,000					3,000
29 Strategy & Planning							
30 Highways Work - London Road - Bexhill	300						300
31 Grants to Parishes - CIL	200						200
32 Executive Directors & Corporate Core							
33 Accommodation Strategy	75						75
34 Lift for Amherst Road Offices	100						100
35 Resources							
36 Enterprise Resource Planning System upgrade	36						36
37 ICT Infrastructure – Ongoing Upgrade Programme	166						166
38 Total Capital Programme	17,245	20,148	10,699	6,709	7,209	718	62,728

Appendix B Cont'd

	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	Total
	£ (000)	£ (000)					
39 Funded By:							
40 Capital Receipts	415	1,240	1,537				3,192
41 Grants and contributions	2,859	4,262	359	1,948	0	0	9,428
42 CIL							0
43 Borrowing	13,263	12,820	8,495	500	0	0	35,078
44 Capital Expenditure Charged to Revenue	658	1,359	291	291	291	291	3,181
45 Unfunded	50	467	17	3,970	6,918	427	11,849
46 Total Funding	17,245	20,148	10,699	6,709	7,209	718	62,728