Capital Strategy

2023-24

Background

Local authorities are required by regulation to have regard for CIPFA's Prudential Code. The updated 2017 version requires that local authorities have in place a capital strategy. This is in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and overall organisational strategy and resources. The aim is to ensure decisions are being made with sufficient regard to the long run financing implications and potential risks to the authority.

Purpose

The Capital Strategy is a policy framework that sets out the principles to be used to guide the allocation of capital investment across all of the Council's services and informs decisions on capital spending priorities within the Council's 5-year Capital Plan.

The Capital Strategy framework incorporates the following:

- Medium Term Financial Strategy (MTFS)
- Capital Programme
- Project Initiation Documents (PID)
- Strategic Property Acquisitions
- Local Plan
- Strategic Plan

It is intended to give an overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed.

Timeframe

The Capital Strategy includes

- Shorter term requirements
- Medium term developments
- Long term strategies & Goals

Capital Strategy	Years 1 – 5	Years 6 - 10	Years 11 - 15	Years 16 - 20
	23/24 - 27/28	28/29 - 32/33	33/34 - 37/38	38/39 - 42/43
Short/Medium Term:				
Budget & MTFS				
Capital Program				
PIDs				
Medium/Long Term:				
Strategic Acquisitions				
Long Term:				
Local Plan				
Strategic Plan				

Note: Local plan is a 20 year plan from 2011 to 2031

Strategic Plan is from 2020 to 2023

Strategic Plan - Priorities:

TORRIDGE DISTRICT COUNCIL

2020 Vision

Strategic Plan 2020-2023

"Torridge a great place to live, work and visit"

What is our 2020 Vision?

Our Themes:	Our Priorities:
Local Economy	Promote aspiration and growth to create a vibrant culture & thriving economy with quality jobs. Develop town centres and the rural offering; recognised as great places to live, visit and invest into. Create access to good quality jobs and employment. Support businesses and the local economy
Communities, Health and Housing	Increase the availability of quality homes that meet local needs. Reduce health inequalities while promoting active & healthy lifestyles. Maintain low levels of crime so people feel safe and secure in their communities.
Our Environment our Future	Reduce the eco-footprint of the district to meet the Council's carbon neutral target of 2030. Deliver clean, well maintained and managed streets, parks and open spaces. Provide high-quality planning and development services. Manage coastal and flood defences to meet the challenges of the changing climate. Reduce waste and increase recycling.
Our Council	Provide clear, effective communication and be easily accessible. Deliver quality services to business and residents; understand what matters to our customers. Become a more agile and commercial council; securing our financial future while supporting "local" whenever possible. Be a great place to work and build a career.

1. Capital Expenditure

1.1 Strategic factors

The capital programme is detailed at 1.4, the capital strategy which underpins it is driven by a number of factors:

The Torridge District Council Strategic Plan. The overall aim is to focus our resources to shape services to withstand future technological, economic and social changes, championing the district, our people, environment, business and heritage. Projects within the capital programme which reflect this include provisions for significant investment in town centres and employment land, flood alleviation, housing grants and affordable housing.

The Local Plan, which guides development in the district, setting out policies, proposals and actions to meet the environmental, social and economic challenges facing the area. This includes supporting infrastructure for proposed developments. The capital programme shows contributions to increase employment infrastructure with several commercial developments, regeneration projects including a new Northam Burrows Visitor Centre, various environmental and property/infrastructure projects including a new recycling depot, green spaces, sports and leisure facilities.

The council's asset management plan, which sets out the council's approach to the strategic management of its land and building assets. It aims to ensure the council maximises use and efficiency of its property portfolio, making a long term positive contribution to service delivery. The capital programme includes items which invest in council buildings, such as improvements to Riverbank House. The capital programme is supported by any capital receipts arising from the disposal of assets.

The council's Medium Term Financial Strategy – the programme must be affordable within the council's overall budget plans. This means that business cases for projects funded by borrowing must demonstrate that they will cover the revenue costs associated with borrowing over the life of the asset.

CIPFA and Government guidance – the council must have regard to both CIPFA's Prudential Code (capital expenditure and financing) and its Treasury Management Code (the management of borrowing, investments and cash flow). Both of these Codes were recently updated at the end of 2017. In addition the Ministry of Housing, Communities and Local Government (MHCLG) issued updated statutory guidance on investments and minimum revenue provision in February 2018.

1.2 Governance

Responsibility for decision-making and ongoing monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators remains with Full Council. Each year, the budget process reports to Full Council across a range of strategies and information which is relevant to capital expenditure, investment plans and financing implications, to ensure that decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

The capital programme is considered annually by Full Council. Updates are reported to O&S and C&R throughout the year, with any budgetary changes approved by reference to the virement rules in the financial procedures.

The Treasury Management strategy, which sets out policies relating to the management of investments, balancing security, liquidity and yield. This is approved annually by Full Council and includes the approved counterparty list and the council's approach to borrowing. .

The Minimum Revenue Provision Statement sets out the council's method of making prudent provision from revenue in respect of capital expenditure financed by borrowing or credit arrangements. Any changes are required to be approved by Full Council.

The Prudential Indicators aim to demonstrate whether the Council has fulfilled the objectives of an affordable, prudent and sustainable approach to capital expenditure, investment and debt. Any revisions are required to be approved by Full Council.

The Property and Major Projects Working Group

The Property and Major Projects Working Group was established by Community and Resources Committee as a forum for discussing the Council's current and proposed major projects and resolving issues that might arise. In addition, property and commercial tenancy reports are received periodically by the group in it's role as a consultative panel. Elected member representation on the working group is prescribed in the council's constitution.

Project Initiation Document (PID) Process including member review

The PID process including form/documentation, project score, financial score were updated by a PID working group in 2021.

These PID documents are used by members to consider and prioritise capital proposals, ensuring that proper option appraisals are carried out and that they have considered in sufficient detail those matters which are required to be taken into account by the Prudential Code:

- Strategic service objectives
- Stewardship of assets
- Value for money (option appraisals)
- Prudence and sustainability (including external debt implications and impact on revenue budgets)
- Affordability
- Practicality (including staff resource requirements)

Initial proposals are submitted by completion of the Project Initiation Document (PID), which includes a financial appraisal including the capital impact, grants available, proposed funding, and ongoing revenue/expenditure implications. Consideration is also given to the organisational capacity of the council to deliver the projects.

All PIDs require final approval by full council.

1.3 Policies on Capitalisation

The Council's accounts are required to be prepared in accordance with proper accounting practices. For capital, these practices are governed by the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003 No 3146, as amended) supported by International Financial Reporting Standards (IFRS). Local authorities must also have regard to CIPFA's Prudential Code.

The Council's Statement of Accounts includes detailed policies on the treatment of different asset classes. Capital documentation such as the PID ensure that projects meet the requirements for capital expenditure. There are three routes by which expenditure might qualify as capital:

The expenditure results in the acquisition of, or the addition of subsequent costs to non-current assets in accordance with proper practices.

REFCUS expenditure (Revenue Expenditure Funded from Capital Under Statute): These are arrangements which recognise that some expenditure incurred by local authorities has a wider, lasting public benefit than is reflected in the accounting rules for non-current assets, for example grants and loans and expenditure on non-Council assets.

The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

The Council's de minimus for capital is £10,000.

1.4 Capital Expenditure Plans and Financing Strategies

The Council's capital expenditure plans for the remaining years of the Medium Term Financial Strategy and capital programme amounted to £26.9 million, summarised in the table below:

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28		Total
	£'000	£'000	£'000	£'000	£'000	£'000		£'000
Car Parks	505	80	80	80	80	80		905
Environment Centre	-	7,154	-	-	-	-		7,154
DFG	755	500	500	500	500	500		3,255
Housing	511	1,561	-	-	-	-		2,072
Environmental	217	-	-	-	-	-		217
Infrastructure	1,448	510	100	100	100	100		2,358
IT	227	20	80	80	80	80		567
Regeneration	0	-	4,100	-	-	-		4,100
Vehicle and Plant	1,003	889	468	2,425	282	103		5,170
Culture & Sport	350	-	-	-	-	-		350
Strategic Acquisition Reserve	710	-	-	-	-	-		710
	5,726	10,714	5,328	3,185	1,042	863		26,858
Expenditure (to date)	(1,570)							(1,570)
	4,156							25,288

Sources of funding

The programme is funded from a combination of capital receipts, revenue contributions, grants and external contributions (including Section 106 contributions), and borrowing. A summary of the identified sources of financing are explained in further detail below.

Capital Program 22/23 - 27/28	Funding - £'000
Existing Capital Resource	
Capital Invesment Reserve	4,633
Vehicle Repalcement Reserve	2,178
IT Equipment Reserve	205
Economic Regeneration Reserve	2,068
Other Grants	617
Disabled Facilities (Better Care Fund)	1,255
Subtotal	**10,957**
Forecast Capital Funding	
New Homes Bonus (2021/22 - 2025/26)	-
Capital Receipts (RTB Former Council Housing)	375
External Grants	2,500
Sale Receipts	5,385
Disabled Facilities Grant	2,000
Prudential Borrowing (Refuse Depot)	2,762
Prudential Borrowing (Homelessness Provision)	1,000
Additional Contributions from Reserve	4,150
Subtotal - Projected Sources of Capital Funding	**18,172**
Total Projected Capital	**29,129**

The Capital programme and subsequent funding, is regularly updated to reflect inflation. This can result in a funding shortfall / funding gap, if/when this occurs then members are consulted to look for ways to close any shortfall/gap. This may involve not proceeding with certain projects, making projects self financing. Priority is given to the capital required for the longevity of the council, and to meet it's statutory duties.

Section 106 contributions are received from developers in relation to specific needs such as leisure and open space improvements, affordable housing, air quality and drainage improvements.

Grants and external contributions are received from a range of government and agency sources towards expenditure such as Disabled Facilities Grants, flood alleviation and prevention and open space and leisure improvements.

Capital schemes funded by Section 106 contributions, grants or external contributions are required to follow the capital approval process to ensure that the matters which the Prudential Code requires to be taken into account are considered. For example, strategic service objectives, revenue budget implications and the practicalities of delivery.

Torridge Capital Funding. There are two ways in which the council can directly contribute to capital projects. **Capital Receipts** are funds which result from events such as the disposal of assets or the repayment of loans which were made for a capital purpose. The Council also receives Right to Buy receipts, these relate to the housing stock that was transferred to

Tarka Housing (now Westward Housing) in 2008; these Right to Buy receipts will be received for 20 years from the date of the housing transfer, at 100% for the first ten years (2008 to 2017), and at 50% for the last 10 years (2018 to 2027).

Revenue Contribution . The Council contributes to several rolling capital programmes, these include

- Vehicle Programme
- IT Programme
- General Property Programme
- Car Park Programme

Projects are also funded from the existing general capital reserves, for example, contributions to grant schemes as “match” funding (e.g. the new skate park), etc.

Borrowing

Projects which are not funded by one of the sources above are initially funded by borrowing and must first demonstrate a sound business case during the capital approval process. This is because there are revenue budget implications associated with borrowing. Both the principal borrowed and interest costs will have to be repaid and it is essential that the capital programme remains affordable, prudent and sustainable with regard to:

- Capital financing costs, e.g. interest
- Loss of investment income
- Other income and costs e.g. rent, fees & charges, salaries, rates, energy and maintenance arising from the investment
- MRP – this is the statutory requirement to charge the revenue account with the principal cost of capital expenditure which has not been met from grants, contributions or capital receipts. It is explained in the Council’s Minimum Revenue Provision statement.

Business cases must demonstrate a scheme’s ability to cover all the relevant costs above for the whole life of the asset.

See Section 2 below for a projection of the Council’s borrowing requirements.

1.5 Asset Management Planning

The Council's approach to its strategic management of its land and building assets is set out in the Asset Management Plan. This plan is currently being updated. It seeks to make sure the Council and its communities get the best use out of property assets. It also aspires to ensure property assets are used in the most effective and efficient way to support service strategies and policies and our community and strategic public sector partners.

Property represents the Council's largest physical resource in financial terms. It supports and underpins all of our service activities. Strategic Asset Management must therefore be an integral element of high quality service planning aligning the disposition, quality and effectiveness of property assets with ongoing service strategies.

Property assets are expensive, in terms of both their capital value and revenue costs; they need to be carefully managed over their lives to ensure best value through their use, maintenance and generation of income. Any disposal of assets will result in capital receipts, which can then be reinvested in the capital programme. There needs to be realistic assumptions about the achievable capital receipts which council assets can deliver. These values should be constantly updated to inform the capital programme.

1.6 Investment Strategy

The council through the use of working groups, reviews it's approach and options regularly. The aim is to ensure that the council is commercially aware in an evolving and ever changing environment, and adopts a more entrepreneurial approach to investment strategies. Its main areas of consideration are:

- Fees and Charges
- Asset management
- Commercialisation
- Investment and Alternative Delivery Methods (ADMs)

2. Debt, Borrowing and Treasury Management

2.1 Projection of borrowing requirements

The capital programme contains projects which would not be immediately funded by grants, contributions, capital receipts or revenue contributions. The projected borrowing from the capital programme gives an estimate of the council's future borrowing requirements. The Main such project is the provision of a "New Environmental Centre" which has a project budget of approx. £7.2m (£2.8m of which is funded through borrowing), authorisation has been granted to borrow externally for the "New Environmental Centre" (internal borrowing is also an option where the council would fund internally from its other cash balances).

In addition £1m of additional borrowing has also been authorised in order to increase the capital programme to include £1m of capital spend on homelessness/temporary accommodation.

Acceptable sources of loans are the Public Works Loans Board, other local authorities, public bodies and UK banks and building societies.

2.2 Implications of borrowing

2.2.1 Minimum Revenue Provision (MRP)

All capital expenditure has to be financed from capital receipts, grants and contributions (such as S106) or eventually from revenue income. Where local authorities borrow to fund capital expenditure, there is a requirement to ensure that they put aside enough revenue money over time to cover those debts. This is MRP and the broad aim is to ensure that the period over which it is charged is commensurate with the period over which the capital expenditure provides benefits.

The Local Government Act 2003 requires the council to have regard to the Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on MRP. This guidance requires the council to approve an annual MRP statement and recommends a number of options for calculating the required prudent provision, while also not ruling out other methods should they be deemed more appropriate. This is discussed in more depth in the council's Minimum Revenue Provision Statement.

The council has taken into account the recently updated MHCLG Statutory Guidance on Local Government Investments and Minimum Revenue Provision.

2.2.2 Interest payable

Based on the projected borrowing discussed above of £3.8m for the new Environmental Centre & homelessness accommodation, and a maturity structure which is spread to mitigate against interest rate risk, it is calculated that interest payable would be £126k per year.

It should be borne in mind that the business cases for each project would need to demonstrate that they would achieve sufficient return to cover interest costs and any MRP.

2.2.3 Proportionality

In its new investment guidance, MHCLG introduces the concept of proportionality. This is to allow assessment of the contribution of yield-bearing investments to the achievement of a balanced budget.

2.2.4 Prudential Indicators

The Local Government Act 2003 requires the council to have regard to CIPFA's Prudential Code. Its objectives are to ensure, within a clear framework, that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice, with an understanding of the risks involved. Local authorities must look at capital expenditure and investment plans in the light of overall organisational strategy and resources, ensuring decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

To that end, the Prudential Code sets out indicators which must be approved by Full Council and factors which must be taken into account.

In setting its Prudential Indicators, the council sets borrowing limits which are affordable and sustainable. The authorised (absolute) limit and operational (day-to-day) boundary are consistent with the council's capital programme and treasury management strategy.

Estimates of capital expenditure and the capital financing requirement bring together past and future capital commitments for consideration of affordability.

The treasury management prudential indicators are designed to deliver accountability in taking capital financing, borrowing and treasury management decisions. They also highlight possible risks such as interest rate exposure and demonstrate the policies in place to mitigate the risks, for example, limiting the length of investments and the maturity structure of borrowing.

2.3 Treasury Management

Management of the Council's cash balances and borrowing is governed by the Treasury Management strategy. The council's investment priorities relating to this area are security of the principal sums and liquidity, keeping money readily available for expenditure when needed. Yield becomes a consideration after the priorities have been satisfied. Investments are "specified" as defined in the MHCLG 2018 investment guidance; in sterling, placed with the UK government, other local authorities or bodies and investment schemes of high credit quality, determined by the counterparty list, which is reviewed quarterly and updated as necessary.

The council's Treasury Management schedules require that institutions meet the following minimum rating of F1 from the Fitch Rating Agency.

Torridge District Council also obtains treasury management advice form Link Asset Management, which includes staff training & updates on latest developments, monthly investment reports, database of ratings from agencies for all counterparties, and other ad hoc support.

The Treasury Management strategy also sets out the Council's approach to borrowing and is underpinned by the Prudential Code and MHCLG investment guidance. Any decision to borrow for capital projects or debt maturities would only occur if there was a clear business case to do so. Borrowing may occur to cover temporary shortfalls in cash balances.

The Council will adopt a flexible approach to borrowing, making use of internal resources and keeping shorter term borrowing under review in comparison to longer term borrowing costs. This approach is to minimise financing costs and to spread re-financing risk. Acceptable sources of loans are the PWLB, the UK Municipal Bonds Agency, local authorities, public bodies and UK banks and building societies. Officers will also review alternative sources of borrowing and select those offering the best value for money to the Council at the time the funding is required.

The latest Treasury Management Code includes investments which fall outside normal treasury management activity. Commercial investments for financial benefit rather than for service outcomes are sometimes entered into outside of normal treasury management activity. These need careful financial risk assessment. Where such investments do not give priority for security and liquidity over yield, CIPFA recommends that such a decision should be explicit, setting out the risks and the impact on financial sustainability. This is a critical purpose of due diligence procedures. The Council currently has no plans to undertake any such borrowing.

3. Knowledge and Skills

The Prudential Code requires that the capital strategy gives details of the knowledge and skills available to the authority and confirmation that they are commensurate with its risk appetite.

As a district council, Torridge strikes a balance between the retention of suitably qualified staff and the use of external expertise where this offers best value and flexible use of resources.

Treasury management staff receive internal training from experienced staff and managers. Staffing is arranged so that a bank signatory is always available for consultation on decisions. Procedure and system notes, together with official guidance from CIPFA and the MHCLG are maintained for consultation within the section. These are updated for any changes, which are also communicated to the relevant staff. Bank signatories are professionally qualified accountants

In terms of capital expenditure, the Council has the benefit of the experience of three fully qualified chartered accountants. It also has access to specialist advice through subscription to consultants who specialise in local authority accounting and capital finance. In addition, knowledge and skills are shared throughout the region via the Devon Accounting Development Group.

In relation to the investment strategy, as well as the experience of RICS-qualified staff, the Council has working relationships with a range of specialist consultants whose areas of expertise include property management, development and infrastructure, investment and valuation.

The Council's constitution ensures an effective governance process. The chief finance officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body (normally Full Council).

4. Climate Emergency

Torridge District Council has declared a 'Climate Emergency'. We have committed to a target of net zero carbon emissions from our operations by 2030. We also recognise the impacts we have on the residents, businesses and communities or Torridge through a range of functions and services that we deliver. We are currently developing a Carbon, Environment and Biodiversity Plan that will see us move to a low carbon, sustainable and resilient future and support our communities in this vital journey.

This 'Climate Emergency' will have an impact on our capital programme, and capital strategy going forward, resulting in extra costs and commitments.

These additional costs and commitments are not quantifiable at this time.