Rother District Council

Report to:	Cabinet
Date:	7 February 2022
Title:	Capital Strategy 2022/23 to 2026/27
Report of:	Chief Finance Officer
Cabinet Member:	Councillor Dixon
Ward(s):	All
Purpose of Report:	To present the draft Capital Strategy and updated Capital Programme for approval
Decision Type:	Key
Officer Recommendation(s):	**Recommendation to COUNCIL**: That:

1) the Draft Capital Strategy 2022/23 to 2026/27 be approved and adopted; and

2) the updated Capital Programme 2021/22 to 2026/27 be approved.

Reasons for Recommendations:	The Council is required to have an approved Capital Strategy which 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. The Strategy is intended to be a longer-term view of investment and go beyond the detailed five-year Capital Programme.

Introduction

1. This report updates the Council's Capital Strategy and provide details of the latest Capital Programme. The Strategy aims to gives Members an overview of the Council's approach to capital. This requirement comes from the Chartered Institute of Public Finance and Accountancy (CIPFA) 2017 codes for Prudential and Treasury Management. It should be noted that these codes are being updated and it may be necessary to amend the Capital Strategy at a future date.

Capital Strategy

2. The draft Capital Strategy at Appendix A 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. The Strategy is intended to be a longer-term view of investment

and go beyond the detailed five-year Capital Programme. It will need to be updated from time to time to reflect the delivery of the Corporate Plan objectives.

3. Members will be aware that the Capital Programme is now of a scale to deliver on the ambition set out in the Corporate Plan and make a significant contribution to the social and economic future of the district. Investment in new housing (both market and affordable) and a commitment through the Property Investment Strategy (PIS) to the development of new and good quality commercial space aim to ensure that Rother remains an attractive place to work and live.

4. The Strategy covers the following areas:

    (i) Capital Expenditure and its financing
    (ii) The role of Asset Management
    (iii) Projected Asset Disposals
    (iv) Treasury Management
    (v) Sets out the expected borrowing needs of the Council
    (vi) Sets the borrowing limits for the Council
    (vii) Sets out the expected returns on the cash investments
    (viii) Outlining other liabilities on the Council
    (ix) The impact of capital spending on the Revenue Budget
    (x) Sets out the relevant knowledge and expertise of relevant officers and advisors.

5. The Strategy is based on the draft Capital Programme detailed below.

Capital Programme

6. The updated Capital Programme totals some £132m, although £80m is yet to have funding secured. A significant part of the programme relates to the Council's approved PIS and capital support to Alliance Homes (Rother) Ltd. To date, about £20.6m has been expended or committed on 11 properties/sites. Income of approximately £1.1m is included within 2022/23 Revenue Budget for assets acquired as part of the PIS.

7. The updated Capital Programme continues to minimise the use of Revenue Reserves to fund capital expenditure. For 2022/23, some £1.0m is planned to be used due to forecast slippage but this reduces thereafter. Largely this will be replaced by low cost borrowing where the revenue impact is spread over a longer time period.

8. The draft Capital Programme in Appendix B shows the investment in approved schemes over the next five years. It also shows where schemes are part or fully funded. Accurately forecasting spend is difficult for projects where there is a high level of uncertainty concerning issues such as funding, planning approval and land acquisition. Projects can only proceed once funding is secured. The unfunded element of the programme is shown in Appendices A and B.

Environmental Implications

9. The environmental considerations of the projects within the Capital Programme will be assessed as part of the design, development and delivery of each project

to ensure they align with the organisation's strategic objectives and policies. Relevant internal functions will be consulted on the proposals.

Risk Assessment

10. Failure to produce a Capital Strategy would mean that the Council would not be complying with the relevant CIPFA Codes of Practice and would be at risk of making inappropriate investments. This could lead to a major loss of resources or the setting of an unaffordable Capital Programme.

Conclusion

11. The draft Capital Programme shows that the Council continues to make a significant commitment to invest in the district to improve it economically and socially, whilst improving the environment to ensure it remains an outstanding place in which to work and live. The Capital Programme and the accompanying Capital Strategy do not come without significant risk. Members will need to recognise these risks and manage them to ensure the Capital Programme can be delivered.

Other Implications	**Applies?**	**Other Implications**	**Applies?**
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	Yes	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

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Appendices:	Appendix A – Capital Strategy 2022/23 to 2026/27 Appendix B – Capital Programme 2021/22 to 2026/27
Relevant Previous Minutes:	None
Background Papers:	None
Reference Documents:	None

Appendix A

Capital Strategy 2022/23 to 2026/27

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 2022/23, the Council is planning capital expenditure of £85m, as summarised below:

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

	2021/22 forecast	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**	**2026/27 budget**
General Fund Serv	10,828	76,720	21,786	1,937	1,880	1,880
Regen Investments	4,520	8,718	3,313	0	0	0
TOTAL	**15,348**	**85,438**	**25,099**	**1,937**	**1,880**	**1,880**

4. The main capital projects in 2022/23 include the Housing Development schemes to be delivered by Alliance Homes (Rother), Property Investment Strategy purchases and Temporary Accommodation acquisitions.

5. In terms of governance around new capital items, services can bid for projects to be included in the Capital Programme during the budget setting process. However, for the Capital Programme to be flexible, bids can be prepared and evaluated at other times of the year. The Corporate Management Team appraises all bids and will assess their relevant priority against other schemes and the affordability of any associated financing costs. All new bids are reported to Cabinet and recommended to full Council for approval.

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 or leasing for example). 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

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Own Resources	732	1,916	186	187	130	130
External Resources	6,381	7,646	1,625	1,625	1,625	1,625
Debt	6,727	15,384	5,288	125	125	125
Unfunded	1,508	60,492	18,000	0	0	0
TOTAL	**15,348**	**85,383**	**25,099**	**1,937**	**1,880**	**1,880**

7. Debt is a temporary source of finance in that 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

	2021/22 Forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
MRP & Capital Receipts	235	1,053	1,072	1,092	1,111	1,110

8. The Council's cumulative outstanding amount of debt finance is measured by its 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 be £39.0m during 2022/23. 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

	31.3.22 forecast	31.3.23 budget	31.3.24 budget	31.3.25 budget	31.3.26 budget	31.3.27 budget
	£'000	£'000	£'000	£'000	£'000	£'000
Opening Balance	18,168	24,659	38,990	43,206	42,240	41,253
General Fund Services	2,802	**4,667**	1,975	125	125	125
Regeneration Investments	3,925	**10,717**	3,313	0	0	0
Less MRP	(235)	(1,053	(1,072)	(1,092)	(1,111)	(1,110)
Closing Balance	**24,659**	**38,990**	**43,206**	**42,240**	**41,253**	**40,269**

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 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 usable 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

10. 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 capital grants, loans and investments also generate capital receipts. The Council has a number of small potential disposals in 2022/23. However, it is prudent not to rely on these until the sale is agreed.

Treasury Management

11. 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

12. The Council's main objectives when borrowing is 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 and long-term fixed rate loans where the future cost is known but higher.

13. Projected levels of the Council's total outstanding debt are shown below, compared with the capital financing requirement (see above).

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

	31.3.22 forecast	**31.3.23 budget**	**31.3.24 budget**	**31.3.25 budget**	**31.3.26 budget**	**31.3.27 budget**
Gross Debt	18,110	32,442	36,657	35,691	34,705	33,720
Capital Financing Requirement	24,659	38,990	43,206	42,240	41,253	40,269

14. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Table 5, 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

	2021/22 limit £’000	**2022/23 limit £’000**	**2023/24 limit £’000**	**2024/25 limit £’000**	**2025/26 limit £’000**	**2026/27 limit £’000**
Authorised limit – total external debt	98,629	169,012	192,833	194,770	196,050	196,050
Operational boundary – total external debt	93,629	164,012	187,833	189,770	191,650	191,650

16. Further details on the borrowing strategy is contained in the Councils 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 £22.6m as at 31 March 2021). 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 2020/21 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

	31.3.22 forecast	31.3.23 budget	31.3.24 budget	31.3.25 budget	31.3.26 budget	31.3.27 budget
Near-term investments	7,293	3,997	2,768	2,626	3,297	4,387
Longer-term investments	8,000	8,000	8,000	8,000	8,000	8,000
TOTAL	15,293	11,997	10,768	10,626	11,297	12,387

Note: Near term investments will be higher in year due to the level of cash resources held on behalf of third parties, e.g. council tax receipts

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 Chief Executive 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 (target 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. These risks are actively managed. It is important that commercial investments remain proportionate to the size of the authority 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 Chief Executive subject to the support of the Property Investment Panel. The Panel comprises five Members and four 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 & Rother 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, which 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

	31.3.22 forecast	31.3.23 budget	31.3.24 budget	31.3.25 budget	31.3.26 budget	31.3.27 budget
Net Financing costs (£000)	278	1,542	1,550	1,558	1,566	1,552
Proportion of net revenue stream (%)	2.07	11.48	12.60	12.31	11.92	11.50

27. Further details on the revenue implications of capital expenditure are contained in the 2022/23 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 Chief Finance 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 Chief Finance Officer is a qualified accountant with 23 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 Royal Institute of Chartered Surveyors (RICS) and Chartered Institute of Housing 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 Chartered Institute of Public Finance and Accountancy, Association of Accounting Technicians, 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 Council’s 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.

Appendix B

Capital Programme 2021/22 to 2026/27

Line		2021/22 Revised Budget £ (000)	2021/22 Estimated Outturn £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	Total Budget £ (000)
	Acquisitions, Transformation and Regeneration								
	Other Schemes								
1	Community Grants	130	110	130	130	130	130	130	**760**
2	Cemetery Entrance	172	89	83					**172**
3	Rother Transformation ICT Investment	384	231	153					**384**
4	Corporate Document Image Processing System	435	36	399					**435**
5	1066 Pathways	66	65	0					**65**
6	Ravenside Roundabout	200		200					**200**
7	Development of Town Hall Bexhill	460	445	15					**460**
	Property Investment Strategy								
8	Mount View Street Development - Public/Commercial	964	2,975						**2,975**
9	PIS - Beeching Road/Wainwright Road	963	373	2,590					**2,963**
10	PIS - Barnhorn Road	3,402	577	6,099	3,313				**9,989**
11	PIS - Beeching Road 18-40 (Creative Workspace)	501	595	29					**624**
12	PIS - 64 Ninfield Road	100	0						**0**
	Housing Development Schemes								
13	Community Led Housing Schemes	600	434	166					**600**
14	Blackfriars Housing Development - infrastructure only	10,728	2,900	7,450					**10,350**
15	Mount View Street Development - Housing	6,940							**0**
16	Alliance Homes (Rother) Ltd	25,000	1,508	60,492	18,000				**80,000**
17	Alliance Homes share capital	100	101						**101**
	Housing and Community Services								
18	De La Warr Pavilion - Capital Grant	54	56	55	56	57			**224**
19	Sidley Sports and Recreation	811	710	101					**811**
20	Land Swap re Former High School Site	1,085	185	900					**1,085**
21	Bexhill Leisure Centre - site development			189					**189**
22	Bexhill Leisure Centre - refurbishment	140	50	90					**140**
23	Disabled Facilities Grant	1,625	1,250	1,625	1,625	1,625	1,625	1,625	**9,375**
24	New bins	125	114	125	125	125	125	125	**739**
25	Bexhill Promenade - Outflow pipe	100	20	80					**100**
26	Bexhill Promenade - Protective Barriers	47	46						**46**
27	Bexhill Promenade - Shelter 1		5	55					**60**
28	Fairlight Coastal Protection		19						**19**
29	Housing (purchases - temp accomodation)	7,300	2,255	4,000	1,500				**7,755**
	Strategy & Planning								
30	Payments to Parishes - CIL	88	40	48					**88**
	Resources								
31	ICT Infrastructure – Ongoing Upgrade Programme	123	109	14					**123**
32	Invest To Save initiatives (Financial Stability Programme)	50	50	350	350				**750**
	Total Capital Programme	**62,693**	**15,348**	**85,438**	**25,099**	**1,937**	**1,880**	**1,880**	**131,582**

Line		2021/22 Revised Budget £ (000)	2021/22 Estimated Outturn £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)	2024/25 Budget £ (000)	2025/26 Budget £ (000)	2026/27 Budget £ (000)	Total Budget £ (000)
	Funded By:								
	Capital Receipts	1,085	185	900	0	0	0	0	**1,085**
	Grants and contributions	13,893	6,143	7,200	1,625	1,625	1,625	1,625	**19,843**
	CIL	431	238	446	0	0	0	0	**684**
	Borrowing	20,846	6,727	15,384	5,288	125	125	125	**27,774**
	Capital Expenditure Charged to Revenue	1,438	547	1,016	186	187	130	130	**2,196**
	Borrowing - Alliance Homes (Rother) Ltd	25,000	1,508	60,492	18,000	0	0	0	**80,000**
	Total Funding	**62,693**	**15,348**	**85,438**	**25,099**	**1,937**	**1,880**	**1,880**	**131,582**