

Corporate Infrastructure and Regulatory Services Scrutiny Committee

29 January 2019

CAPITAL STRATEGY 2019/20 – 2023/24

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.

Recommendation: That the Committee consider whether it wishes to draw to the attention of the Cabinet any observations on the proposals contained within the Capital Strategy 2019/20 - 2023/24.

1. Introduction

- 1.1. As part of the annual budgeting process the authority is required to produce an affordable Medium Term Capital Programme (MTCP) alongside its annual revenue budget.
- 1.2. This year, for the first time, there is also a requirement to prepare a Capital Strategy in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017.
- 1.3. The Capital Programme and Strategy 2019/20 - 2023/24 is set out in this report for consideration before being taken to Cabinet and Council for approval, as part of the annual budget setting process.

2. The Capital Strategy

- 2.1. The Capital Strategy sets out the policy framework for the development, management and monitoring of capital investment. The strategy focuses on key principles that underpin the authority's capital programme, and its short to medium term objectives, as well as supporting the Councils strategic and operational objectives.
- 2.2. The Capital Strategy aims to strike a balance between investing in its operational assets for service delivery and the management of programme risk, as well as ensuring prudence, sustainability and overall affordability.

3. Key Capital Strategy Principles

- 3.1. The key principles for the Capital Strategy are summarised below and are explained in more detail throughout the strategy document:
 - 3.1.1. The shape and size of the capital programme is determined by Council led objectives, service and operational requirements and the availability of internal and external resources.

- 3.1.2. The Capital Programme will be prepared alongside the Medium Term Financial Strategy (MTFS) to ensure that services have sufficient resources to carry out their priorities and that the impact on revenue resources is sustainable.
- 3.1.3. Capital investment decisions will be made according to service need, legal and statutory obligations and in consideration of the authority's financial position and will align with other supporting strategies such as the Investment, Borrowing and Treasury Management Strategies.
- 3.1.4. The authority will seek to finance the capital programme with external funding wherever possible and prioritise invest to save capital projects, for example projects which generate a cash saving to the authority or generate a return.
- 3.1.5. The authority will utilise capital receipts and internal borrowing (borrowing from internal cash resources) as a secondary funding source to contain its level of external debt.
- 3.1.6. The Council has a policy of not undertaking any external borrowing. This policy is regularly reviewed to ensure it is still fit for purpose and can continue to meet the capital financing requirements of the authority's services.

4. Capital Programme - Governance

- 4.1. The Capital Programme sets out the planned capital investment of the authority and is approved by Cabinet and Council annually.
- 4.2. Before items are included in the Capital Programme a detailed business case must be submitted to the Capital Programme Group (CPG). These are assessed to ensure alignment with strategic objectives set by the Council, deliverability within existing resources, risk and value for money.
- 4.3. The CPG does not have decision making powers. It makes recommendations to the Cabinet Member for Resources Management, Cabinet Member for Policy, Corporate and Asset Management and the County Treasurer for inclusion in relevant Council and Committee reports.
- 4.4. Any subsequent additions or changes to the capital programme will be approved in accordance with the Constitution (Part 5c Financial Regulations) throughout the year. The Financial Regulations set out in section B12.5 state that the amount of capital expenditure to be financed by external borrowing must be approved by Council.
- 4.5. Throughout the course of the financial year, the Members Asset Group (MAG) meet to review the forecast capital receipts and disposal strategy for the Council, and to ensure alignment with the Council's Asset Management Strategy. The meeting is represented by the Leader of the Council and the Chief Executive.
- 4.6. The County Treasurer has responsibility for the proper administration of the Council's financial affairs. This includes monitoring actual capital spend against budget which is undertaken on a bi-monthly basis with any risks to delivery or financing reported to Cabinet.
- 4.7. The Cabinet is responsible for approving the annual Capital Outturn and for agreeing procedures for carrying forward any under or over-spend on capital projects as well as approving the MTCP annually, and monitoring capital expenditure against approved budgets, on a bi-monthly basis.

5. Medium Term Capital Programme (MTCP) 2019/20 (Summary)

5.1. The County will be investing over £481.0 millions in Devon over the next 5 years. The latest forecast of the programme analysed by funding source is shown in Table A. The funding available in forecast years may change as Government policies and grant allocations are published.

Table A

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Adult Care and Health	10,020	8,718	8,648	8,648	1,918
Children's Services	2,191	1,765	1,765	1,765	1,765
Communities, Public Health, Environment and Prosperity	43,816	38,432	40,646	38,751	16,866
Corporate Services	3,312	2,950	2,850	2,850	2,850
Highways, Infrastructure Development and Waste	51,561	51,324	47,734	45,132	45,132
Total	110,899	103,189	101,642	97,145	68,531

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Funding Source					
Borrowing - Internal	4,884	10,201	4,926	1,979	300
Borrowing - VELP	1,228	1,200	1,200	1,200	1,200
Capital Receipts - General	6,128	4,317	3,208	4,020	8,372
Capital Receipts - IID	201	169	104	0	0
Direct Revenue Funds - Services	281	273	273	273	250
External Funding - Contributions	2,973	321	55	50	50
External Funding - Grants	87,424	83,629	90,252	88,110	57,876
External Funding - S106	7,781	3,078	1,624	1,514	483
Total	110,899	103,189	101,642	97,145	68,531

5.2. For 2019/20 and 2020/21 the level of capital grant funding is based upon award letters from the governing bodies. However, in subsequent years prudent estimates have been made with respect to the continuation of the capital grants available, for example Devolved Formula Capital, Basic Need and Local Transport Plan (LTP) grant funding.

5.3. The Council has committed to investing in its operational assets by including annual capital funding for the enhancement of its existing property estate, including County Farms, and the continued upgrade and development of ICT. The Council recognises that by investing in its assets it is ensuring their sustainability for the future, providing future economic benefit whilst also seeking to minimise revenue and repair and maintenance costs.

5.4. The Chancellor of the Exchequer presented the Budget to the House of Commons on the 29th October 2018. The Budget contained additional funding for Local Government in 2018/19 which will have a positive effect on the MTCP in respect of capital investment as well as the availability of cash resources.

5.5. The additional capital funding for 2018/19 is shown in Table B.

Table B

Funding type	National figure £000	Devon's share £000
Local Highways Maintenance Funding - repair of roads (including potholes), bridges and local highways infrastructure generally	420,000	18,754
National Productivity Investment Fund (NPIF) – minor junction and road layout improvements	150,000	TBC*
Disabled Facilities Grants – to be pooled in the Better Care Fund and allocated to Devon Districts	55,000	791
School Equipment and Capital Maintenance – (estimated) direct to schools	400,000	5,158

*the NPIF funding is expected to be allocated via a competitive bid process

6. Financing and Affordability

6.1. Where external funding is not available the Council will utilise alternative sources of capital financing, as follows:

6.2. Internal Borrowing

6.2.1. A prudent level of cash balances is required for the Council to meet its obligations in respect of cashflow. Where cashflow allows, the Council has utilised cash balances and internal borrowing (borrowing from internal cash resources) to fund the capital programme. The affordability of this internal borrowing mechanism will be monitored by the County Treasurer.

6.2.2. If the Council borrows internally or externally it is required to make a provision for the repayment of that debt. This is a statutory obligation and is referred to as the Minimum Revenue Provision (MRP).

6.2.3. This strategy suggests a prudent level of around £2 millions of internal borrowing per annum, where cashflow allows.

6.3. External Borrowing

6.3.1. The Council has a policy of not undertaking any new external borrowing, as set out in the Treasury Management Strategy 2019-20, with the authority not undertaking any new external borrowing since January 2008. This policy is reviewed regularly to ensure it is still fit for purpose and can continue to meet the capital financing requirements of the authority's services.

6.3.2. Using capital receipts and internal borrowing as a capital funding source will ensure the authority is able to contain its level of debt and therefore its overall level of borrowing.

6.3.3. The shape of the capital programme in the longer term will be dependent upon the continued delivery of capital receipts, the future allocation of capital grants, and the availability of internal cash resources.

6.3.4. The MTFS continues to assume that, over the three-year period, no new long-term external borrowing will be required. This has been assessed as sustainable in the short to medium but will be kept under review.

6.4. Capital receipts

6.4.1. The procedures for declaring properties surplus to requirements are set out in the Council's Code of Practice for the Disposal of Surplus Property. The Head of Digital Transformation & Business Support will be responsible for the negotiations of all such sales. The County Treasurer will be consulted on the sale of assets at less than full market value.

6.4.2. Capital receipts must be accounted for separately from revenue income and may only be used to finance capital expenditure.

6.4.3. Capital receipts are monitored monthly and reviewed by the CPG and by the MAG quarterly. Monitoring is undertaken to that forecast receipts are sufficient to finance the existing capital programme commitments, and to ensure that the existing capital programme does not rely too heavily on this finite source of funding.

6.4.4. This strategy recommends the moderate use of capital receipts beyond 2023/24 in the region of £2 millions per annum.

6.4.5. Table C shows the anticipated capital receipts shown net of disposal costs. There is a risk that capital receipts may not be realised in line with these original estimates. In which case schemes may need to be rescheduled if alternative sources of funding cannot be identified.

Table C

	Estimated opening balance	Forecast receipts	Forecast spend	Estimated closing balance
	£'000	£'000	£'000	£'000
2019/20	1,686	10,312	(6,329)	5,669
2020/21	5,669	10,205	(4,486)	11,388
2021/22	11,388	5,880	(3,312)	13,956
2022/23	13,956	5,880	(4,020)	15,816
2023/24	15,816	5,880	(8,372)	<u>13,324</u>

6.5. External Funding

6.5.1. A large proportion of capital projects are funded from external funding. Therefore, the size of the capital programme will often depend on the priorities of Government departments, the impact of austerity upon public finances and the availability of contributions to support infrastructure for developing communities.

6.5.2. To the extent that new funding becomes available from these sources the capital programme can be expanded but if funding is withdrawn or reduced then the programme must reduce accordingly.

6.6. Forward Funding

- 6.6.1. Where a project is financed by external contributions the Council may forward fund the project, utilising internal borrowing, in anticipation of a future receipt. As forward funding is expected to be repaid to the Council, an MRP charge is not required.
- 6.6.2. The affordability of this forward funding mechanism will be monitored by the Assistant County Treasurer, Treasury Management and the County Treasurer and any risks to cashflow reported to Cabinet in the bi-monthly monitoring report.

6.7. Leasing

- 6.7.1. All vehicle, plant, furniture and equipment leasing must be negotiated in conjunction with the County Treasurer. Provision for the acquisition of leased items must be included in the capital programme.
- 6.7.2. All property leases and other property acquisitions must be notified to the County Treasurer, who will seek the approval of the Cabinet, before entering in to a commitment, so that the effect of Central Government controls on the Capital Programme can be assessed.
- 6.7.3. Under current legislation, schools may borrow money (which could include lease type arrangements) only with the written permission of the Secretary of State.

7. Longer Term view

- 7.1. Recent successful bids for funding, for example the award of £83.115 millions for the North Devon Link Road (NDLR) and a further potential bid for £45 millions for the Housing Infrastructure Fund (HIF) will require careful planning of council resources in the coming years, to ensure match funding commitments are met and corporate resources are made available to support these key strategic projects.
- 7.2. With these key schemes in mind, a forecasting and scenario-based exercise has been undertaken to ensure the resilience of the Capital Programme in the longer term. This has confirmed that no external borrowing is required to support these existing commitments.
- 7.3. However, should the Council be unable to finance the capital programme within available capital receipts, grants contributions and internal borrowing; external borrowing may be required.
- 7.4. In the future, schemes that return a revenue benefit or revenue cost reduction would be prioritised to ensure a net nil impact on the MTFs, for example in respect of borrowing costs.
- 7.5. As a result of considering this longer-term view, the MRP policy has been revisited as set out in the Treasury Management and Investment Strategy 2019/20. The MRP strategy assumes a continued commitment to internal borrowing, commensurate with historic levels, to ensure longer-term investment in the authority's assets.

8. Commercial activity and Partnerships

- 8.1. The Council has a policy of not investing in commercial activity solely for financial gain. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks.

8.2. The Council has invested capital (purchased shares) in a limited number of companies and joint ventures, for example the Exeter Science Park, and the Skypark Development Partnership. Such investments are limited and undertaken only where the objectives are for the increased prosperity of the County of Devon.

8.3. The Council is party to two historic Private Finance Initiatives (PFI) and one Public Private Partnership (PPP). It is not expecting to enter into any new arrangements of this type in the medium term.

9. Knowledge, skills and professional advisors

9.1. The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that scheme.

9.2. The Council believes it has appropriately skilled staff to deliver the Capital Programme and individual Capital projects. Where specialist knowledge is required the Council will make use of external advisors.

10. Summary

The Capital Strategy ensures that the authority takes capital expenditure decisions in line with strategic and service objectives and properly considers the operational and service needs of the Council. This has been balanced with the need to produce a prudent, sustainable and affordable level of investment in the Councils assets, which the 2019/20 to 2023/24 Capital Programme aims to deliver.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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