

# Welwyn Hatfield Borough Council

## Capital Strategy 2019/20



**WELWYN  
HATFIELD**

## 1 Introduction

- 1.1 The capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

## 2 Capital Expenditure and Financing

- 2.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, as it follows an internationally set of accounting standards.
- 2.2 In 2019/20, the Council is planning capital expenditure of £50.073m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
General Fund services	4,016	23,558	27,683	7,236	2,375
Council Housing (HRA)	31,498	40,115	22,390	40,709	22,641
<b>TOTAL</b>	<b>35,514</b>	<b>63,673</b>	<b>50,073</b>	<b>47,945</b>	<b>25,016</b>

- 2.3 The main General Fund capital projects include Hatfield Business Centre and town centre Regeneration works to support economic development.
- 2.4 The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building or buying of 299 new homes over the forecast 5 year period 2019/20 to 2023/24.
- 2.5 **Governance:** Service managers bid annually in August to include projects in the Council's capital programme. Bids are collated by finance who calculate the financing cost. The Corporate Management Team appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to Cabinet. The final capital programme is then presented to Cabinet in January and to Council in February each year. For full details of the Council's capital programme can be found at appendix I.
- 2.6 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or borrowing. The planned financing of the above expenditure is as follows:

Table 2: Capital financing

	<b>2017/18 Actual £'000</b>	<b>2018/19 Forecast £'000</b>	<b>2019/20 Budget £'000</b>	<b>2020/21 Budget £'000</b>	<b>2021/22 Budget £'000</b>
External Sources	843	1,519	12,715	5,817	592
Own Resources	30,589	24,443	12,736	14,908	8,291
Increased Borrowing Requirement	4,081	37,711	24,622	27,220	16,133
<b>TOTAL</b>	<b>35,514</b>	<b>63,673</b>	<b>50,073</b>	<b>47,945</b>	<b>25,016</b>

- 2.7 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is as follows:

Table 3: Minimum Revenue Provision

	<b>2017/18 Actual £'000</b>	<b>2018/19 Forecast £'000</b>	<b>2019/20 Budget £'000</b>	<b>2020/21 Budget £'000</b>	<b>2021/22 Budget £'000</b>
Minimum Revenue Provision	604	514	814	1,330	1,330

- 2.8 The Council's full minimum revenue provision policy is available within Appendix M of this report - Treasury Management Strategy and Minimum Revenue Provision Policy.
- 2.9 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, repayments of borrowing and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	<b>31.03.2018 Actual £'000</b>	<b>31.03.2019 Forecast £'000</b>	<b>31.03.2020 Budget £'000</b>	<b>31.03.2021 Budget £'000</b>	<b>31.03.2022 Budget £'000</b>
General Fund Services	21,188	37,416	47,881	46,791	46,151
Council Housing (HRA)	242,248	246,631	241,987	250,297	245,961
<b>TOTAL CFR</b>	<b>263,436</b>	<b>284,047</b>	<b>289,869</b>	<b>297,089</b>	<b>291,822</b>

- 2.10 Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

- 2.11 Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council expects to receive £4.2m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts

	<b>2017/18 Actual £'000</b>	<b>2018/19 Forecast £'000</b>	<b>2019/20 Budget £'000</b>	<b>2020/21 Budget £'000</b>	<b>2021/22 Budget £'000</b>
Asset Sales	7,416	4,855	4,187	4,392	4,605
Loans Repaid	215	69	50	50	50
<b>TOTAL</b>	<b>7,631</b>	<b>4,928</b>	<b>4,212</b>	<b>4,442</b>	<b>4,655</b>

The majority of the asset disposal forecast relate the forecast sales of Council Houses. These receipts are generated when the tenant applies to purchase their home.

### **3 Treasury Management**

- 3.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before returns are generated. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 3.2 Due to the HRA Self Financing that came into effect in 2012, as at 31<sup>st</sup> March 2018 the Council had £236.6m borrowing at an average interest rate of 2.55% and £35m treasury investments at a weighted average rate of 0.98%.
- 3.3 Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 1.0%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).
- 3.4 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.03.2018 Actual £'000	31.03.2019 Forecast £'000	31.03.2020 Budget £'000	31.03.2021 Budget £'000	31.03.2022 Budget £'000
Debt (incl. Leases)	238,932	248,805	262,983	277,260	272,986
Capital Financing Requirement	263,436	284,047	289,869	297,089	291,822

- 3.5 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.
- 3.6 Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. The Councils limits can be found in its “Treasury Management Strategy and Minimum Revenue Provision Policy”.
- 3.7 Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 3.8 The Council’s policy on treasury investments is to prioritise security and liquidity over yield. This is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.
- 3.9 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Corporate Director (Resources, Environment and Cultural Services), who must act in line with the treasury management strategy approved by council. Mid year and year end reports on treasury management activity are presented to Cabinet. The Council’s Resources Overview and Scrutiny Committee is responsible for scrutinising treasury management decisions.

#### 4 Investments for Service Purposes

- 4.1 The Council makes investments to assist local public services, including making loans to local service providers and the Council’s joint venture that provide services. In light of the public service objective, the Council is willing to take more risk than

with treasury investments, however it plans for such investments to have low value and to break even after all costs.

- 4.2 **Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Corporate Director (Resources, Environment and Cultural Services) and must meet the criteria and limits laid down in the investment strategy. Further details on service investments are in page 2 of the investment strategy.

## 5 **Liabilities**

- 5.1 In addition to debt detailed above, set out in the treasury management strategy, the council is committed to making future payments to cover any pension deficit. The pension fund is subject to a triennial valuation and the revenue implications are built into the Medium Term Financial strategy.
- 5.2 **Governance:** Decisions on incurring new discretionary liabilities are taken by service managers in consultation with the Corporate Director (Resources, Environment and Cultural Services). The risk of liabilities crystallising and requiring payment is monitored by finance and reported to Cabinet.

## 7 **Revenue Budget Implications**

- 7.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 Actual £'000	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000
Financing Costs (£m)	604	514	814	1,330	1,330
Proportion of net revenue stream	4.0%	3.5%	6.9%	9.2%	9.2%

- 7.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Corporate Director (Resources, Environment and Cultural Services) is satisfied that the proposed capital programme is prudent, affordable and sustainable because due to the affordability and sustainability of the revenue budget implications.

**8      Knowledge and Skills**

- 8.1      The council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.
- 8.2      The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.
- 8.3      Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Corporate Director (Resources, Environment and Cultural Services).