



Dacorum Borough Council

Capital Strategy

2020/21

1 Introduction

1.1 Requirements of a Capital Strategy

The 2017 update to the Prudential Code requires from 2019-20 all local authorities to produce a Capital Strategy. The purpose of the Capital Strategy is to tell a story that gives a clear and concise view of how the Council determines its priorities for capital investment, decides how much borrowing is affordable and its risk appetite and the governance arrangements in place to manage those risks.

The Capital Strategy is required to set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to the risk, reward and impact on the achievement of outcomes.

The Council Strategy should demonstrate that capital expenditure and investment decisions are in line with service objectives and properly take into account stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy should cover:

- Capital Expenditure
- Debt, Borrowing and Treasury Management
- Commercial Activity
- Other long-term Liabilities and Non-Treasury Investments and Debtors.
- Knowledge and Skills.

2 Capital Expenditure

2.1 Overview of the Asset Management Strategy

The Asset management strategy sets out how the Council intends to use its property portfolio to support the priorities identified in its Corporate Plan, and how it plans to improve the performance of its assets. The Council's Asset Management Strategy can be found here: <http://www.dacorum.gov.uk/docs/default-source/business/2016-asset-management-strategy-final-17-2-16.pdf?sfvrsn=0>.

The strategy also informs and supports the Council's Medium Term Financial Strategy and was approved by Cabinet in February 2016, and is due for review in 2020/2021. The Council has a significant and varied portfolio of assets, some of which provide an income stream, which is crucial to the funding/delivery of the overall Council objectives. The strategy provides a structure to asset governance and performance management which in turn helps improve Council's decision making and enhance income streams.

The strategy details the Council's focus on reducing its long-term asset maintenance costs through proactive maintenance scheduling and better cost recovery. This reduces the risk that under-investment will lead to a spike in maintenance costs or a loss of income should the assets no longer be deemed fit for purpose. Annual maintenance budgets are set as part of the Council's budget setting process.

The Council aims to act as a catalyst for regeneration and growth by maximising the use of its own assets and stimulating regeneration and growth. Regeneration and growth will potentially improve the Council's revenue streams as a result of increased business rate retention and council tax base growth. The Council weighs up the risk and benefits carefully where new projects potentially risk the loss of current income. Getting the balance right between future economic growth and the protection and enhancement of revenue income is a key issue for asset management planning.

The Asset Management Strategy includes the Council's disposals strategy. To ensure continuing efficient operation of the Council's assets, decisions on disposals of assets deemed surplus to requirements is recommended by the Property Management Board. This decision will then be referred to Corporate Management Team for review and confirmation and ultimately Members in line with Financial Regulations. Current assets under consideration for disposal at this time are investment sites and selected garages.

The Council's social housing stock is covered separately under the Housing Asset Management Strategy 2016-2020. The strategy outlines the Council's approach to managing demand and supply and the sustainability and condition of its 10,100 housing properties whilst delivering value for money. The strategy sets out plans to increase the stock to meet continuing need for quality, affordable homes in Dacorum. The Council's Housing Asset Management Strategy can be found here: <https://www.dacorum.gov.uk/docs/default-source/housing/asset-management-strategy-2016-2020.pdf?sfvrsn=8>. The Strategy will be updated during 2020/21.

2.2 The Council's policies on Capitalisation

The Council capitalises expenditure on property, plant, equipment and software, when it brings economic benefit or service potential to the Council for longer than 1 year and spend is greater than £10,000 per scheme. The Council does not capitalise borrowing costs incurred whilst assets are under construction. Further details of the Council's capitalisation policy can be found in the Council's Statement of Accounts, notes to the Core Financial Statements section: <http://www.dacorum.gov.uk/home/council-democracy/finance/annual-statement-of-accounts>.

2.3 Flexible Use of Capital Receipts

The Council has a Flexible Use of Capital Receipts Strategy. Qualifying expenditure for the flexible use of capital receipts is 'expenditure on any project

which is designed to generate ongoing revenue savings in the delivery of public services and/ or transform service delivery to reduce costs and/ or transform service delivery in a way that reduces costs or demands for services in future years for any of the public sector delivery partners.

2.4 Capital Programme approval process

As part of the annual Medium Term Financial Strategy review and budget setting process , Senior Officers are invited to submit new Capital bids using a business case template. The business case template outlines how the project will:

- Meet corporate priorities
- Revenue and Capital Requirements
- Proposed funding sources

The Council's corporate priorities for 2020-2025 are:

- A clean, safe and enjoyable environment
- Building strong vibrant communities
- Ensuring economic growth and prosperity
- Providing good quality affordable homes, in particular to those most in need
- Ensuring efficient, effective and modern service delivery.

All bids are signed off by the relevant Director and Portfolio Holder. The bids are then scrutinised by the Chief Officer Group to ensure they are affordable and support Corporate Priorities. The draft Capital Programme then goes through internal officer and member scrutiny prior to Overview and Scrutiny and Cabinet for further challenge and review. The Capital Programme then goes to full Council in February for approval.

2.5 The 2020/21-2024/25 Capital Programme

The 2020/21-2024/25 Capital Programme is summarised in the table below. The total Capital Programme for the next 5 years is £282.522m. For 2020/21, the Capital Programme is £41.043m of which £29.698m is to be spent on the Housing Revenue Account (HRA) Capital Schemes and £11.346m is to be spent on General Fund Capital Schemes. Further details of the Capital Programme can be found in Appendix I of Budget Report.

Capital expenditure	19/20	20/21	21/22	22/23	23/24	24/25	Total 20/21-24/25
	£m	£m	£m	£m	£m	£m	£m
General Fund	19.072	11.346	27.313	31.177	9.238	1.826	80.900
HRA	37.987	29.698	40.673	48.501	48.500	34.250	201.622
Total	57.059	41.043	67.986	79.678	57.738	36.076	282.522
Financed by:							
Capital grants & S106	2.417	1.136	0.953	0.741	0.741	0.741	4.312
Capital receipts & reserves	45.598	31.649	45.742	33.099	22.830	17.342	150.663
Revenue contribution to Capital	5.830	6.205	7.222	0.350	0.350	0.000	14.127
Borrowing-General Fund	3.214	0.000	0.131	14.275	3.147	1.085	18.638
Borrowing-HRA	0.000	2.052	13.938	31.213	30.670	16.908	94.781
Total	57.059	41.043	67.986	79.678	57.738	36.076	282.522

2.6 Long term view of capital expenditure plans

The Council publishes its capital programme covering a 5- year period, in line with its Medium Term Financial Strategy (MTFS). Its HRA Business Plan covers a 30 year period.

The focus for the Council over the medium term is the development of facilities for the local community, including its flagship project to develop Berkhamsted Leisure Centre. In the medium to longer term, the Council is committed to providing new homes in the Borough and has a programme of new build housing totalling just under £113m over the next 5 years.

The Council's capital expenditure programme supports the priorities identified in its Corporate Plan and delivery of the Council's services. As a government organisation governed by a political administration, the Council is subject to changes in government policy such as the implementation of mandatory 1% annual rent reductions and the removal of the HRA borrowing cap in 2018 and also changes in the political direction, including that arising from local elections held every four years. This has potential implications for the content and direction of the capital programme.

The Council is mindful of risks to the delivery and financial performance of the capital programme over the MTF5 period. These include, but are not limited to:

- Inflationary changes
- Local and National political considerations
- Legislative changes
- Access to expertise

The Council projects the potential financial impact of these risks over the life of capital projects where it is possible to do so. Capital schemes are supported by relevant project boards and their financial performance is monitored on a quarterly basis.

2.7 Cost of Borrowing for Capital Expenditure

Under statute, the Council is required to make a charge to revenue in respect of prior year's expenditure on the General Fund which is funded from borrowing (internal or external) in order to repay the principal, this is known as the Minimum Revenue Provision (MRP). External borrowing also incurs interest costs. Based on the current capital programme the charge to the General Fund as per the Medium Term Financial Strategy is:

	20/21 £m	21/22 £m	22/23 £m	23/24 £m
General Fund	0.916	1.037	1.029	1.083

There is no requirement for the HRA to make a minimum revenue provision but the HRA is required to pay interest on the borrowing undertaken to fund the £354m Self Financing deal. In 2020/21 this is budgeted to be £11.586m.

2.8 Monitoring of Capital Expenditure

To mitigate the risk of overspends on Capital schemes or the Council undertaking borrowing when not required and incurring interest costs, the Council monitors Capital Expenditure against the approved budget during the financial year. The Budget Monitoring Report goes to the Corporate Management Team, then Overview and Scrutiny Committee and Cabinet on a quarterly basis. The report provides the latest forecast position and provides an explanation of reasons for slippage and underspends or pressures on each individual scheme. Cabinet is required to approve any requests for additional budget and to approve slippage of projects into future financial years.

To ensure the Council is achieving value for money when awarding tenders for Capital works, Officers must adhere to the Council's Commissioning and Procurement Standing Orders. This details the Council's procurement thresholds and can be found here: [http://www.dacorum.gov.uk/docs/default-source/Commissioning-Procurement/commissioning-and-procurement-standing-orders-\(pdf-1-469kb\).pdf?sfvrsn=0](http://www.dacorum.gov.uk/docs/default-source/Commissioning-Procurement/commissioning-and-procurement-standing-orders-(pdf-1-469kb).pdf?sfvrsn=0). Post project implementation reviews are also carried out, where appropriate, to ensure lessons learnt are taken into consideration for future relevant projects.

3 Debt, Borrowing and Treasury Management

3.1 Overview of Governance Process for Treasury Management

As per the Treasury Management Strategy, Full Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, a mid-year review and an annual report after its close, in the form prescribed in its Treasury Management Practices. Responsibility is delegated to the Section 151 Officer for the implementation and regular monitoring of its treasury management policies and practices, and for the execution and administration of treasury management decisions. Cabinet is responsible for ensuring effective scrutiny of the treasury management strategy, policies and monitoring before recommendation to Full Council.

3.2 Projection of External Debt and Internal Borrowing over the Long Term

The Treasury Management Strategy projects during 2020/21 the Council will need to utilise existing cash balances to fund £1.617m of Capital Expenditure. The Council forecasts total external debt of £354.690m at the end of 2020/21 and £394.650m at the end of 2022/23.

	2018/19 Actual £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
External Debt					
Debt at 1 April	365.187	362.747	358.441	353.502	349.680
Expected change in Debt	(2.440)	(4.306)	(4.939)	(3.822)	43.783
Other long-term liabilities	0.188	0.188	1.188	1.188	1.188
Actual gross debt at 31 March	362.935	358.629	354.690	350.868	394.650
The Capital Financing Requirement	352.769	352.151	356.286	366.548	410.336
Under / (over) borrowing*	(10.166)	(6.478)	1.596	15.680	15.686

3.3 Limits on overall borrowing

The Treasury Management Strategy sets out the following borrowing limits over the next 3 years:

Authorised limit	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt	378	400	400	400
Other long term liabilities	1	10	10	10
Total	379	410	410	410

3.4 Treasury Management Key Risks and Risk appetite

The Council's Treasury Management Strategy 2020/21 sets out in detail the authority's risk appetite around its treasury management activities. The Council adopts a prudent approach to the management of risk, with its investment priorities being first, security, liquidity second and then return.

The authority has adopted a prudent approach to managing risk and this is detailed in Treasury Management Strategy. This includes reducing the Council's exposure to large fixed rate sums falling due for refinancing at the same time by setting upper and lower limits for the maturity structure of borrowing.

3.5 Treasury Management Knowledge and Skills available to the Council

The Council uses Link Asset Services as its external treasury management advisors. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council ensures knowledge and skills are commensurate with the authority's risk appetite. Council officers regularly attend treasury management training provided by Link Asset Services.

4 Commercial Activity

4.1 Definition of Commercial Activity

Commercial Activity is the investment in assets including loans and property primarily for financial return which are not part of treasury management activity. Commercial Activity can also include service investments held clearly and explicitly for operational service purposes such as loans to other organisations for regeneration purposes. Commercial Activity within the Council currently includes the holding of investment properties in the commercial assets portfolio to generate rental income and in the future, DevCo.

4.2 Investment Properties

At the 31st March 2019, the Statement of Accounts showed the Council held £80.575m of Investment Properties. This was 6.3% of the Council's Long-Term Assets. Investment Properties include shops, industrial units, storage units, offices, filling stations and nurseries. Investment Properties in 2020/21 are forecast to generate gross income of £5.117m. The net income from Investment Properties is £3.757m, which helps contribute to a lower net expenditure before Council Tax. For 2020/21 the net expenditure before Council Tax is £12.941m.

The Commercial Assets and Property Development team manage the Council's Investment Properties in accordance with the Council's Asset Management Strategy. Monthly reports are sent to members using the Council's performance system (ROCKET) on the performance of the Council's investment properties. Key indicators include:

- percentage arrears on Commercial Property rents,
- percentage of Occupation in Commercial Properties,
- Investment Property income year to date budget position

The Council's Commercial Assets and Property Development team includes RICS qualified professionals to ensure the Council meet legislative requirements whilst also using that professional knowledge and expertise to maximise the potential income of the portfolio.

4.3 DevCo

The Council is currently working towards the establishment of a Development Company (DevCO) to develop residential units on the former civic centre site, with the twin objectives of:

- maximising revenue income to support provision of General Fund services; and,
- contributing to the delivery of local housing in a high-demand market

There is a capital forecast spend of £565k in 19/20 to undertake site monitoring and investigations and to progress designs to the point of planning.

4.4 Approach to risk in commercial activities

The Council holds investment assets which deliver an annual rental stream. These investment assets help the authority deliver a balanced budget over the MTFS period as well as supporting the economic objectives that the Council has for the Dacorum area.

As with its approach to treasury management, the Council adopts a prudent approach to the management of risk within its commercial activities. The Council

engages professional advice on these activities as required, either from its own staff or via external advisors. Decisions on commercial activities are made in line with the Council's constitution.

The Council monitors the performance of its commercial activities via its financial monitoring process and the use of performance indicators. This process includes both Officer and Member scrutiny.

5 Other long-term Liabilities and Non-Treasury Debtors

Any other long-liabilities that the Council undertakes are subject to member scrutiny and approval.

6 Knowledge and Skills

The Council employs a wide range of qualified professionals with expert knowledge and skills including legal professionals, RICS property experts and qualified accountants. Annual appraisals are carried out to identify training needs. The Council ensures Councillors have the required skills through the Member training programme. Where skills are not available in house, or in relation to material projects, the Council will draw on additional professional advisers as necessary, these currently include Link Asset Service for Treasury Management Services, Brazier Freeth for Commercial Property advice and various architects.
