Annex B

COTSWOLD DISTRICT COUNCIL

CAPITAL STRATEGY 2022/23

1. Introduction

1.1. This Capital Strategy sets out the main influences for the capital programme, and how the available resources have been used to meet the Council's key priorities. It sets out the planned use of borrowing, including treasury management activity, and how capital risks are managed.

1.2. The capital strategy has been prepared having regard to CIPFA's 2021 Prudential Code and 2021 Treasury Management Code including ensuring plans are affordable, any borrowing is done in a prudent and sustainable way, risks relating to commercial investment are prudent and that Treasury Management decisions made are subject to good practice.

1.3. The Council's Capital Strategy forms a key element of the overall planning framework. It allows the Council to align capital investment and financing with the Corporate Plan priorities. These include:

- Priority 1 – delivering our services to the highest standard
- Priority 2 – responding to the challenges presented by the climate crisis
- Priority 3 – providing good quality social rented homes
- Priority 4 – presenting a local plan that is green to the core
- Priority 5 – helping residents and communities access the support they need for good health and wellbeing
- Priority 6 – supporting businesses to grow in a green, sustainable manner, and to provide high value jobs.

1.4 This will be achieved by integrating capital budget decisions into the Council's planning process, so that capital investment decisions are prioritised alongside plans for revenue income and expenditure, as well as plans for assets including the Council's land and buildings and liabilities including the prudent use of borrowing; and reporting regularly through to Council, Cabinet and the Audit Committee.

1.5 The Strategy has direct links with the Investment Strategy and Treasury Management Strategy and forms part of the Council's Medium Term Financial Strategy (MTFS).

2. Strategic context and purpose

2.1. The ongoing impact on the UK from Covid-19 over the last two years, together with higher inflation, higher interest rates and the impact of Brexit have had a major impact on local communities and businesses within the District. The Council has a key role to play in terms of supporting these going forward, as recognised within the Council's Recovery Investment Strategy, while maintaining and improving Council services.

2.2. Key drivers of the Council's capital investment programme bring together many aspects of the Council's services and financial planning. This is driven by the Corporate Plan which sets out the Council's drivers in the development and prioritisation of the capital proposals as described below:

- Adopting and implementing an investment and recovery strategy;
- Responding to climate change, including providing electric vehicle charging points, securing investments in renewable energy and support local community led and community owned renewable energy projects;
- Economic regeneration developments including attracting investment in infrastructure to support better broadband and 5G coverage and using our investments and assets to boost the local economy;
- Providing socially rented homes by delivery of social rented and affordable accommodation across the District;
- Maximising opportunities for income generation within projects that support the key priorities of the Council.

2.3. In previous years, the Council has been able to manage funding its capital programme through the use of capital receipts but external borrowing will underpin the planned developments in future years. The Council expects to fund the majority of its capital programme going forward largely from prudential borrowing and use of capital receipts. This discussed in more detail within **Section 3** of this report.

3. Capital Resources & Financing

3.1. The capital programme is planned to be fully financed from a combination of existing resources, external grants and contributions, capital receipts, and an affordable level of borrowing. The Capital Strategy prioritises the use of external grants and funding where possible to support Council Plan priorities. Where included, capital receipts assumptions are based on a prudent level of expected capital receipts from asset sales, loan repayments and other sources.

3.2. Resources of £97.693m have been identified to fund the four year capital programme from 2022/23 to 2025/26, with £87.655m of this being through borrowing. The Council will ensure that any borrowing will be undertaken in accordance with the Prudential Code for local authority capital finance and within the framework and policies set out in this capital strategy.

3.3. Revised or additional capital budgets funded from corporate resources may be approved by Cabinet or Council, in accordance with the Council's Financial Rules. Additional prudential borrowing must be approved by full Council.

3.4. A breakdown of the resources utilised to fund the capital programme is shown in **Pie Chart 1** and **Table 1** below:

Pie Chart 1 – Resources to fund the capital programme 2022/23 – 2025/26

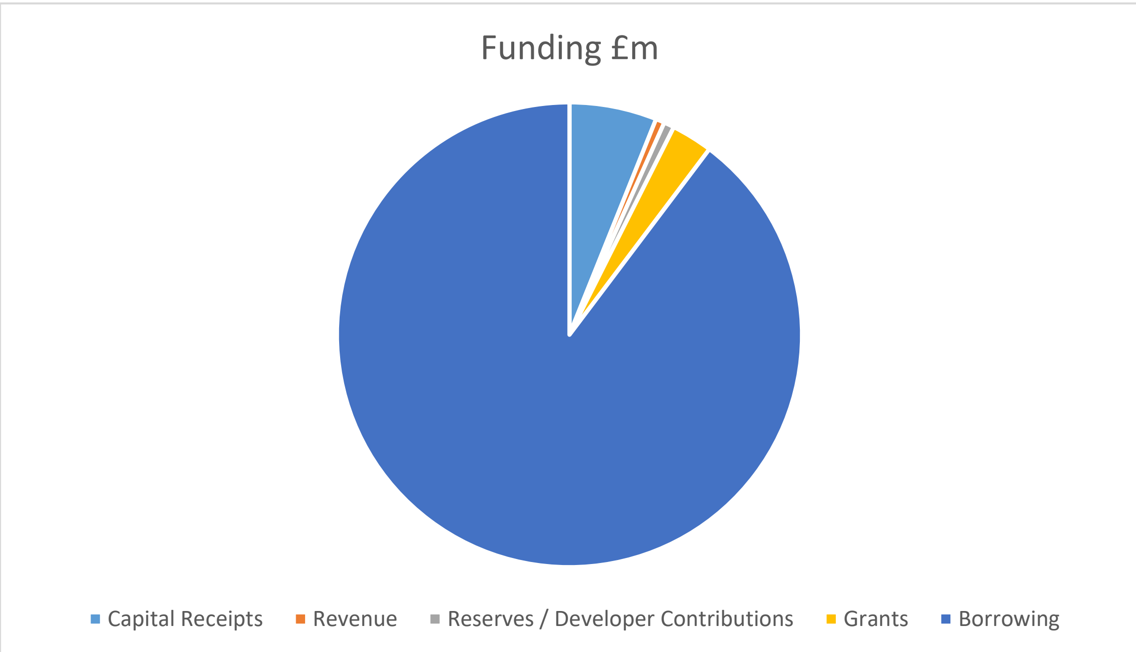

Table 1 – Capital Financing

	2020/21 actual £million	2021/22 forecast £million	2022/23 budget £million	2023/24 budget £million	2024/25 budget £million	2025/26 budget £million
<u>**Specific Resources**</u>						
ment Grants and contributions	0.6	3.5	0.7	0.7	0.7	0.7
Other specific Revenue resources	0.3	0.2	0.2	0.2	0.2	0.2
TOTAL SPECIFIC RESOURCES	**0.9**	**3.7**	**0.9**	**0.9**	**0.9**	**0.9**
<u>**Corporate Resources**</u>						
Prudential borrowing	0.0	0.5	37.5	25.7	23.8	0.7
Capital Receipts	2.4	8.1	0.8	2.9	2.2	0.1
Earmarked Revenue Reserves	0.0	2.1	0.0	0.0	0.7	0.0
TOTAL CORPORATE RESOURCES	**2.4**	**10.7**	**38.3**	**28.5**	**26.7**	**0.8**
TOTAL RESOURCES	**3.3**	**14.4**	**39.1**	**29.4**	**27.5**	**1.7**

4. Capital Expenditure – How we spend our capital resources

4.1. Capital expenditure is where the Council spends money on assets, such as land, property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are treated as operational expenditure and charged to the revenue budget. For details of the Council's policy on capitalisation, see the Council's accounting policy which are contained with the annual Statement of Accounts 2021/22.

4.2. Based on the above strategy to support the delivery of the Council Plan outcomes, the proposed Capital Programme totals £39.105m in 2022/23 and £97.693m over the four year period to 2025/26 as summarised below in Table 2:

Table 2 – Estimates of Capital Expenditure in £m

	2020/21 actual	**2021/22 forecast**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**	**2025/26 budget**
Spend by Council Priority Area (from 2021/22)	3.2					
Climate Emergency		5.6	1.2	0.2	0.2	0.2
Wellbeing		1.3	1.9	0.8	0.7	1.2
Green Economic Growth		4.4	0.5	0.9	0	0
High quality services		1.6	0.5	7.5	6.6	0.3
Housing		1.4	0	0	0	0
Capital investments	0	0.1	35.0	20.0	20.0	0.0
TOTAL	**3.2**	**14.4**	**39.1**	**29.4**	**27.5**	**1.7**

4.3. New projects and priorities are identified through the Council's financial planning process and are added to the capital programme. Further detail on planned expenditure in each of the Council Priority areas is included within **Annex A3** of the Medium Term Financial Strategy.

4.4. Funding of £75m has been included in this budget to fund capital expenditure in order to deliver the Recovery Investment Strategy (RIS). The use of this will be managed and approved in accordance with the Council's Financial Rules which are part of the Constitution.

4.5. The Council manages capital risks through its business case appraisal and approval arrangements. Business cases are presented to the Capital Programme Investment Board for consideration before Cabinet or Council approval of expenditure. Capital programme expenditure and treasury management performance is regularly monitored and reported to Members at the Audit Committee, Overview and Scrutiny Committee and Cabinet in accordance with the Constitution. Capital risks have also been considered by the Chief Finance Officer as part of the annual report on the adequacy of Council reserves.

5. Capital funding from External Resources

5.1. Where capital expenditure is funded from external resources such as grants and contributions the financing cost is nil.

5.2. The Council will continue to support the community through the allocation of Disabled Facilities Grant which is funded through a grant of approximately £0.7m per year.

6. Capital funding from internal resources

Funding through capital receipts

6.1. Capital receipts from the disposal of assets represent a finite funding source and it is important that a planned and structured approach to disposals it taken to support the corporate priorities of the Council. The Council's estate is managed through the Property Services Team.

6.2. All land and buildings which are surplus to existing use will be reviewed before any Council decision is made, to ensure the re-use or disposal of the asset provides best value in supporting the Council's objectives.

6.3. **Table 3** shows the capital receipts targets for the Council:

Table 3: Capital receipts receivable in £m

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Asset sales*	0.03	0.2	0.2	0.2	0.2
Ubico Loans repaid for Vehicle purchase	0.9	0.9	0.9	0.9	0.9
Other Loans repaid	0	0.1	1.9	0.1	0.1
TOTAL	**0.9**	**1.2**	**3.0**	**1.2**	**1.2**

**The asset sale receipts in the table above includes receipts from "Right to Buy" asset disposals from Bromford Housing Association.*

6.4. There are no significant asset disposals planned between 2021/22 and 2024/25.

6.5. The Council recognises that management of the Council's asset base is critical to delivering efficiency savings, enhancing returns from the Council's assets and ensuring that assets remain in condition to deliver efficient and effective services to residents.

6.6. During 2021/22, the Council continued a targeted review of its strategic assets. The review being lead by the Leader and Deputy Leader and Cabinet Member for Finance. Where there are opportunities to use assets more effectively to delivery Council Priorities, businesses cases are presented to the Cabinet or Council for approval.

6.7. The Council's Audit Committee receives information on the Council's asset portfolio as part of consideration of the financial statements.

Funding through use of reserves

6.8. The Council's earmarked reserves will be funding the following capital programme projects:

Table 4: Capital Programme Funded by earmarked reserves in £m

	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Service Improvements	0.1	0	0	0
Investment	2.0	0	0	0
Car park capacity in Cirencester	0	0	0	0.7
TOTAL	**2.1**	**0**	**0**	**0.7**

7. Capital funding from Debt and Treasury Management

7.1. Local authorities are required by law to set an overall limit on their debt outstanding, including loans and other long term liabilities. This 'prudential limit' may not be exceeded, so the Council's proposed limit allows for risks, uncertainties, and potential changes during the year which may need to be accommodated within this overall limit. The outstanding borrowing for the Council after use of internal resources (such as capital receipts or revenue reserves) is outlined in **Table 1**.

7.2. The Council's debt liabilities and its investments arising from day-to-day cashflows need careful management in order to manage the costs and risks. This is the subject of the Council's Treasury Management Strategy and Policies.

7.3. The Council has a moderate appetite for taking financial risk and this is reflected in this Capital Strategy. Treasury Management risks are managed through the Treasury Management Strategy and Policy.

7.4. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility to adapt to changes in the future.

7.5. Government guidance is that local authorities must not borrow more than or in advance on their needs purely in order to profit from the investment of extra sums borrowed. The Council plans to borrow in 2022/23 to invest in new capital schemes. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

7.6. The cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases when new borrowing is taken out and reduces when debt is repaid through revenue or other capital receipts. Statutory guidance is that debt should remain below the CFR, except in the short term. The CFR for each financial year is set out in **Table 5** below, and shows that the estimated borrowing complies with this.

Table 5 – Capital financing requirement by general fund services (Council Priorities) and capital investments in £m

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Investment in Council Priorities	0.1	0.5	2.8	42.6	65.7	85.9
Capital investments	0.0	0.0	35.0	20.0	20.0	0.0
TOTAL CFR	**0.1**	**0.5**	**37.8**	**62.6**	**85.7**	**85.9**

7.7. To compare the Council's estimated borrowing against an alternative strategy, a liability benchmark is calculated showing the lowest risk level of borrowing. The liability benchmark is currently £29m in 2022/23, £52m in 2023/24 and £79m in 2024/25.

7.8. The Council is also legally obliged to set an affordable borrowing limit (also known as 'authorised limit for external debt'. In line with statutory guidance, a lower 'operational boundary' is also set as a warning level should debt approach the limit.

Table 6 - Forecast Debt and Prudential Indicators based on the current Capital Programme in £ms

	31.3.2021 actual	31.3.2022 updated forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Outstanding borrowing/ Debt	0	0.499	37.949	63.606	87.418
Capital Financing Requirement	0.1	0.5	37.8	62.6	85.7
Liability benchmark	-0.7	-9.6	29.1	52.4	78.5
Authorised limit	10.0	8.0	45.0	70.0	93.0
Operational boundary	5.0	3.0	40.0	65.0	88.0

7.9. The Council's full MRP statement is available as **Appendix A**.

7.10. Although capital expenditure is not charged directly to revenue, the interest payable on loans and provision for repayment of loans (MRP) will be. This charge is known as financing costs. The proportion of financing costs to net revenue stream is shown in **Table 7**.

Table 7 – Financing costs as a proportion of revenue (£m)

	31.3.2021 actual	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Financing costs £m	0	0	0.132	1.736	2.033
Proportion of revenue	0%	0%	1%	15.8%	19.6%

The funding available from Government from 2023/24 onwards is very uncertain due to changes due to be implemented to local government funding. The proportion indicator should therefore be treated as highly indicative.

8. Commercial Activities

8.1. Commercial investments or activities are those the Council invests in purely for financial gain. With Government financial support for local public services declining, the Authority has invested in commercial property purely or mainly for financial gain. Total commercial property investments are currently valued at £6.142m at 31 March 2021 providing a net return after all costs of 8.0%.

8.2. With financial return being the main objective, the Authority accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include: vacancy periods (voids) between tenants, cost of material repairs to property, risk of fire or flood damage. These risks are managed by: acquiring properties with long leases and with tenants with a strong covenant and insuring the property. Covid-19 has impacted some tenants, with a higher risk of business failures. In the longer term, the changing nature of the high street for retail occupants may require the Council to review its commercial property holdings. These risks are managed by the Council's Property Services Team. The Council also has a Corporate Risk Register which is reported quarterly to the Council's Audit Committee and includes any significant risks arising from commercial investments.

8.3. Decisions of commercial investments are made by the Council in line with the criteria and limits approved by Council in the Investment Strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the Capital Programme.

8.4. Further details on commercial investments and limits on their use are included in the Investment Strategy.

9. Governance

9.1. The CIPFA Prudential Code expects local authorities to consider and approve a number of 'prudential indicators'. These relate to the capital programme generally as well as borrowing, and are set out in the sections above.

9.2. The Council will use borrowing in accordance with the CIPFA 'Prudential' system as a tool for delivering policy and managing its finances. Local authorities may borrow to finance capital expenditure, and the affordability of debt is the key constraint.

9.3. Prudential borrowing is an important way to fund the Council's own priorities where external funding cannot be obtained.

9.4. The Council sets and monitors prudential indicators to manage its debt exposures. As the Council only expects to borrow £0.5million during 2021/22, the borrowing costs (including interest and repayment charges) in 2022/23 are so low that they represent less than 0.1% of the net revenue budget.

9.5. In order to ensure that borrowing remains at an affordable and sustainable level, the Council will seek over the medium term to manage its new prudential borrowing for normal service delivery at a level which is close to the amount which it sets aside from the revenue account each year for debt repayment (i.e. MRP).

9.6. The Council is mindful of Government and CIPFA advice that commercial investments including property must be proportionate to the resources of the authority. The Council is not currently planning any investments primarily for yield. All service and commercial investments will have regard to the guidance and lending terms issued by HM Treasury.

9.7. The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy sets out the arrangements to repay debt without resorting to a sale of the investments.

9.8. Financial and property investment decision making will follow the Council's Business Case governance requirements, with particular attention to expert due diligence, robust financial appraisal and taking external advice in consultation with the Chief Finance Officer. New investments must reflect the Council's core priorities and must be agreed by the Chief Finance Officer before presentation of any Council decision report.

9.9. Advisers will be used where necessary to ensure that the Council is provided with sufficient skills and understanding to support robust decision making. In particular, the Council's treasury management adviser (Arlingclose) can provide support in relation to financial investments.

9.10. Officer and Member training will be available through the Council's treasury advisers. Information relevant to investment decisions will form part of Council decision reports to members. Due diligence requirements for investments will ensure that officers are aware of the core principles of the prudential framework and local authority regulatory requirements. These arrangements will support the capacity, skills and culture of the Council in making and managing investments for service and commercial purposes

10. Management of the Capital Programme

10.1. In the above context of needs and resources, the Council has developed policies and high level processes to ensure the effective management of capital. This will be overseen by the Council through strong governance and assurance processes for capital planning, capital appraisal and approval, project management, and capital monitoring and review.

10.2. Service managers contribute annually, in the autumn, to the Council's revenue budget and capital programme. The Finance Team collates proposed changes to the Capital Programme for consideration by the Cabinet as part of the Council's budget setting process. The financing cost (which can be nil for projects funded from Council resources or external grants) is included in the Medium Term Financial Strategy and detailed budgets for the forthcoming financial year. The Council's Overview and Scrutiny Committee considers both the Medium Term Financial Strategy and the detailed budget. The comments of the Overview and Scrutiny Committee are reported to Cabinet when the Medium Term Financial Strategy and detailed budget proposals are considered. Cabinet recommends the final Capital Programme and revenue budgets to Council in February each year.

10.3. In September 2020, the Council approved a Recovery Investment Strategy: Recovery Investment Strategy. Under this Strategy the Council has established a Capital Programme Investment Board which will consider business cases for projects which support the aims and objectives of the Recovery Investment Strategy. Once the Board has considered business cases the Cabinet and/or Council will consider the views of the Board when approval is sought to access capital funding.

10.4. For full details of the Council's proposed capital programme see the revenue and budget papers considered by Cabinet and Council in February 2022: link to be added when Cabinet papers are published

10.5. All use of capital resources, including capital receipts, will be prioritised across the Council as a whole in relation to the Council's key priorities.

10.6. The Council's MTFS sets out the financial challenges and risks which the Council is currently managing. The Council's risk appetite is moving from low to moderate and Members are prepared to consider investments with a moderate level of risk for which there is an appropriate level of financial return. A combination of the Chief Finance Officer, the Council's Legal Team, Publica Finance, Group Manager and Strategic Director staff will support Council Member governance structures in ensuring that where risks are taken, they are fully understood and proactively managed.

10.7. The staff responsible for proposing capital expenditure, borrowing and investment for Member approval are professionally qualified and experienced. Use is also made of external advisors and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisors and other specialist advisors to support on specific transactions as required. This approach is more cost effective than employing such staff directly and ensures that the Council has access to the relevant skills and knowledge when required.

10.8. In-year revised or additional capital budgets may be approved by Cabinet or Council. The Financial Rules set out the decision making process for approving additional in-year capital budgets. The Council will decide upon changes to the prudential borrowing limits.

APPENDIX A: DEBT REPAYMENT POLICY

Minimum Revenue Provision Statement 2022/23

Introduction

1. The Government's Capital Finance and Accounting Regulations require local authorities to make 'prudent annual provision' in relation to capital expenditure financed from borrowing or credit arrangements. This is known as Minimum Revenue Provision or MRP, but it is often referred in shorthand as "debt repayment". Local authorities are required to have regard to the Government's statutory guidance on MRP.

2. This policy applies to the financial year 2022/23. Any interpretation of the statutory guidance or this policy will be determined by the Chief Finance Officer.

Principles of Debt Repayment Provision

3. The term 'prudent annual provision' is not defined by the Regulations. However, the statutory guidance says:

   "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant".

   The guidance does not prescribe the annual repayment profile to achieve this aim, but suggests four methods for making MRP which it considers prudent, and notes that other methods are not ruled out. The Council regards the broad aim of MRP as set out above as the primary indicator of prudent provision, whilst recognising the flexibilities which exist in determining an appropriate annual repayment profile.

4. The Council considers that the above definition of 'prudent' does not mean the quickest possible repayment period, but has regard to the prudent financial planning of the authority overall, the flow of benefits from the capital expenditure, and other relevant factors.

5. Consistent with the statutory guidance, the Council will not review the individual asset lives used for MRP as a result of any changes in the expected life of the asset or its actual write off. Some assets will last longer than their initially estimated life, and others will not; the important thing is the reasonableness of the estimate.

General Fund MRP Policy

6. The general repayment policy for prudential borrowing is to repay borrowing within the expected life of the asset being financed, subject to a maximum period of 50 years.

7. The Council's policy is in accordance with the "Asset Life" method in the guidance. The repayment profile will follow an annuity repayment method (like many domestic mortgages) which is one of the options set out in the guidance. This is subject to the following details:

- An average asset life for each project will normally be used. This will be based on the asset life normally used for depreciation accounting purposes (recognising that MRP is estimated at the start of the project, whereas depreciation is not determined until the project has finished, so there may be estimation differences).
- There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc.).
- A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £10m, expert property advice may also be taken into account.
- Asset life will be determined by the Chief Finance Officer.

8. MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £1m financed from borrowing is planned, where MRP may be deferred until the year after the asset becomes operational.

9. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer.

10. If appropriate, shorter repayment periods (i.e. less than the asset life) may be used for some or all new borrowing.