Appendix 2

Bolsover District Council

Capital Strategy 2023/24 - 2026/27

1 Strategy Details

1.1 The Capital Strategy was introduced by the 2017 edition of the Prudential Code and 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 2023/24 to 2026/27 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 gives 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.

1.6 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

1.7 Capital expenditure is where the Authority 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.

In 2023/24, the Authority is planning capital expenditure of £25.832m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
General Fund services	2.453	5.248	9.989	3.494	1.251	2.299
Council housing (HRA)	13.093	18.060	15.843	14.057	10.488	5.348
Capital investments	0	2.272	0	0	0	0
TOTAL	15.546	25.580	25.832	17.551	11.739	7.647

1.8 The main General Fund capital projects for 2023/24 include Grants for Disabled Facilities £0.650m, Shirebrook Crematorium £6.886m and the purchase of Vehicles and Plant £1.746m.

1.9 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.

1.10 Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the *CIPFA Treasury Management Code.*

1.11 **Governance**: Projects are included in the Authority'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 Authority's capital programme see **Appendix 2A** to this strategy.

1.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority'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

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
External sources	2.257	2.957	0.700	0.899	0.650	0.650
Own resources	12.285	20.538	13.236	7.427	6.089	6.997
Debt	1.004	2.085	11.896	9.225	5.000	0
TOTAL	15.546	25.580	25.832	17.551	11.739	7.647

1.13 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 prior years' debt finance

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
MRP	0.705	0.405	0.352	0.277	0.286	0.281
Capital receipts	0.571	0	0	0	0	0
TOTAL	**1.276**	**0.405**	**0.352**	**0.277**	**0.286**	**0.281**

- The Authority's full minimum revenue provision statement is **Appendix 2B** to this strategy.

1.14 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 capital receipts used to replace debt. The CFR is expected to increase by £11.6m during 2023/24. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
General Fund services	6.172	5.693	8.973	9.420	9.134	8.853
Council housing (HRA)	110.139	112.263	120.528	129.028	134.028	134.028
Capital investments	0	0	0	0	0	0
TOTAL CFR	**116.311**	**117.956**	**129.501**	**138.448**	**143.162**	**142.881**

1.15 **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. The Authority developed this strategy to set the context for the Corporate Asset Management Plan. The purpose of the plan is to manage the Authority'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 Authority's asset management strategy can be found on the data transparency area of our website, www.bolsover.gov.uk

1.16 **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 Authority has produced a Disposal and Acquisition Policy which documents the method and approval route for the disposal of an asset. The Authority 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

	2021/22 actual £m	2022/23 forecast £m	2023/24 budget £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m
Asset sales	0.197	0.800	0.150	0.150	0.150	0.150

Treasury Management

1.17 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority'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 Authority 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.

1.18 Due to decisions taken in the past, the Authority currently has £89.4m borrowing at an average interest rate of 3.68% and £37.0m treasury investments at an average rate of 1.79%.

1.19 **Borrowing strategy:** The Authority'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 Authority therefore seeks to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher. The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

1.20 Projected levels of the Authority's total outstanding debt are shown below, compared with the capital financing requirement (shown in table 4).

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

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
Debt	94.121	90.121	86.121	79.521	77.521	74.521
Capital Financing Requirement	116.311	117.956	129.501	138.448	143.162	142.881

1.21 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 Authority expects to comply with this in the medium term.

1.22 **Liability benchmark:** To compare the Authority'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 was £61.3m at 31st March 2022 and is forecast to increase to £112.7m over the next four years. The table below shows that the Authority expects to remain borrowed above its liability benchmark.

Table 7: Borrowing and the Liability Benchmark

	31.3.2022 actual £m	**31.3.2023 forecast £m**	**31.3.2024 budget £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**
Actual Outstanding PWLB borrowing	93.4	89.4	86.0	78.8	76.8	73.8
Liability benchmark	**60.9**	**63.0**	**74.6**	**83.6**	**88.4**	**86.7**

1.23 **Affordable borrowing limit:** The Authority 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

	2022/23 limit £m	**2023/24 limit £m**	**2024/25 limit £m**	**2025/26 limit £m**	**2026/27 limit £m**
Authorised limit	127.956	139.500	148.448	153.162	152.881
Operational boundary	122.956	134.500	143.448	148.162	147.881

- Further details on borrowing are in paragraphs 1.27 to 1.39 of the Treasury Management Strategy.

1.24 **Corporate Treasury 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.

1.25 The Authority'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 Authority may request its money back at short notice.

Table 9: Treasury management investments

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 budget £m	31.3.2025 budget £m	31.3.2026 budget £m	31.3.2027 budget £m
Near-term investments	42.5	36.4	21.4	10.0	10.0	10.3
Longer-term investments	0	0	0	0	0	0
TOTAL	**42.5**	**36.4**	**21.4**	**10.0**	**10.0**	**10.3**

Further details on treasury investments are in paragraphs 1.40 to 1.62 of the Treasury Management Strategy.

1.26 **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The treasury management prudential indicators are included in paragraphs 1.63 – 1.68 of the treasury management strategy

1.27 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Financial 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 and Corporate Overview Scrutiny committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

1.28 The Authority 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 Authority 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.

1.29 **Governance:** Decisions on service investments are made by the relevant service manager and submitted to Council/Executive in consultation with the Chief Financial 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

1.30 With central government financial support for local public services declining, the Authority has developed 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.

1.31 With financial return being the main objective, the Authority 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. This is 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 Authority's General Fund. A minimum Internal Rate of Return (IRR) will be set in the Commercial Property Investment Strategy.

1.32 **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 Authority's existing decision making process, threshold levels and Scheme of Delegation contained within the Authority'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

Table 10: Prudential indicator: Net income from commercial and service investments to net revenue stream

	2021/22 actual £m	**2022/23 forecast £m**	**2023/24 budget £m**	**2024/25 budget £m**	**2025/26 budget £m**	**2026/27 budget £m**
Total net income from service & commercial investments	0.306	0.322	0.346	0.345	0.343	0.341
Proportion of net revenue stream	2.74%	3.97%	2.62%	2.48%	3.46%	3.35%

Liabilities

1.33 In addition to debt of £86.121m detailed above, the Authority is committed to making future payments to cover its net pension fund deficit (valued at £41.7m). It has also set aside £2.1m to cover risks of future legal costs and Business Rates Appeals. (All figures are as at 31/3/22).

1.34 **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 notes 21 and 38 of the 2021/22 Statement of Accounts document, which is available on our website.

Revenue Budget Implications

1.35 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. 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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	0.720	0.276	0.305	0.379	0.433	0.418
Proportion of net revenue stream	6.45%	3.40%	2.31%	2.72%	4.36%	4.11%

1.36 **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 Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

1.37 The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant.

1.38 Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisors. This approach is more cost effective than employing such staff directly, and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

Treasury Management Operations

1.39 As mentioned above the Authority 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;

1.40 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 Authority. This service is subject to regular review. It should be noted that the Authority has Arlingclose Ltd as external treasury management advisors until 31st August 2025.

1.41 It is important that both Members and Officers dealing with treasury management are trained and kept up to date with current developments. This Authority 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.

<u>Banking Contract</u>

1.42 The contract with the Authority's banking provider Lloyds Bank, has been reviewed and extended to 9th February 2025.