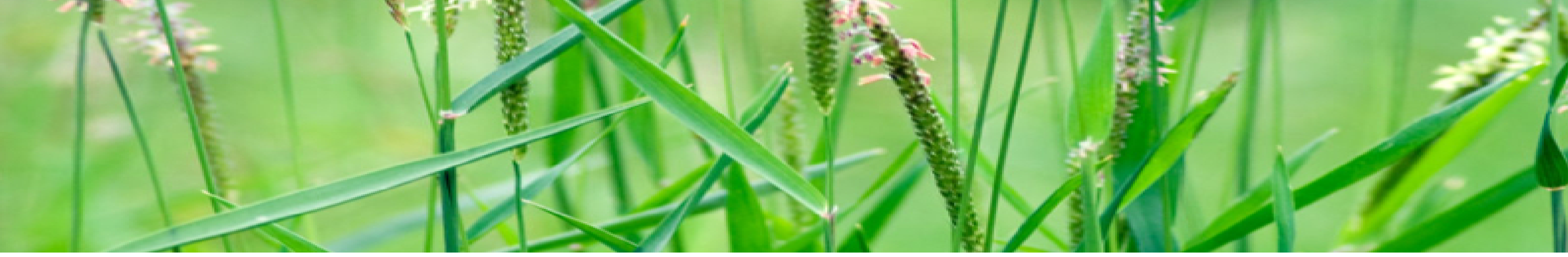

Appendix E

Uttlesford District Council

Capital Strategy

2019/20

Prepared by:

Finance

Uttlesford District Council

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Introduction

1. This capital strategy is a new report 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

2. 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.

3. Details of the Council's policy on capitalisation can be found in the Statement of Accounts 2017/18

4. In 2019/20, the Council is planning capital expenditure of £17m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
General Fund services	2	6	7	6	1
Council housing (HRA)	9	10	10	7	7
Capital investments	47	0	0	0	0
TOTAL	**58**	**16**	**17**	**13**	**8**

5. The main General Fund capital projects include vehicle replacement programme, asset maintenance programme and ICT development. The Council also plans to increase capital expenditure on investments, details of this can be found in the investments strategy.

6. 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 16 new homes over the forecast period.

Governance

7. Service managers bid annually in September to include projects in the Council's capital programme. Bids are collated by Financial Services who calculate the financing cost (which can be nil if the project is fully externally financed). Capital Officers appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to Corporate Management Team. The final capital programme is then presented to Cabinet and then to Council in February each year. Full details of the Council's Capital Programme can be viewed in Appendix F.

8. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
External sources	1	1	1	0	0
Own resources	10	11	14	8	8
Debt	47	4	2	5	0
TOTAL	**58**	**16**	**17**	**13**	**8**

9. 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 in £ millions

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Own resources	2	3	3	4	3

10. The Council's full Minimum Revenue Provision statement is attached as Appendix E1.

11. 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 £2m 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 in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	7	8	9	9	8
Council housing (HRA)	87	85	84	81	79
Capital investments	47	50	50	54	54
TOTAL CFR	**141**	**143**	**143**	**144**	**141**

Asset management

12. To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

Asset disposals

13. When a capital asset is no longer considered necessary, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £2m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	2	2	2	2	2
Loans repaid	0	0	0	0	0
TOTAL	**2**	**2**	**2**	**2**	**2**

14. The Council's Use of Capital Receipts can be found in the Statement of Accounts 2017/18.

Treasury Management

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.

16. 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. Cash balances being used can be repaid/financed through MRP this is referred to as internal borrowing, this is only applied to short-term assets or long-term assets over the short-term see policy in Statement of Accounts. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

17. Due to decisions taken in the past, the Council currently has £104m borrowing and £13m of investments.

Borrowing strategy

18. 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%).

19. Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases) are shown below, compared with the capital financing requirement (see above).

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

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Debt (incl. PFI & leases)	112	102	104	114	126
Capital Financing Requirement	141	140	140	137	134

20. 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.

Liability benchmark

21. 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 benchmark is currently £117m and is forecast to rise to £128m over the next three years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Outstanding borrowing	126	122	121	119	119
Liability benchmark	117	125	128	131	128

22. The table shows that the Council expects to remain borrowed above its liability benchmark. This is because a deliberate decision has been made to borrow additional sums for further investment in the Council's subsidiaries in the current year.

Affordable borrowing limit:

23. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. 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 in £m

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – borrowing	245	245	246	246
Authorised limit – PFI and leases	5	5	4	4
Authorised limit – total external debt	250	250	250	250
Operational boundary – borrowing	245	245	246	246
Operational boundary – PFI and leases	5	5	4	4
Operational boundary – total external debt	250	250	250	250

Further details on borrowing are in the Treasury Management Strategy (Appendix D)

Investment strategy

24. 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.

25. 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.

26. 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.

27. 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.

    Further details on treasury investments are in the Treasury Management Strategy.

Governance

28. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by Council. Quarterly reports and a mid-year review on treasury management activity are presented to Cabinet.

Investments for Service Purposes

29. The Council makes investments to assist local public services, including making loans to the Council's subsidiaries. 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 generate a positive return after all costs.

Governance

30. Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Corporate Services and must meet the criteria and limits laid down in the 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 the Investment Strategy

Commercial Activities

31. With central government financial support for local public services declining, the Council invests in commercial property purely or mainly for financial gain and lends to its subsidiaries trading under the Aspire name for the same reason. Total commercial investments are currently valued at £47.4m providing a net return after all costs of 4%.

32. With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include tenants defaulting on their tenancy agreements resulting in income to be below the interest repayment. These risks are managed by continuously attractive different types of research business to the Park and regularly monitoring of forecasted income.

Governance

33. Decisions on commercial investments are made by Director of Finance and Corporate Services in line with the criteria and limits approved by Full 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.

Liabilities

34. In addition to debt of £47.4m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £34.7m).

Governance

35. Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance and Corporate Services. The risk of liabilities crystallising and requiring payment is monitored by Financial Services and reported quarterly to Cabinet.

Revenue Budget Implications

36. 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 9: 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
Financing costs (£m)	6	6	6	7	7
Proportion of net revenue stream	23.59%	25.62%	26.17%	28.10%	28.84%

Sustainability

37. 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 Director of Finance and Corporate Services is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

38. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance and Corporate Services is a qualified accountant. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, AAT and ILM.

39. Where Council staff does 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 advisers, other specialists will differ depending on the expertise required. 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.