

Report of	Meeting	Date
Introduced by Executive Member for Resources	Council	Tuesday, 16 November 2021

Is this report confidential?	No
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Is this decision key?	No
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Capital Strategy Update 2021

Purpose of the Report

1. The Capital Strategy was approved by Full Council alongside the budget on 23 February 2021 and is to be monitored by Full Council during the financial year.

Recommendations to Council

2. Note the contents of the report including the revised performance indicators for approval by Full Council
3. Note that the Council's current position regarding its portfolio of investment assets.

Reasons for recommendations

4. The requirements of the Prudential Code 2017 mean the Council must produce a Capital Strategy report and monitor it during the financial year.

Other options considered and rejected

5. The requirements of the Prudential Code are not statutory and so the update could be taken to other committees including Governance Committee. However, any divergence from the code may result in a negative opinion from the Council's external auditors.

Corporate priorities

6. The report relates to the following corporate priorities: (please bold all those applicable):

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

		the local area	
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Update of the Council's Capital Strategy 2021

7. The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward an impact on the achievement of corporate strategy priorities. The Prudential Code 2017 requires Full Council to approve and monitor the strategy.
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 is approved annually by Full Council alongside the budget setting papers and the budget papers proposed that an update is taken to Full Council once during the year.

Changes to the Strategy

10. The performance indicators included in the strategy are updated and included below with commentary.
11. The only other proposed updates to the strategy for the 2022/23 budget will be regarding the governance of new capital proposals, two changes will be identified:
 - Due to the restrictions now imposed regarding borrowing from PWLB, a new pro forma must be completed when a project requests funding through borrowing. This will be signed off by the S151 Officer and will ensure the Council meets the requirements of the Government that Council's do not borrow solely for yield.
 - A more thorough evaluation of business cases is being developed to ensure the Council fully evaluates the rewards and risks of new investments. This was a requirement of our external auditors. It will also ensure the correct procurement route is being followed, legal implications are correctly considered and project milestones are identified.
12. The original prudential indicators approved by Full Council on 23 February 2021 are as follows:

Indicator February 2021	2021/22	2022/23	2023/24
Estimated Capital Expenditure	£38.116m	£3.175m	£1.175m
Capital Financing/Net Revenue Stream	16.66%	21.24%	22.37%
Forecast Capital Financing Requirement	£109.344m	£109.895m	£108.356m

Investment Income in Excess of Borrowing	(£1.034m)	(£1.112m)	(£1.425m)
% Net Income to Gross Directorate Budgets	8.06%	10.01%	11.09%

Affordability, Prudence and Sustainability

13. The estimated capital expenditure is outlined in the capital monitoring update presented to Executive Cabinet on 11 November 2021.

Table 1: Capital Programme 2021/22 to 2023/24

	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
A strong local economy	15.734	6.296	0.300	22.330
An ambitious council that does more to meet the needs of residents and the local area	2.904	0.350	0.000	3.254
Clean, safe and healthy homes and communities	21.364	0.875	0.875	23.113
Involving residents in improving their local area and equality of access for all	2.601	0.000	0.000	2.601
Total Capital Expenditure	42.603	7.521	1.175	51.299
Developer Contributions (s106 & CIL)	6.099	0.946	0.000	7.045
Grants	10.456	0.775	0.775	12.006
Capital Receipts	9.219	0.000	0.000	9.219
Revenue and Reserves	1.252	0.100	0.000	1.352
New Homes Bonus	0.235	0.000	0.000	0.235
Prudential Borrowing	15.343	5.700	0.400	21.443
Total Financing	42.603	7.521	1.175	51.299

14. The Council's capital programme is funded through a number of sources including forecast grants from Homes England, developer contributions and borrowing.

15. Borrowing will be managed to ensure the future impact on revenue is minimised and where possible other sources of funding are utilised. It should be noted that some of the borrowing included in the capital programme is expected to fund investment that will meet numerous Corporate Priorities whilst also generating income that will likely meet the cost of the borrowing. Examples include:

- Tatton Scheme £5.721m
- Purchase of Affordable Housing £0.878m
- Leisure Centre Improvements £1.000m
- Whittle Surgery £1.976m

16. Another measure of affordability is to compare the council's capital financing costs (interest and MRP) to the net revenue stream (council tax, business rates, revenue

support grant and new homes bonus income). An increasing percentage would mean a greater proportion of the council's funding being used to meet its debt.

Table 2: Capital Financing / Net Revenue Stream

	2021/22 £m	2022/23 £m	2023/24 £m
MRP and Interest	2.775	3.201	3.273
Council Tax	(7.336)	(7.336)	(7.338)
Business Rates including grants for reliefs	(5.007)	(5.007)	(5.007)
Lower Tier Services Grant Allocation	(0.519)	0.000	0.000
New Homes Bonus	(1.490)	(0.550)	0.000
Funding	(14.352)	(12.893)	(12.345)
Net Income* - Market Walk	(1.443)	(1.744)	(1.832)
Other Property including land and garages	(0.408)	(0.408)	(0.408)
Net Income* – Primrose Retirement	(0.289)	(0.292)	(0.295)
Net Income* – Strawberry Fields Digital Office	(0.044)	(0.168)	(0.318)
Net Income* – Logistics House	(1.647)	(1.647)	(1.647)
Net Income* – Housing	(0.055)	(0.107)	(0.108)
Net Income* – Other New Investments	0.000	(0.327)	(0.808)
Net Income from Asset Investments	(3.886)	(4.692)	(5.416)
Adjusted Net Revenue Stream	(18.238)	(17.585)	(17.761)
Capital Financing/Net Revenue Stream	15.22%	18.20%	18.43%

*Excludes borrowing costs that are included in the first line of the table

17. This performance indicator is based both on forecast borrowing levels, that is dependent upon the profile of the capital programme, and also on the forecast level of funding.

18. The table has reprofiled the MRP and interest payable budget based upon up to date information. This performance indicator has not changed significantly, with a 3% reduction, since February 2021 however it is predicated on the Lancashire Business Rates Pool continuing in 2023/24. The application for the pool is being made for 2022/23 however it is not guaranteed this will be offered in 2023/24 resulting in a possible fall in business rates income.

19. Despite the impact of Covid-19, the performance of the Council's investments is broadly in line with the budget set in February 2021. The only exception is the income generated at the Market Walk (including the extension) site. The net income (excluding borrowing) was previously budgeted at approximately £1.774m however the quarter two 2021/22 revenue monitoring report presented to Executive Cabinet on 11 November 2021 states the forecast outturn is £1.443m. This is due to both temporary delays in finalising the full occupancy at the new site as well as reductions in rents at some existing units, including back dated charges. It is forecast that the extension will become fully occupied by 2022/23 and that the existing Market Walk shopping centre will also begin to recover however not to the same level of income experienced in previous years. The site is forecast to continue to deliver net income (after borrowing) to the Council of approximately £900k per annum (see Table 5).
20. The Council holds reserves of over £800k to manage temporary falls in income experienced from its commercial sites. It is proposed to utilise a net figure of £125k from these reserves during 2021/22.
21. Net income from housing includes properties purchased for Syrian Refugees as well as additional affordable houses purchased during 2020/21 and 2021/22.
22. The Council continues to invest in assets that primarily meet the approved Corporate Priorities whilst also generating income. Future investments include the Whittle Surgery, Strawberry Meadows and the development at Tatton.
23. The Code also 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 3: Capital Financing Requirement 2021/22 to 2023/24

	2021/22 £m	2022/23 £m	2023/24 £m
Opening Capital Financing Requirement	89.271	103.229	107.127
Increase in prudential borrowing	15.343	5.700	0.400
Provision made for debt repayments	(1.385)	(1.802)	(1.891)
Closing Capital Financing Requirement	103.229	107.127	105.636

24. As such there is a requirement to ensure that net debt (the sum of borrowing and other long-term liabilities, net of investments) in 2021/22 does not, except in the short term, exceed **£103.229m**.
25. The gap between total borrowing and income was also included as a performance indicator in the Capital Strategy. As other councils do not publish this data it will not be

possible to benchmark this performance indicator however Chorley Council can monitor this over time to provide assurance regarding the overall affordability of its investments.

26. Table 4 highlights that net income will continue to exceed borrowing costs throughout this 3 year period. The gap between net income and borrowing is scheduled to increase to £2.143m by 2023/24. This is an improvement on the February 2021 figures due to both reduced expected borrowing over 2021/22 to 2023/24, and new income streams coming on line sooner than previously prudently budgeted for. The reduction in borrowing is due to the reprofiling of the capital programme over the three year period.

Table 4: Borrowing in Excess of Investment Income

	2021/22 £m	2022/23 £m	2023/24 £m
MRP and Interest	2.775	3.201	3.273
Net Income from Asset Investments	(3.886)	(4.692)	(5.416)
Net Income in excess of Borrowing Costs	(1.111)	(1.491)	(2.143)

27. The final section outlines the investment in assets that has been made or will be made in the coming years that are forecast to generate net revenue to the council in the medium to long term. These investments however are made for purposes other than purely generating a yield including economic regeneration, job creation, improvements to housing standards and improving residents' enjoyment of the town centre.

28. The Council has many assets that generate net income, these are summarised below.

Table 5: Summary of Net Income from Existing Assets

Directorate	2021/22 £m	2022/23 £m	2023/24 £m
Market Walk	(0.529)	(0.830)	(0.918)
Other Property including land and garages	(0.408)	(0.408)	(0.408)
Strawberry Fields	0.124	0.000	(0.150)
Primrose Gardens	(0.121)	(0.122)	(0.123)
Logistics House	(0.436)	(0.436)	(0.436)
Housing	(0.005)	(0.015)	(0.015)
Net Income - Other New Developments	0.000	(0.133)	(0.335)
Total Net Income	(1.375)	(1.945)	(2.386)
Gross Directorate Budgets Chorley Council	18.975	19.512	20.112
% Net Income to Gross Directorate Budgets	7.25%	9.97%	11.86%

29. The council's gross directorate budgets are funded by up to 11% through the income generated by these assets. This percentage will increase as the council is investing in new income generating assets to broaden its investment portfolio and mitigate the impact that austerity is having on the services received by its residents. The performance indicator has not changed significantly since February 2021.

30. Income from other new developments include projected net income from the development of the Whittle Surgery and the investments at Strawberry Meadows and Tatton.

Updated Performance Indicators 2021

31. The updated performance indicators are stated below:

Updated Indicators November 2021	2021/22	2022/23	2023/24
Estimated Capital Expenditure	£42.603m	£7.521m	£1.175m
Capital Financing / Net Revenue Stream	15.22%	18.20%	18.43%
Estimated Capital Financing Requirement	£103.229m	£107.127m	£105.636m
Net Income in excess of Borrowing Costs	(£1.111m)	(£1.491m)	(£2.143m)
% Net Income to Gross Directorate Budgets	7.25%	9.97%	11.86%

Climate change and air quality

32. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

33. No comments

Risk

34. As outlined in the report, the requirements of the Prudential Code 2017 are not statutory however to not update Council regarding the Council's investments would risk an adverse opinion from the Council's external auditors.

Comments of the Statutory Finance Officer

35. The budget approved at Full Council on 23 February 2021 submitted the Capital Strategy and outlined that an update would be taken to the Council during 2021/22 financial year.

Comments of the Monitoring Officer

36. A report updating the Council's Capital Strategy is a requirement of the Prudential Code 2017.

Report Author:	Email:	Telephone:	Date:
James Thomson (Deputy Director of Finance)	james.thomson@chorley.gov.uk	01257 515025	27/10/21