

## Capital Strategy Report 2021/22

### Maldon District Council

#### Introduction

This capital strategy report for 2021/22 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 technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Council 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

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.

**Governance:** Service managers bid annually in September to include projects in the Council's capital programme. Bids are collated by the finance team who calculate the financing cost (which can be nil if the project is fully externally financed). The Corporate Leadership Team (CLT) and recently formed finance working group appraise all bids based on a comparison of service priorities against financing costs and makes recommendations to Strategy and Resources committee. The final capital programme is then presented to Council in February each year.

Full details of the Council's proposed capital programme for 2021 / 22, including the project appraisals undertaken, will be presented to Council for approval 23 February 2021.

Projects that generate savings or income may be progressed in year subject to a valid Business Case and Committee Approval.

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 1: Capital financing in £thousands

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
External sources (Government Grant)	337	539	420	420	420
Own resources (Capital Receipts)	803	548	293	457	339
<b>TOTAL</b>	<b>1,140</b>	<b>1,087</b>	<b>713</b>	<b>877</b>	<b>759</b>

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 2: Replacement of debt finance in £thousands

	2019/20 actual	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget
Own resources (Capital Receipts)	226	226	226	226	226

- The Council's full minimum revenue provision statement is shown at Appendix 4.

Table 3: Estimates of Capital Financing Requirement in £thousands

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
General Fund services	71	71	59	3	0
<b>TOTAL CFR</b>	<b>71</b>	<b>71</b>	<b>59</b>	<b>3</b>	<b>0</b>

**Asset management:** To ensure that capital assets continue to be of long-term use, the Council is developing the 2021 / 22 asset management strategy.

**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. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021 / 22.

### Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent.

Due to decisions taken in the past, the Council currently has £0m borrowing and £27m treasury investments at an average rate of 0.2%.

**Borrowing strategy:** The Council is currently debt free, and there is currently no intention to borrow to fund projects included in the Capital Programme. However, if any substantial commercial investment projects are considered in the future then the Council would need to borrow any large amounts of funding that may be required.

**Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

*Table 4: Prudential Indicators: Authorised limit and operational boundary for external debt*

	2019 / 20 limit £000	2020 / 21 limit £000	2021 / 22 limit £000	2022 / 23 limit £000	2023 / 24 limit £000
Authorised limit - borrowing	16,500	16,500	16,500	16,500	16,500
Operational boundary - borrowing	7,000	7,000	7,000	7,000	7,000

**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.

The Council’s policy on treasury investments is to maximise investment return where satisfactory results of due diligence are found and risk mitigated, although security and liquidity are still considerations. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

*Table 5: Treasury management investments in £thousands*

	31.3.2020 actual	31.3.2021 forecast	31.3.2022 budget	31.3.2023 budget	31.3.2024 budget
Near-term investments	12,887	5,000	5,000	5,000	5,000
Longer-term investments	4,671	5,000	5,000	5,000	5,000
<b>TOTAL</b>	<b>17,558</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Overview & Scrutiny Committee. The audit committee is responsible for scrutinising treasury management decisions.

### Investments for Service Purposes

The Council does not make investments to assist local public services.

### Commercial Activities

The Council currently do not have any significant commercial activities for investment returns, however with the continuing pressures on external funding, and the implementation of the Future Model, consideration is being given to potential projects, which, when evaluated, will follow the governance for approval outlined on page 1 of this strategy.

### Liabilities

The Council is committed to making future payments to cover its pension fund deficit (valued at £24.9m). It has also set aside £1.5 m to cover risks of Business Rates appeals, Planning appeals and Insurance claims.

**Governance:** Decisions on incurring new discretionary liabilities are taken by managers in consultation with the Director of Resources. The risk of liabilities crystallising and requiring payment is monitored by departments in conjunction with the finance team and are reported to committee/management as appropriate.

### Revenue Budget Implications

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.

*Prudential Indicator: Proportion of financing costs to net revenue stream*

	2018/19 actual	2019 / 20 forecast	2020 / 21 budget	2021 / 22 budget	2022 / 23 budget
Financing costs (£m)	-	-	-	-	-
Proportion of net revenue stream	%	%	%	%	%

- The borrowing referred to in this strategy relates to proposals that are still in planning stages, therefore these haven't been included in the table above due to wider implications of potential new revenue streams that would impact on the revenue stream. This table will be updated once there is more detail on the proposed projects.

**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 the duration of any borrowing arrangements. The Director of Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable because for the main General Fund programme, there are existing reserves to fund the expenditure. Projects will only be progressed where they prove to generate savings or an income stream to the Council, and the Business Case will assess the risks and mitigations of the projects.

**Knowledge and Skills**

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, when recruited the Director of Resources will need to be a qualified accountant with relevant experience. The Council pays for junior staff to study towards relevant professional accounting qualifications.

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

The Council's Treasury Management policy on the use of external advisers is available on request.