Appendix 2

Bolsover District Council

Capital Strategy 2019/20 - 2022/23

1 Strategy Details

1.1 The Capital Strategy is a new strategy introduced by the 2017 edition of the Prudential Code which is intended to give a high level, concise and comprehensible overview to all elected members of how capital expenditure, capital financing and treasury management activity, contribute to the provision of the Authority's services. The strategy also provides an overview of the associated risk, its management and the implications for future financial sustainability.

1.2 This Capital Strategy outlines the Authority's Capital Expenditure programme and Minimum Revenue Provision policy (MRP) for the years 2019/20 to 2022/23 for consideration and approval by Council before the start of each financial year.

1.3 Investments held for service purposes or for commercial profit are considered in a different strategy, the Corporate Investment Strategy.

1.4 A further strategy, the Treasury Management Strategy, details the Authority's plans to invest cash surpluses and borrow to cover cash shortfalls.

Introduction

1.5 This Capital Strategy is a new strategy for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity 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. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Capital Expenditure and Financing

1.6 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, 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 capitalised and are charged to revenue in year.

In 2019/20, the Council is planning capital expenditure of £11.907m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2017/18 actual £m	**2018/19 forecast £m**	**2019/20 budget £m**	**2020/21 budget £m**	**2021/22 budget £m**	**2022/23 budget £m**
General Fund services	2.555	2.895	1.837	1.720	3.037	1.881
Council housing (HRA)	14.275	18.102	8.371	4.869	4.980	5.404
Capital investments	0.045	1.804	1.699	0	0	0
TOTAL	16.875	22.801	11.907	6.589	8.017	7.285

1.7 The main General Fund capital projects for 2019/20 include Grants for Disabled Facilities £0.900m and the purchase of Vehicles and Plant £0.536m. The Council also plans to incur £1.699m of capital expenditure on investments in 2019/20.

1.8 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of 30 new homes during the current financial year.

1.9 **Governance**: Projects are included in the Council's capital programme usually as a result of a committee report throughout the year. The vehicle replacement programme is updated each year and the new requirements are included in the revised capital programme. The final capital programme is then presented to Executive and Council in February each year.

- For full details of the Council's capital programme see **Appendix A** to this strategy.

1.10 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 and leasing). The planned financing of the above expenditure is as follows:

Table 2: Capital financing

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m
External sources	2.443	3.490	0.900	0.900	0.900	0.900
Own resources	9.079	12.656	6.692	4.919	5.107	5.431
Debt	5.353	6.655	4.315	0.770	2.010	0.954
TOTAL	**16.875**	**22.801**	**11.907**	**6.589**	**8.017**	**7.285**

1.11 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 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

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m
MRP	0.714	0.706	0.890	0.999	1.087	1.162
Capital receipts	2.128	0	0	0	0	0
TOTAL	**2.842**	**0.706**	**0.890**	**0.999**	**1.087**	**1.162**

- The Council's full minimum revenue provision statement is **Appendix B** to this strategy.

1.12 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 increase by £3.425m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2018 actual £m	31.3.2019 forecast £m	31.3.2020 budget £m	31.3.2021 budget £m	31.3.2022 budget £m	31.3.2023 budget £m
General Fund services	8.313	8.879	10.439	11.909	12.832	12.440
Council housing (HRA)	104.234	107.963	109.783	109.783	109.783	109.783
Capital investments	0	1.653	1.699	0	0	0
TOTAL CFR	**112.547**	**118.495**	**121.921**	**121.692**	**122.615**	**122.407**

1.13 **Asset management:** To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. The Council developed this strategy to set the context for the Corporate Asset Management Plan. The purpose of the plan is to manage the Council's corporate property and land portfolio effectively by providing buildings that meet the needs of the service, which are fit for purpose, sustainable, allow access for all, underpin corporate priorities and provide value for money

- The Council's asset management strategy can be found on the data transparency area of our website, www.bolsover.gov.uk

1.14 **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 capital grants, loans and investments also generate capital receipts. The Council has produced a Disposal and Acquisition Policy which documents the method and approval route for the disposal of an asset. The Council has not identified any specific sites for disposal and does not set budgets for receipts due to the uncertain nature of disposals, but a target to receive £150,000 of capital receipts in the coming financial year has been set as follows:

Table 5: Capital receipts

	2017/18 actual £m	2018/19 forecast £m	2019/20 budget £m	2020/21 budget £m	2021/22 budget £m	2022/23 budget £m
Asset sales	0.222	0.100	0.150	0	0	0

Treasury Management

1.15 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 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.

1.16 Due to decisions taken in the past, the Council currently has £102.1m borrowing at an average interest rate of 3.57% and £41.8m treasury investments at an average rate of 0.84%.

1.17 **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 cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

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

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.2018 actual £m	31.3.2019 forecast £m	31.3.2020 budget £m	31.3.2021 budget £m	31.3.2022 budget £m	31.3.2023 budget £m
Debt	102.906	102.665	99.700	97.700	93.700	90.300
Capital Financing Requirement	112.547	118.495	121.921	121.692	122.615	122.407

1.19 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.

1.20 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10m at each year-end. This benchmark is currently £82.4m and is forecast to rise to £86.1m over the next four years. The table below shows that the Council expects to remain borrowed above its liability benchmark.

Table 7: Borrowing and the Liability Benchmark

	31.3.2018 actual £m	31.3.2019 forecast £m	31.3.2020 budget £m	31.3.2021 budget £m	31.3.2022 budget £m	31.3.2023 budget £m
Outstanding PWLB borrowing	102.1	102.1	99.1	97.1	93.4	89.4
Liability benchmark	76.1	82.4	85.8	85.6	86.5	86.1

1.21 **Affordable borrowing limit:** 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 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2018/19 limit £m	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m
Authorised limit	128.495	131.921	131.692	132.615	132.407
Operational boundary	123.495	126.921	126.692	127.615	127.407

- Further details on borrowing are in paragraphs 1.24 to 1.36 of the Treasury Management Strategy.

1.22 **Corporate Investment strategy:** 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.

1.23 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 9: Treasury management investments

	31.3.2018 actual £m	31.3.2019 forecast £m	31.3.2020 budget £m	31.3.2021 budget £m	31.3.2022 budget £m	31.3.2022 budget £m
Near-term investments	36.0	29.7	23.3	21.5	16.9	13.3
Longer-term investments	0	0	0	0	0	0
TOTAL	**36.0**	**29.7**	**23.3**	**21.5**	**16.9**	**13.3**

- Further details on treasury investments are in paragraphs 1.37 to 1.59 of the Treasury Management Strategy.

1.24 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the Treasury Management Strategy approved by Council. Quarterly reports on treasury management activity are presented to Executive. The Audit committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

1.25 The Council makes investments to assist local public services, including making loans to parish/town councils or local community organisations to promote economic growth. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to at least break even after all costs.

1.26 **Governance:** Decisions on service investments are made by the relevant service manager and submitted to Council/Executive in consultation with the Chief Finance Officer and must meet the criteria and limits laid down in the Corporate Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

- Further details on service investments are in paragraphs 1.10 to 1.18 of the Corporate Investment strategy.

Commercial Activities

1.27 With central government financial support for local public services declining, the Council is developing a Commercial Property Investment Strategy based around expanding its existing non-housing property portfolio. This is in order to develop revenue streams that provide a required level of return to offset the forecast budget deficits for forthcoming years. This approach can also support economic development and regeneration in the District through targeted investment.

1.28 With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The financial viability of each individual potential investment opportunity will be fully assessed within a comprehensive business case. In order to reflect the potential risk that may arise as a consequence of undertaking commercial property investment and provide a sufficient financial contribution to the Council's General Fund. A minimum Internal Rate of Return (IRR) will be set in the Commercial Property Investment Strategy.

1.29 **Governance:** It is acknowledged that commercial investment opportunities may require agile and quick decision making. However, in order to ensure appropriate governance arrangements are maintained, investment decisions will be made in accordance with the Council's existing decision making process, threshold levels and Scheme of Delegation contained within the Council's Constitution. Where it is not possible to wait until the next Executive and/or Council meeting, an extra-ordinary meeting will be arranged as soon as practicably possible.

- Further details on commercial investments and limits on their use are in paragraphs 1.19 to 1.23 of the Corporate Investment Strategy.

- Further details on the risk management of commercial investments are in the Commercial Property Investment Strategy

Liabilities

1.30 In addition to debt of £102.665m detailed above, the Council is committed to making future payments to cover its net pension fund deficit (valued at £39.9m). It has also set aside £3.2m to cover risks of future legal costs, Single Status and Business Rates Appeals. (All figures are as at 31/3/18)

1.31 **Governance:** Decisions on incurring new discretional liabilities are taken to Council for approval. The risk of liabilities crystallising and requiring payment is monitored as part of the year-end process.

- Further details on liabilities are in note 21 and 38 of the 2017/18 Statement of Accounts document, which is available on our website.

Revenue Budget Implications

1.32 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 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£m)	0.749	0.636	0.829	0.968	1.102	1.223
Proportion of net revenue stream	6.91%	5.67%	8.20%	9.88%	10.68%	11.30%

1.33 **Sustainability:** 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.

Knowledge and Skills

1.34 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, the Head of Service – Property and Estates is a member of the Chartered Institute of Building (MCIOB)

1.35 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 Arlingclose Limited as treasury management advisors. 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.

Treasury Management Operations

1.36 As mentioned above the Council uses external treasury management advisors. The company provides a range of services which include:

- Technical support on treasury matters, capital finance issues and the drafting of Member reports;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- A number of free places at training events offered on a regular basis.
- Credit ratings/market information service, comprising the three main credit rating agencies;

1.37 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remains with the Council. This service is subject to regular review. It should be noted that the Council has Arlingclose Ltd as external treasury management advisors, for a period of 3 years commencing October 2016.

1.38 It is important that both Members and Officers dealing with treasury management are trained and kept up to date with current developments. This Council has addressed these requirements by:

a. Members' individual training and development needs are addressed by a Member Development Programme.
b. Officers attend training seminars held by the external treasury management advisors and CIPFA.

Banking Contract

1.39 The contract with the Councils banking provider Lloyds Bank commenced on the 10th February 2015 for a period of 7 years.