

# **Capital Strategy (2023/24)**

## **Introduction**

1. Hastings Borough Council has a range of capital resources at its disposal which is used in the delivery of its strategic priorities and objectives. These resources include iconic assets such as Hastings Castle and the Cliff Railways, to parks and open spaces, leisure facilities and entertainment venues.
2. The council's ability to ensure that these vital assets are well maintained is crucial to the future financial stability and resilience of the council. If assets fall into disrepair and are no longer fulfilling their maximum potential and primary purpose, then the ability to deliver our objectives and priorities is severely hindered.
3. The Capital Strategy should provide a high-level overview of how capital expenditure, capital financing, investments, liabilities and treasury management activity contribute to the provision of services. Together with an overview of how associated risk is managed and the implications for future financial sustainability.
4. It is therefore imperative that the council manages and plans its use of capital resources wisely and why one of the stated corporate objectives is to develop a full and detailed Corporate Asset Management Plan which will feed into future capital strategies, along with a Housing Strategy to deal with the Housing crisis that the Council finds itself in currently.
5. With all capital expenditure comes associated risk, and this comes in different forms and needs to be managed by the council when appraising different options. The risks could be from;
  - Will the Asset deliver the projected outcome?
  - Are the estimates for running costs and income accurate?
  - What is the most prudent way of financing the asset i.e. borrowing?

## Regulation

6. The CIPFA revised Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which seeks to provide the following:
  - a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
  - an overview of how the associated risk is managed.
  - the implications for future financial sustainability.
7. The aim of this capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
8. This Capital Strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the Capital Strategy and the budget report. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.
9. The capital strategy seeks to identify:
  - The corporate governance arrangements for these types of activities;
  - Service objectives relating to the Capital expenditure;
  - The expected income, costs and resulting contribution;
  - The debt related to the activity and the associated interest costs;
  - The payback period (MRP policy);
  - For non-loan type investments, the cost against the current market value;
  - The risks associated with each activity.
10. Where a physical asset is being bought, details of market research, advisers used, ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
11. To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are identified.
12. The Capital strategy, and in particular the capital programme supports the Council's Corporate plan and is closely tied to the Medium Term Financial Strategy and the budget. The Capital Strategy is required to be compiled for a longer timeframe – generally 10 to 20 years although not specified.
13. The Council's future spending plans are continuing to evolve and as such the Capital Strategy and other strategies may need to be re-determined by full Council when the future plans are sufficiently robust – given the impact of the Towns Fund monies and the potential housing schemes. The report does detail

the Council's borrowing commitments until 2069/70 that result from past and current capital programmes.

## **Objectives of the Capital Strategy**

14. The Capital Strategy is one of the council's key documents in providing a medium to long term plan. It needs to be consistent with other key plans such as the following;
  - Corporate Asset Strategy
  - Corporate Plan
  - Capital Programme
  - Treasury Management Strategy
  - Medium Term Financial Plan
  - Revenue Budget
  - Resources Plan
15. The Capital Strategy is therefore the policy framework document that sets out the principles to be used to guide the allocation of capital investment across all of the councils' priorities and informs the decisions on capital spending priorities.
16. In addition, and as part of the strategy, the Chief Financial Officer reports explicitly on the affordability and risk associated with the Capital Strategy.

## **High Level Overview of how Capital Expenditure, Capital Financing and Treasury Management Activity Contribute to the Provision of Services**

17. As detailed in the Council's Medium Term Financial Strategy (MTFS), the Council continues to be in a difficult financial position requiring service reforms in its journey to becoming a lower spending council. The Council seeks to use capital investment in the borough to not only achieve key corporate objectives but also to generate additional income in order to continue to provide services to its residents. The expenditure plans for the next three years are detailed below along with the expected outcomes.

## **Capital Expenditure 2023/24**

18. Capital Investment is defined as 'Expenditure on the acquisition, creation, or enhancement of 'non-current assets' i.e. items of land, property and plant which have a useful life of more than 1 year'. Expenditure outside of this definition will therefore be revenue expenditure.

19. The Council's Capital programme amounts to some £30.716m (£25.369m net of grants and contributions) in 2023/24. The major areas of expenditure include:-

**(I) Cornwallis Street Development (£9m for 2023/24)**

The redevelopment of Cornwallis street car park for a hotel. This is expected to help regenerate the town centre, provide much needed overnight accommodation, as well as securing new jobs.

**(II) Housing Acquisition Programme (£11,866,000 of which £5.953m is expected to be spent in 2023/24)**

A programme to potentially acquire up to 50 housing units of various bedroom sizes to use as Temporary Accommodation to reduce the cost to the council of using privately owned accommodation.

**(III) Mayfield E – Affordable Housing (£8m of which £3.5m is expected to be spent in 2023/24)**

Development of 38 affordable housing units.

**(IV) Bexhill Road South – Affordable Housing and Car Park (£3.575m of which £2.5 is expected to be spent in 2023/24)**

Affordable housing development of 16 plus units and car park refurbishment. The council has set a target to provide 500 Affordable Rent Homes over 5 years through a variety of projects, including direct delivery.

**(V) Energy Generation – Unallocated (£4.3m of which £2.3m is expected to be spent in 2023/24)**

An additional £4.3m has been allocated for energy generation projects but remains unallocated.

**(VI) Disabled Facility Grants (£2.056m (Est) – all grant funding)**

Property related grants for adapting homes. In 2022/23 the Council will receive funding approaching £2.1m. The figure for 2023/24 is not yet known – but is not expected to be less. Unspent grant from previous years can be carried forward to use for future spend.

**(VII) Lower Bexhill Road – Housing Development (£6.9m of which £2.m is expected to be spent in 2023/24)**

The Council has received funding of some £6.9m to progress this site (grant claimed in arrears).

**(VIII) Cliff Railway (£1m for 2023/24)**

East Hill Cliff Railway essential Health & Safety improvements and track maintenance.

**(IX) Annual programme of roof refurbishment (£1.7m of which £0.7m is expected to be spent in 2023/24)**

An annual programme of roof refurbishment is required for our commercial and industrial buildings to ensure they remain watertight for their tenants and the council is able to maintain their rental income over the coming years.

**(X) Grounds Maintenance Equipment (£626k for 2023/24)**

Equipment is required for the new in-house grounds maintenance team to be able to carry out their role.

**(XI) Energy – Solar Panels (£1.638m of which £0.5m is expected to be spent in 2023/24)**

The installation of solar panels on non-domestic rooftops within the borough – providing cheaper energy for businesses. An additional £4.3m has been allocated for energy generation projects in future years but remains unallocated.

**(XII) Priory Meadow Contribution to capital works (£288,000 for 2023/24)**

The Council owns 10% of the Priory Meadow shopping centre. The money represents its share of any capital investment costs for 2022/23. The Council receives 10% of the net income for the centre which provides a significant contribution towards meeting the service costs of the council.

**(XIII) Pelham Crescent / Pelham Arcade – Building/Restoration Works (£204,000 in 2023/24)**

In line with the strategic priority of an attractive town, the council is working with property owners to restore the crescent and roadway. Much of the work is conditional on receipt of external grants and contributions.

**(XIV) Conversion of 12/13 York Buildings (£74k for 2023/24)**

Final costs for the conversion of 6 flats at York Buildings.

**(XV) Groyne Refurbishment (£35k for 2023/24)**

Preserving sea defences and the town is a key priority. The Council funds the groyne refurbishment/ sea defence works and sets aside £35,000 p.a. for this – sometimes packaged together over several years.

## **Capital Expenditure 2024/25**

20. The 2024/25 Capital programme amounts to some £14.524m (£11.281m net of grants and contributions).
21. The main areas of expenditure are Housing Acquisition Programme (£5.933m), Mayfield E Housing (£3.5m), Disabled Facility Grants (£2.056m fully grant funded), Energy Generation (£2m unallocated, £500,000 for Solar Panels), Annual programme of roof refurbishment (£500,000) and Groyne refurbishment (£35,000).

## **Capital Expenditure 2025/26**

22. The Council's current capital expenditure plans for 2025/26 amount to some £2.591m (£535,000 net of grants and contributions).

23. The main areas of expenditure are currently Disabled Facility Grants (£2.056m fully grant funded), Annual programme of roof refurbishment (£500,000) and Groyne Refurbishment (£35,000).

### **Summarised Capital Expenditure and Funding - 2022/23 to 2025/26**

24. The table below shows a summary of the expenditure for the current and next three years, along with the projected borrowing requirements.

	<b>Forecast 2022/23 £'000s</b>	<b>2023/24 £'000s</b>	<b>2024/25 £'000s</b>	<b>2025/26 £'000s</b>
<b>Gross Capital Expenditure</b>	17,593	30,716	14,524	2,591
<b>Net Capital Expenditure</b>	7,906	25,369	11,281	535
<b>Financing from own resources / Grants</b>	9,687	5,347	3,243	2,056
<b>Borrowing Requirement</b>	7,906	25,369	11,281	535

### **Financing the Capital Programme**

25. The Council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.
26. The main sources of finance for capital projects are as follows:
- Capital receipts (from asset sales)
  - Capital grants (e.g. Disabled Facilities Grant)
  - External contributions (e.g. Section 106 developers’ contributions)
  - Earmarked Reserves
  - Revenue contributions
  - Borrowing including internal (Capital Financing Requirement).
27. Borrowing (or Capital Financing Requirement) makes up the most significant element. While the Council has sufficient cash and investment balances in the near term it is able to internally borrow but, in the future, will need to borrow externally in addition to the estimated £65.4m borrowing which will be outstanding at 31 March 2023.
28. The Capital Financing Requirement is reduced over the life of individual assets by an annual contribution from revenue (Minimum Revenue Provision). Further information including borrowing forecasts, the provision for the repayment of debt, and borrowing limits are set out in the Treasury Management Strategy. The table below shows the projected indebtedness of the Council based on the current Capital programme and expected levels of capital receipts, grants and contributions.

**Table: Capital Financing Requirement (CFR) less Minimum Revenue Provision (MRP)**

CFR	2021/22 (unaudited) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s	2025/26 (Estimate) £'000s
CFR-Opening	72,683	71,970	78,169	101,589	110,303
Less MRP	(1,668)	(1,707)	(1,950)	(2,567)	(3,127)
Plus New Borrowing	955	7,906	25,369	11,281	535
<b>CFR Closing</b>	<b>71,970</b>	<b>78,169</b>	<b>101,589</b>	<b>110,303</b>	<b>107,711</b>

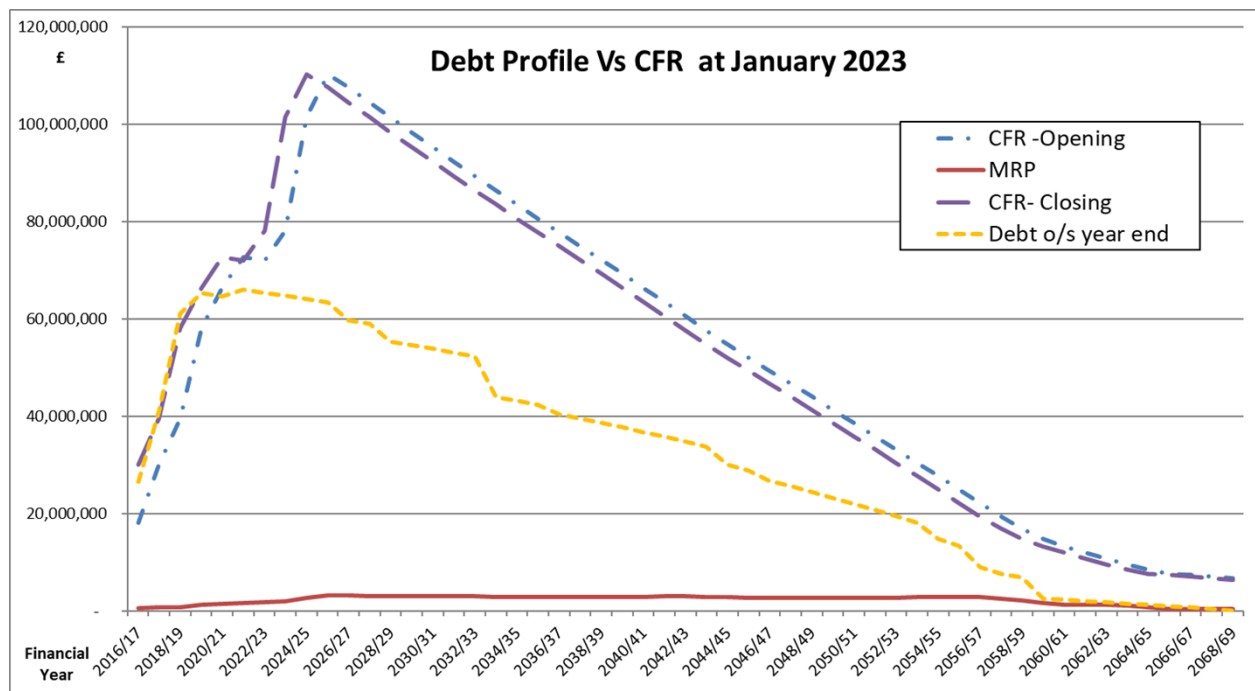
29. The table above highlights that by the end of 2024/25 the level of debt will have increased to some £110.3m (subject to viability and the approval of schemes within the Capital programme).

### Revenue Consequences of the Capital Programme on the General Fund

30. Borrowing has long term revenue consequences. The overall indebtedness of the Council is reduced by the MRP each year. The overall level of debt needs to be viewed against the overall Long-Term Assets of the authority which stood at £185.420m at 31 March 2022 (unaudited) (£182.088m as at 31 March 2021).

### Debt Profile and CFR

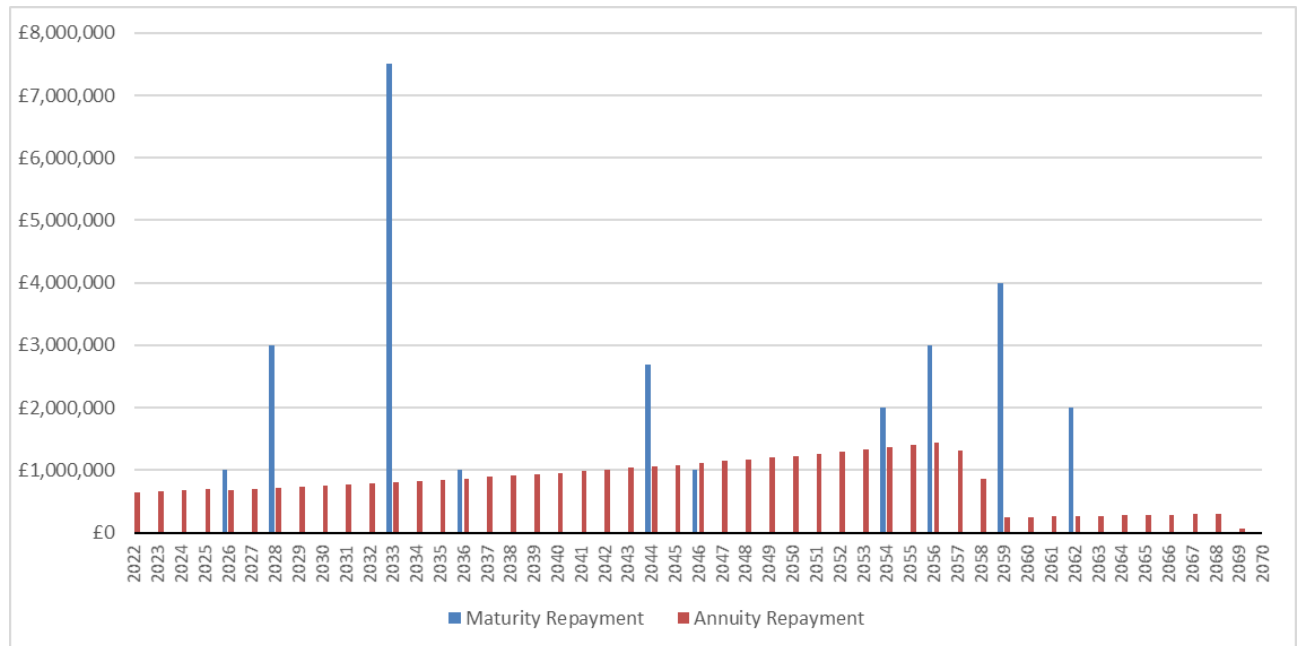
31. The graph below shows how the CFR (blue and purple lines) reduce over time as MRP payments are made. The yellow line shows the level of external debts reducing as principal repayments are made (see debt maturity graph below).



32. The graph above is based on the current known capital programme up to 2025/26. If further capital expenditure is finance by borrowing, which is highly likely, then this will push the trajectory of the graph out into further years and increase future MRP payment.

### Debt Maturity

33. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



34. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

### Financial Risk Management

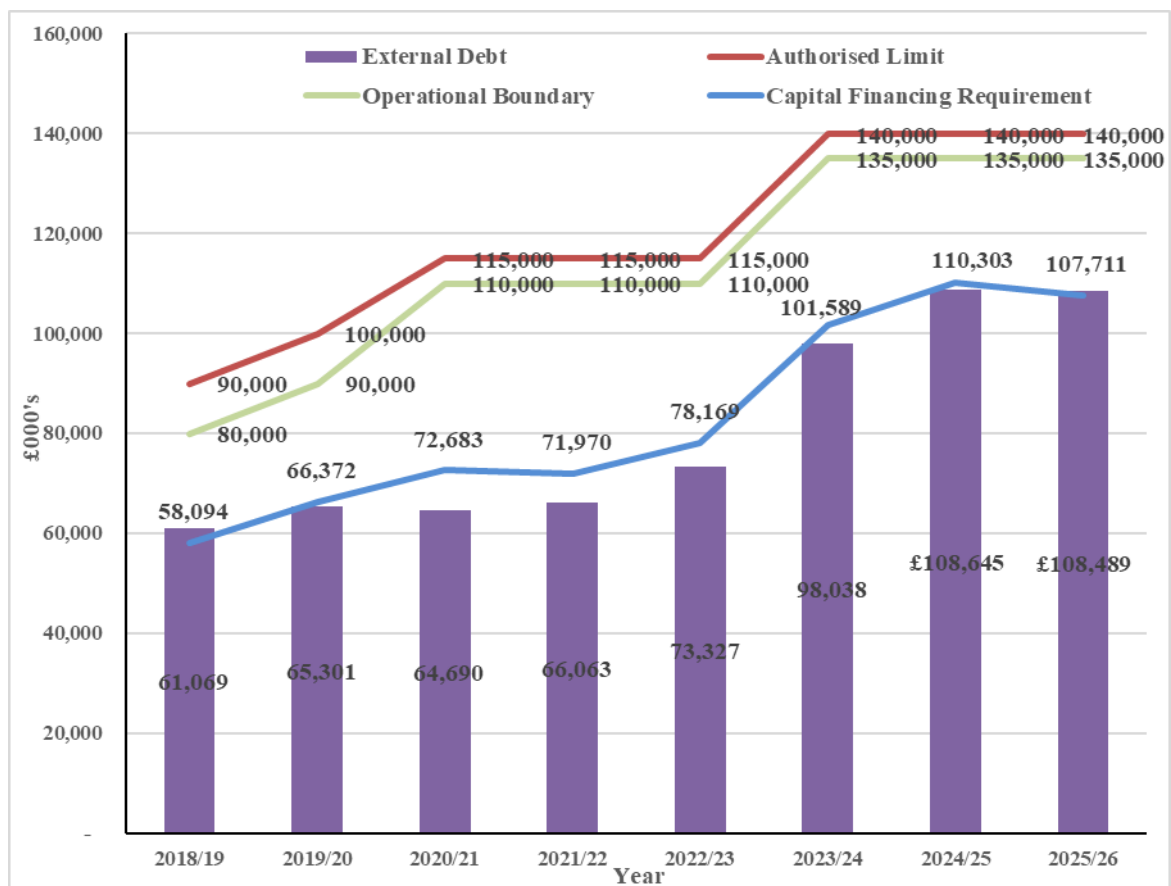
35. The treasury management strategy outlines in some detail the economic environment and the risks that the Council faces in managing its investments and borrowing activities.
36. A significant proportion of the Council's capital programme is likely to be financed by borrowing and this exposes the Council to the risk of changing interest rates and the ability to afford debt repayments.
37. Where borrowing money to finance economic development or regeneration schemes the Council is increasingly dependent upon the income streams to finance the debt repayments. No matter how good the business cases, and how much of the debt is at fixed rates, there is a limit to the exposure that is acceptable without putting the Council at complete risk of being unable to provide key services in the event of a significant recession.
38. To arrive at an overall borrowing level (Authorised and Operational borrowing limits), the Council needs to take a considered view of its other potential



liabilities, future borrowing requirements, guarantees and loans given, bad debts, claims against the Council, future funding, security and diversity of the existing income streams, and unforeseen events e.g. a pandemic.

39. Based on the existing Capital programme, by 2024/25 interest on debt will amount to some £3.681m p.a. with capital repayments (MRP) of £2.567m; offset by income and interest. This represents some 37% of the net revenue stream (amount met from government grants and local taxpayers). Interest on debt is estimated at £2.811m for 2023/24.
40. The full Council determine the total limits on borrowing.
41. The graph below demonstrates the relationship between the various boundaries and limits and the actual borrowing undertaken to date or planned. The gap between the external debt and CFR also helps to illustrate the level of internal borrowing and potential interest rate exposure. The gap between the CFR and Operational Boundary/Authorised Limit highlights the potential scope/flexibility to borrow further, if the cashflow and treasury management position dictates.

**Table: External Debt, Authorised Limits and CFR Projections**



42. In terms of cash backed investments, the Investment Policy provides strict guidance on the counterparties the Council is prepared to invest with and for what periods. The Council invested £2m in a property fund (CCLA) in April 2017

and a further £3m tranche of monies in a diversified investment fund in 2020/21.

43. In terms of asset backed investments and projects e.g. involving commercial property and housing, the business cases look to identify the alternative options and uses of the premises should they become vacant. The Council increased the minimum level of reserves held in recognition of the fact that there will inevitably be void periods, and expenditure will be incurred in updating properties from time to time in order to re-let them. Where the Housing Company is concerned it will need to retain sufficient working balances to re-let and refurbish properties. It is important that void periods are minimised and that properties acquired are not inherently defective, and their needs to be regular oversight.
44. Some projects such as the solar panel installations have some asset backed values, but the ability to meet the debt repayments from energy savings and sale of the surplus energy will remain a risk unless long term forward sale agreements are made. However, such long-term agreements come at the cost of not necessarily obtaining the maximum income. A balance of risk and reward needs to be achieved.

### Loans and Guarantees

45. The Council is required to maintain a schedule of loans and guarantees to other organisations.

**Table: Loans to Other Organisations**

3rd Party Organisations	Rate/Return (%)	Start Date	End Date	Principal Outstanding as at 31/03/2023 £	Type
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Maturity
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£95,262	Annuity
The Source	2.43%	17/12/2015	17/12/2025	£8,144	Annuity
			<b>Sub-Total</b>	<b>£1,891,641</b>	
<b>Hastings Housing Company</b>					
Hastings Housing Company - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Maturity
Hastings Housing Company - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Maturity
Hastings Housing Company - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Maturity
			<b>Sub-Total</b>	<b>£5,489,398</b>	
			<b>Total</b>	<b>£7,381,039</b>	

46. The above table shows a series of loan to the Hastings Housing Company in respect of property purchases. As at 31 December 2022 the Capital loans amount to £5,489,398. The company has access to a revenue loan facility from

the Council; the company fully repaid the revenue loan but has outstanding commitments regarding the capital advances.

47. The Housing Service provides loans and guarantees to individuals for rent in advance and rental deposits and the Council also provides a limited loan facility to staff for car loans, season tickets, and bicycle loans.
48. The Council has other liabilities that need to be considered when assessing the overall financial position of the Council e.g. potential legal claims, pension liabilities.

## **Reserves**

49. The Council maintains reserves for specific purposes (earmarked reserves) and also a general reserve for unavoidable future liabilities. The minimum recommended level of reserves to be maintained has been set at £6m. The adequacy of the reserve levels are reviewed on a regular basis, and particularly when determining the budget.
50. The Council's General and Earmarked reserves are set to fall further over the forthcoming 12 months. The balance at 1 April 2022 was £30,604m (unaudited). This figure however includes a large amount of ringfenced reserves that can only be used for specific purposes, for example Disabled Facilities Grant moneys. Once these balances are removed the level of freely usable reserves falls to £12.035m. At the 31 March 2023 the estimated balance will be £9.705m with the balance at the end of 2023/24 forecast to reduce further unless sufficient budget savings are made.
51. The reduction in balances will result in less interest being earned on investments, greater short-term borrowing to match cash flow requirements, along with the need to match future renewal and repair commitments to available resources. If general reserves are used to a significant level to finance emergency or non-avoidable expenditure, then future budget cuts (potentially in-year) will be required to restore reserves to minimum levels.

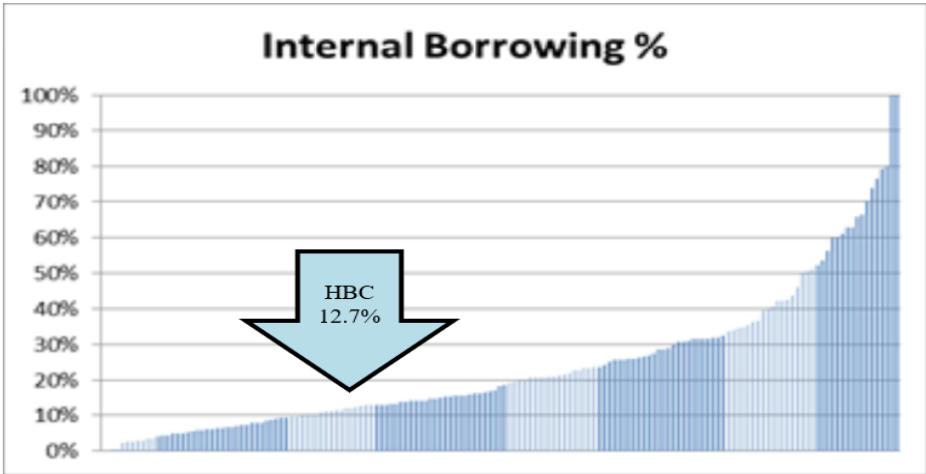
## **Risk Appetite & Prudential Indicators**

### **Internal Borrowing**

52. When undertaking Capital projects or purchasing new assets, the Council has a number of options as to when and how to finance these. If there are no grants or revenue resources and no capital receipts the Council will finance by borrowing. If it delays the borrowing, then it will be using its own monies (Internal borrowing - generally from reserves) to temporarily fund the assets.

53. If an authority has a large internal borrowing position, this will mean that reserves and balances have temporarily been used to support borrowing positions and therefore the reserves will not be backed by cash in the bank. This position continues to work for many, but as reserves and balances are utilised in the years ahead and balances fall, this will reduce any ability to internally borrow and may bring forward the need to borrow externally (potentially at a time of high interest rates, or when there is limited ability to borrow externally).

**Table showing levels of Internal borrowing in Councils (Link Asset Service’s Client Base)**



54. The Council’s Treasury advisers undertook a review of client’s balance sheets and the average level of internal borrowing was, from the above graph, just under 20%. The level will vary depending upon when an authority finances expenditure and when debt is refinanced.

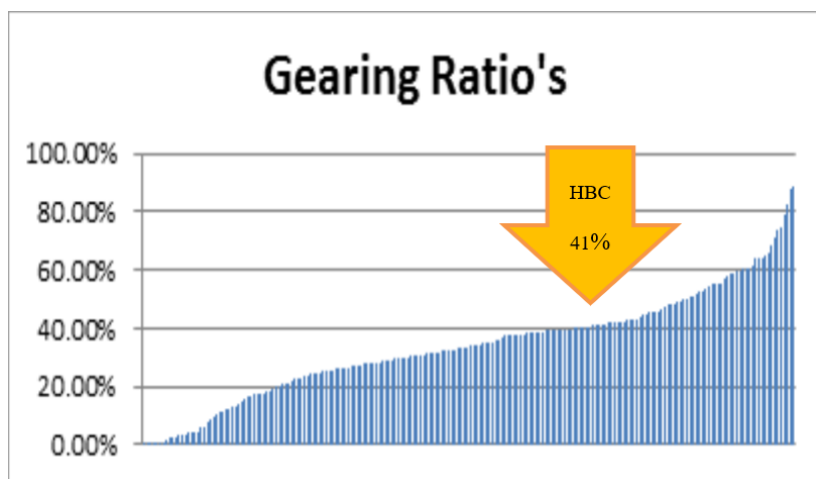
55. For Hastings Borough Council it has previously sought to achieve near full financing of the Capital programme over recent years in order to take advantage of the historically low borrowing rates and avoid the risk of having to lock into high interest rates when it has no option but to borrow. For the last year a higher level of internal borrowing was adopted. Currently, with interest rates having risen considerably from historic lows, and looking likely to increase further the Council will need to carefully consider when the best time to borrow is. Guidance from our external treasury managers will be sought before any borrowing decision are made.

56. For 2022/23 the level of internal borrowing by year end is expected to be £4.842m out of a total borrowing requirement of some £78.169m (6.2%).

## Gearing

57. Gearing has predominantly been a debt metric used by the private sector more than the public sector, but recent moves towards commercialism opportunities and investments means that borrowing is a much greater risk and gearing is an appropriate prudential indicator.
58. Based on Link Groups' analysis of balance sheet positions for 2017/18, gearing ratios for over 200 authorities averaged out at around 35% when comparing Capital Financing Requirements (CFR) to total Long-term Assets reported.
59. Due to the nature of assets held, services provided and historical debt decisions, positions will vary across different types of authority, and for many authorities the ratios will have increased since 2017/18. However, it still provides a useful comparator.

**Table: Gearing ratios in Councils (Link Group's Client Base)**



60. Gearing provides an early indication of where debt levels are rising, relative to long-term assets held.
61. Despite some of the adverse publicity around local authority finances, it can be argued that gearing of 35%, on average, is not a bad position for the sector to be in, as in simple terms 65% of the costs of long-term assets have been paid for, with debt outstanding on the remaining 35%.
62. In the private sector gearing is generally calculated on net assets and a generally accepted norm is a ratio between 25% and 50%. The risk exposures are generally deemed to be greater where a company has much of its borrowing at variable rates – which is the opposite of the Council's position (all is now at fixed rates).

**Table showing Future Projections of Gearing Ratios – based on Capital programme**

Gearing Calculation	Actual 2020-21 £'000	Actual 2021-22 £'000	Estimate 2022-23 £'000	Estimate 2023-24 £'000	Estimate 2024-25 £'000	Estimate 2025-26 £'000	Operational Boundary £'000
Capital Expenditure			17,593	30,716	14,524	2,591	
New Borrowing			7,906	25,369	11,281	535	
Net Assets	88,861	108,409	126,002	156,718	171,242	173,833	156,718
Long Term Assets	182,088	185,420	203,013	233,729	248,253	250,844	305,084
Capital Financing Requirement	72,683	71,970	78,169	101,589	110,303	107,711	135,000
<b>RATIOS:</b>							
<b>Debt: Net Assets</b>	<b>82%</b>	<b>66%</b>	<b>62%</b>	<b>65%</b>	<b>64%</b>	<b>62%</b>	<b>86%</b>
<b>Debt: Long Term Assets</b>	<b>40%</b>	<b>39%</b>	<b>39%</b>	<b>43%</b>	<b>44%</b>	<b>43%</b>	<b>44%</b>

Note: Outturn figures for 2020/21 and 2021/22 are unaudited

63. The Council's position will move from 39% to 43% but remains close to the average (35%), especially considering this average is likely to have increased since 2017/18. If the Council borrowed at the limits to its current Operational Boundary (£135m), then debt to long term assets ratio could rise to 44%.
64. All decisions around debt comes back to affordability, prudence and sustainability principles which are at the heart of the Prudential Code and have been since its inception in 2004.
65. The Chartered Institute of Public Finance and Accountancy have issued a clear statement on the levels of debt that Councils in general are accumulating following the purchase of commercial assets in particular. Such borrowing must be proportionate to the size of the authority. Further detailed guidance was released in autumn 2019, and further changes to the Treasury Management codes have been undertaken to produce revised 2021 editions.
66. The government revised their lending criteria for the Public Works Loan Board (PWLb) on the 25 November 2020 which effectively prevents Councils from borrowing for commercial property investments where the primary purpose is to make a return (yield). The Council has no intention of purchasing commercial property primarily for yield and were it to consider doing so it would need to seek full Council approval to do so.

### Ratio of Financing Costs to Net Revenue Stream

67. Financing costs are the element of the budget which an authority is committed to, even before they have run a single service or incurred any other costs as they reflect the current costs of previous/planned capital financing decisions.
68. In Hasting's case the ratio of financing costs in 2023/24 represents, 27%, of the Net Revenue Stream which leaves 73% of the revenue stream for all the other

services to be provided. The higher the percentage, therefore, the less is left for running services.

69. If the Net Revenue Stream is reducing, as funding sources are reduced over time, then even though financing costs may be fixed through fixed-term loans and interest rate certainty, the ratio will potentially continue to climb leaving less available for front-line services and placing further pressures on budget positions (increases to 40% by 2025/26).
70. However, the income the Council receives from rents and fees and charges decreases the net expenditure of the Council. The calculation of debt charges to “the amount to be met from Grant and Collection Fund” as a proxy for the “Net Revenue Stream” therefore has to be treated with considerable caution.
71. This leads back then to local decision making and the need/objectives behind capital investment. Business cases must identify ongoing revenue implications and hence affordability. The Treasury Management Strategy includes a prudential indicator that identifies the ratio of financing costs to Net Revenue Stream. This is a further way of ensuring that affordability, prudence and sustainability considerations are kept to the fore in treasury reporting.

## **Corporate Governance Arrangements – Project Approval Process**

72. The Council has an ambitious Corporate Plan, and it remains important that the capital programme remains realistic in terms of resources and timescales to achieve the desired outcomes.
73. The Council has a number of project management procedures and tools in place for managing individual projects. Key is the project initiation stage, the approval process and thereafter effective performance monitoring and reporting. A business case is required and a detailed report to Cabinet/Council. Any new Capital proposal requires full Council approval.
74. Major projects are likely to have impacts on other key services such as Legal, Finance and Estates teams depending upon the nature of the projects. External support is commissioned where there is insufficient capacity, knowledge, or expertise within the Council. Cabinet and the Overview and Scrutiny Committee receive quarterly updates on financial performance (including the capital programme).
75. Property developments and purchases are considered by Cabinet, and are subject to full Council approval, with delegated authority normally provided thereafter to the Chief Finance Officer in consultation with the leader to negotiate the final terms. The Council’s legal team, surveyors and Corporate Property Officer are all closely involved. The Council will normally employ the services of an agent to advise on the price and conduct negotiations. Necessary due diligence is conducted and external specialist surveyors and advisors employed as necessary.

## **Repair and Renewal Programme**

76. The Council has a comprehensive repair and renewal programme. There are elements of a reactive and recurring nature and a separate costed schedule for planned maintenance items (see budget). The Council contributes an annual sum of £500,000 to a reserve which funds the programme. In 2021/22 there was expenditure of £658,026, for 2022/23 the budgeted expenditure amounts to £547,700 and in 2023/24 it is estimated at £762,300. As a result of expenditure exceeding income the balance on the reserve is expected to fall from £1.471m at 31 March 2022 to some £923,300 by the end of March 2023.

## **Information Technology Reserve**

77. Like most Councils and businesses, the Council is totally reliant on effective IT in order to deliver services. The Council is continuously improving systems and looks to streamline service provision wherever possible. Business continuity planning remains vital against the continuing systems attacks that are experienced, and it remains critical that systems and virus protection software remain updated.
78. Like the Repair and Renewal programme the costs of acquiring and the updating of systems does not fall uniformly in any one year and hence an annual contribution is made into an IT Reserve.
79. The Council contributes £189,000 p.a. into the fund. The expenditure in 2021/22 amount to £230,300 and is estimated at £214,000 in 2022/23 and £214,000 in 2023/24 (see budget).

## **Knowledge, Skills and Training**

80. In order to deliver the Capital Programme it is essential that the Council has access to the right knowledge and skills. The Council employs fully qualified and experienced staff such as solicitors, estate managers, surveyors and accountants.
81. The Council maintains a training budget, recognising that it remains critical to the organisation to have a well-trained and motivated workforce. The Council provides on-line training courses, internal and external training, to enable staff to complete their Continuing Professional Development (CPD) requirements.
82. The Council seeks to ensure members have access to training opportunities in order for them to adequately undertake their governance role. Workshops and training events are held on a regular basis.



83. Where specialist knowledge is required the Council will obtain expert advice, particularly around property specialisms, taxation, and legal advice.

## **Chief Finance Officer Report**

84. Within the Prudential Code it is the responsibility of the Chief Finance Officer to explicitly report on the delivery, affordability and associated risks to the strategy.

## **Delivery**

85. The Council, which has significant deprivation levels, understandably has an ambitious Corporate Plan. This is set against a background of severe funding reductions, and the need to provide good services to the many visitors, residents and businesses.
86. The delivery of the individual schemes in the Capital Programme are directly linked to the original approval and business case for each individual project which has an assigned project manager responsible for delivery.
87. As part of the quarterly financial update report the performance of individual projects are presented to Overview and Scrutiny along with all other financial performance.

## **Affordability**

88. Affordability is critical in applying the capital strategy and approving projects for inclusion in the capital plan. This is mostly demonstrated by a specific report on the project being presented to council for approval supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme.
89. The Capital programme is heavily reliant on borrowing and will continue to be so especially given that the Council is looking at some major economic development and regeneration schemes.
90. Where borrowing is to be used, the affordability is key, and that affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing. This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The “rules” around the governance of this borrowing is outlined in the prudential code.
91. At no stage should the asset value be lower than the value of outstanding debt, other than for a short period, unless there is a clear plan to mitigate that shortfall or to sell that asset.

92. The Council's existing borrowing levels are not considered excessive. However, a downturn in the economy with resultant loss of income would require the Council to make greater service cuts to balance the budget. The Council must look to achieve a sustainable and balanced budget in future years, and reduce its reliance on drawing down from its Reserves.

## Risks

93. The risks associated with individual projects are identified and mitigated as part of the initial business case development stage and reported through both the financial reporting process to Overview and Scrutiny as well as being included as part of the Corporate risk register.
94. There are clear links from the capital plan to both the treasury management strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by members at Audit Committee and Council.
95. For any new borrowing, and this is a greater risk as the value of borrowing increases, this increases the councils overall liabilities that will need to be repaid in the future. In addition this increases the Council's level of fixed interest and repayment costs that it will incur each year. This is a clear risk that all members need to be aware of.
96. However, this risk for all assets is mitigated by a robust business case and a full MRP that will repay the borrowing costs over a (prudent) asset life. Any variation in expected income is an issue, however given the wide range of operational assets and different income streams this is not considered a significant risk.
97. This Capital Strategy and the Treasury Management Strategy is likely to be reviewed and updated during the year, and put before full Council, as and when the Council's spending plans are developed further.

## Conclusion

98. The current system of borrowing is still a self-regulatory system which means that responsibility for borrowing decisions, and the level of borrowing incurred by a Council are determined at a local level.

***“..the responsibility for decision making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, remains with full Council”. (Prudential Code December 2017).***

99. The Chief Finance Officers' personal view is that borrowing decisions result in a long term commitment to fund that borrowing, and that all decisions are made as a whole programme perspective and not on an individual basis.
100. However, for transparency and ease of comparison between projects, indicative full figures for borrowing will always be included in all business cases brought forward for decision making regardless of whether or not borrowing will actually be required.

## **Consultation and Communication**

101. The detailed Capital Programme is included within the Council's budget which is on the Budget Cabinet agenda. The programme supports the Council's Corporate Plan which is likewise on the same Budget Cabinet agenda.
102. The draft budget for 2023/24 is subject to public consultation from January 2023.

## **Equality Impact Assessment**

103. Equality Impact assessments are considered as part of the business case when considering individual capital proposals.

## Appendix 1

### Affordability Prudential indicator - Ratio of Financing Costs to Net Revenue Stream

<b>Prudential Indicator: Financing Cost to Net Revenue Stream</b>	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
<b>Financing Costs</b>	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,847	2,811	3,681	3,665
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	(540)	(808)	(824)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	1,707	1,950	2,567	3,127
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
<b>Total</b>	<b>2,953</b>	<b>2,746</b>	<b>3,937</b>	<b>5,630</b>	<b>6,174</b>
<b>Net Revenue Stream</b>					
Amount to be met from government grants and local taxpayers	14,253	14,530	14,821	15,117	15,420
<b>Ratio</b>					
<b>Financing Cost to Net Revenue Stream</b>	<b>21%</b>	<b>19%</b>	<b>27%</b>	<b>37%</b>	<b>40%</b>

Note: Outturn figures for 2021/22 are unaudited