Chorley Council

Report of	Meeting	Date
Chief Finance Officer	Governance Committee	20/11/19

UPDATE ON THE CHORLEY COUNCIL CAPITAL STRATEGY

PURPOSE OF REPORT

1. Provide members with an update on the Capital Strategy that was approved at Full Council on 26 February 2019

RECOMMENDATION(S)

2. Members note the updates provided in the report including the four updated prudential indicators

EXECUTIVE SUMMARY OF REPORT

3. The Capital Strategy was approved at Full Council on 26 February 2019 and as outlined in the budget report the Governance Committee will be responsible for receiving an annual update on the strategy.

4. The report updates the Capital Strategy's prudential indicators and provides an update regarding the income from its investments. The council will continue to be increasingly reliant on the net income (after borrowing costs) from its capital investments to fund its revenue expenditure budgets.

5. Capital expenditure has increased by £28m due to the purchase of the Logistics House site. Borrowing has increased however it is all supported through income generated by the assets purchased.

6. The council has over £5.5m of reserves that can be used to manage potential revenue risks surrounding its capital programme.

Confidential report Please bold as appropriate	Yes	**No**

BACKGROUND

7. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to provide a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with corporate objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

8. The capital strategy sets out a framework for the self-management of capital finance and examines the following areas:
    - Capital expenditure
    - Treasury Management

- Commercial Activity
- The future ambition of the council's capital programme

9. The Capital Strategy was approved at Full Council on 26 February 2019 and as outlined in the budget report the Governance Committee will be responsible for receiving an annual update on the strategy.

10. Table 1 below outlines the prudential indicators set for 2018/19 to 2021/22 that were approved at Full Council on 26 February 2019.

Table 1: Prudential Indicators 2018/19 to 2021/22

Indicator	2018/19	2019/20	2020/21	2021/22
Estimated Capital Expenditure	£31.190m	£13.986m	£3.881m	£3.940m
Financing as a % of adjusted net revenue	6.28%	8.38%	11.15%	11.55%
Estimated Capital Financing Requirement	£51.879m	£59.885m	£61.859m	£63.685m
% Net Income to Gross Directorate Budgets	11.84%	10.05%	15.06%	15.48%

CORPORATE PRIORITIES

11. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	✓
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

CAPITAL PROGRAMME

12. The affordability of the capital programme is one of the Capital Strategy key performance indicators, table 2 below outlines the changes to the approved capital programme since February 2019. These adjusted figures have been taken to Executive Cabinet on 14 November 2019 for approval.

Table 2: Changes to the Capital Programme

Directorate	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Total Capital Expenditure – Feb 2019*	**21.148**	**3.882**	**3.941**	**52.999**
Reprofiled Expenditure	(0.190)	0.190	0.000	**0.000**
Additional Expenditure – Logistics House	33.668	0.000	0.000	**33.668**
Additional Expenditure – Other	0.823	0.109	0.109	**1.040**
Expenditure removed – Housing Company	(1.103)	(2.816)	(2.875)	**(6.793)**
Expenditure removed - Other	(0.655)	0.000	0.000	**(0.655)**
Total Capital Expenditure – Nov 2019	**53.691**	**1.365**	**1.175**	**80.259**

* adjusted for final budget adjustments - Revenue & Capital outturn report approved by Executive Cabinet 20 June 2019

13. The largest change to the capital programme was the purchase in August 2019 of Logistics House, Buckshaw Avenue, Revolution Park, Chorley. This was approved by Full Council on 22 July 2019. The purchase will be funded through borrowing and is forecast to bring a net

annual revenue return to Chorley Council of over £400k per year rising to £900k towards the end of the 15 year lease with the current occupier. To recognise this gain will require the Council to set up a wholly owned company, this process is underway and will be completed before the end of the financial year.

14. The majority of the additional expenditure in the capital programme is funded through additional external contributions such as S106 received for play and open space and additional DFG grant allocations from government.

15. The Housing Company has been removed from the capital programme however it remains the council's ambition to create a wholly owned company to deliver growth in council owned housing and council owned investment sites. Other reduced budgets include a £200k final underspend in the purchase of homes for Syrian Refugees. The council purchased 10 homes to house refugees at a total cost of £1.431m against an original budget of £1.672m. All the purchases have been financed through borrowing that is funded through rental income.

16. Despite these large changes to the capital programme it remains affordable and is funded as follows:

Table 3: Changes in Funding of the Capital Programme

Directorate	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Total Capital Expenditure	**21.148**	**3.882**	**3.941**	**52.999**
Capital Receipts	0.073	0.000	0.000	**0.073**
Reserves	(0.159)	0.000	0.000	**(0.159)**
Grants	(0.190)	0.109	0.109	**0.027**
Developer Contributions	0.325	0.000	0.000	**0.325**
Borrowing	(0.190)	0.190	0.000	**0.000**
Self-Financed Borrowing	32.684	(2.816)	(2.875)	**26.994**
Total Financing	**53.691**	**1.365**	**1.175**	**80.259**

17. Table 3 summarises that there has been no additional borrowing in the capital programme since February 2019 other than borrowing supported through additional income generated by the assets funded. The capital programme remains affordable subject to income streams from investments, the risks associated with these income streams is outlined later in the report.

DEBT AND NET INCOME STREAMS

18. The Capital Strategy proposed the following performance indicators to measure the extent to which the councils borrowing repayments are reliant on income (Council Tax, Business Rates, New Homes Bonus and net income from investments)

Table 4: Financing and Net Revenue Streams

	2019/20 £m	2020/21 £m	2021/22 £m
Capital Financing/Net Revenue Stream – Feb 19	**8.39%**	**11.16%**	**11.56%**
Capital Financing/Net Revenue Stream – Nov 19	**11.40%**	**17.41%**	**17.22%**

19. The ratio has increased due to the investment in Logistics House. The annual net revenue stream is forecast to be over £400k to the council, £1.661m of annual lease income compared to borrowing costs of £1.270m. However, the financing/revenue ratio has increased due to the increase in borrowing being proportionally higher against existing borrowing than the additional income is against existing net income.

20. This indicator should be considered alongside others outlined in this report. As demonstrated in table 3, the council's investments have resulted in no additional borrowing, other than that supported through additional income.

21. The indicator in table 4 is likely to increase if the Government's proposals to reduce New Homes Bonus allocations are approved as part of the final finance settlement of 2019. These reductions have not been included in this report as they are not yet confirmed however it is likely that the Council's reliance on income generation to fund its expenditure will increase over the coming years and therefore so too will this percentage performance indicator.

PRUDENCE

22. The Prudential Code states that "In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that net debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years." This is a key indicator of prudence.

Table 5: Capital Financing Requirement 2019/20 to 2021/22

	2019/20 £m	2020/21 £m	2021/22 £m
Closing Capital Financing Requirement – Feb 19	**59.885**	**61.859**	**63.685**
Closing Capital Financing Requirement – Nov 19	**93.785**	**95.759**	**97.585**

23. As such there is a requirement to ensure that net debt (the sum of borrowing and other long-term liabilities, net of investments) in 2019/20 does not, except in the short term, exceed £95.8m (i.e. the estimated CFR for 2020/21). Further details are provided in the mid-year Treasury report update also on this committee's agenda.

RISK

24. The final performance indicator of the Capital Strategy is the relative level of directorate budgets funded through income generation. This provides members with an understanding of the level of the council's running costs (including staff costs) that is supported through the income it generates through investments. As government funding reduces this ratio will increase subject to budget savings. The council's MTFS seeks to balance the need to make savings whilst investing in income generating assets within the borough.

Table 6: Net Income to Net Directorate Budgets

Directorate	2019/20 £m	2020/21 £m	2021/22 £m
% Net Income to Net Directorate Budgets – Feb 19*	**6.12%**	**10.97%**	**11.36%**

Net income including borrowing costs

Market Walk Shopping Centre	(0.946)	(0.946)	(0.946)
Other Town Centre Property	(0.218)	(0.218)	(0.218)
Industrial Estate Property	(0.050)	(0.050)	(0.050)
Land, Garages and Plots	(0.081)	(0.081)	(0.081)
Net Income – Market Walk Extension	(0.204)	(0.300)	(0.300)
Net Income – Primrose Retirement	0.085	(0.006)	(0.014)
Net Income – Strawberry Fields Digital Office	0.208	(0.089)	(0.125)
Net Income – Logistics House	(0.227)	(0.454)	(0.454)
Total Net Income (including borrowing costs)	**(1.433)**	**(2.144)**	**(2.188)**
Gross Directorate Budgets Chorley Council	16.025	15.399	15.278
% Net Income to Net Directorate Budgets	**8.94%**	**13.92%**	**14.32%**

* figures adjusted from original capital strategy to account for borrowing costs of Market Walk excluded from the original prudential indicator

25. The level of directorate budget funded through net income will increase in the coming 2 to 3 years as outlined in Table 6. The percentage has increased due to the purchase of Logistics House.

26. The assumptions in the Table 6 include:
    - 75% occupancy at Market Walk Extension in 19/20 based on 4 of the 8 units being occupied. From 2020/21 onwards it is assumed 85% occupancy ongoing. This target is ambitious however there are several enquiries regarding the final units.
    - 90% occupancy at Primrose Gardens including voids, the retirement village is forecast to be fully occupied by the end of March 2020.
    - 75% to 80% occupancy rates at Strawberry Fields in 2021/22 and 2022/23. The site opened in October 2019 with occupancy steadily increasing. Running costs have been increased by £50k per annum to account for potentially higher than originally budgeted security costs and a higher assessment of business rate liability at the entire site.

RISK PROFILE

27. There remain a number of risks to the council's investment portfolio
    - On 9 October the Government increased its lending rate to local authorities by 1%, although this seems minimal it represents a 55% increase on the 50 year borrowing rates. The council's borrowing to fund Logistics House was done prior to

this rate increase however the costs and viability of future projects will be challenged by this rate increase. The council will increasingly look to external funding, such as S106, CIL and grants from external organisations, to manage the affordability of investments within the borough.

- The retail market continues to face challenging times, despite this Market Walk is performing well with only one void unit expected by the end of 2019/20. However, recent rent reviews indicate a falling trend in revenues that the council will manage through its budget setting process.

- The council holds the following reserves to manage unforeseen expenditure or a fall in forecast income:
    - £4m General Fund Reserve
    - £440k Income Equalisation Reserve for Market Walk
    - £880k Business Rates Equalisation Reserve
    - £300k to Support Local Businesses & Corporate Priorities during the potential disruption caused by the UK's exit from the EU

IMPLICATIONS OF REPORT

28. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

29. This report provides an update to members regarding the council's Capital Strategy. Any forecast figures provided in this report are considered prudent and based on the most up to date information available at the time. The report will be updated once more for the final budget to Full Council on 25 February 2020.

COMMENTS OF THE MONITORING OFFICER

30. No comments

GARY HALL
CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

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