AUDIT AND GOVERNANCE COMMITTEE

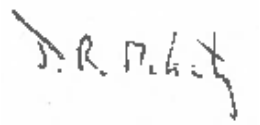
Meeting: Monday, 11th March 2019 at 6.30 pm
in Civic Suite - North Warehouse, The Docks, Gloucester, GL1 2EP

ADDENDUM

The following item was not provided for in the agenda for the meeting; however, the Chair of the meeting has agreed to accept this report as a matter of urgency:

7.1	**Capital Strategy**
	To consider the report of the Cabinet Member for Performance and Resources seeking for the Capital Strategy to be formally recommended to Council.

Yours sincerely



Jon McGinty
Managing Director

NOTES

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

Interest	Prescribed description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and

(b) either –

i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

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For further details and enquiries about this meeting please contact Tanya Davies, 01452 396125, tanya.davies@gloucester.gov.uk.

For general enquiries about Gloucester City Council's meetings please contact Democratic Services, 01452 396126, democratic.services@gloucester.gov.uk.

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- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

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Gloucester City Council

Meeting:	**Audit & Governance Committee**	**Date:**	**11 March 2019**
	Council		**21 March 2019**
Subject:	**Capital Strategy 2019/20**		
Report Of:	**Cabinet Member for Performance and Resources**		
Wards Affected:	**All**		
Key Decision:	**No**	**Budget/Policy Framework:**	**Yes**
Contact Officer:	**Jon Topping, Head of Policy and Resources**		
	Email: jon.topping@gloucester.gov.uk	**Tel: 396242**	
Appendices:	**1. Capital Strategy 2019/20**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To formally recommend that Council approves the attached Capital Strategy.

2.0 Recommendations

2.1 Audit and Governance Committee is asked to **RECOMMEND** that the Capital Strategy be approved.

2.2 Council is asked to **RESOLVE** that the Capital Strategy at Appendix 1 be approved.

3.0 Background and Key Issues

3.1 The Capital Strategy attached at appendix 1 to this report is a new requirement for Council's to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2017.

3.2 The Capital Strategy focuses on core principles that underpin the Council's five year capital programme, providing a position statement of progress (capital expenditure) and the resources available (funding). The Strategy projects the Capital programme while setting out how the programme will be achieved focusing on key issues and risks that will impact on the delivery of the Capital strategy and the governance framework required to ensure the Strategy is delivered.

3.3 The Strategy maintains a strong and current link to the Council's priorities and to its key strategy documents, notably the Treasury Management Strategy,

Asset Management Strategy, Property Investment Strategy, Medium Term Financial Plan and the Corporate Plan.

4.0 Alternative Options Considered

4.1 The Capital Strategy is a requirement of the Prudential Code for Capital Finance 2017, no alternatives considered as this is a code requirement.

5.0 Reasons for Recommendations

5.1 To ensure the Council adopts the Prudential Code for Capital Finance 2017.

6.0 Future Work and Conclusions

6.1 The Capital Strategy will be monitored and reviewed annually.

7.0 Financial Implications

7.1 There are no direct financial implications arising from this report. The Capital Strategy provides a position statement with regards to capital expenditure and the resources available in terms of funding.

8.0 Asset Based Community Development (ABCD) Considerations

8.1 This report notes the Capital Strategy of the Council. This is a requirement of the CIPFA Prudential Code for Capital Finance 2017 - There are no anticipated ABCD implications from this report.

9.0 Legal Implications

9.1 The Council is required to have a Capital Strategy to meet the requirements of the CIPFA Prudential Code for Capital Finance 2017.

10.0 Risk & Opportunity Management Implications

10.1 The Council must have a Capital Strategy by 31st March 2019.

11.0 People Impact Assessment (PIA):

11.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

12.0 Other Corporate Implications

Community Safety

12.1 None

Sustainability

12.2 None

Staffing & Trade Union

12.3 None

Background Documents: Local Government Act 2003
CIPFA Prudential Code

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Appendix 1 Capital Strategy 2019/20

Introduction

This capital strategy is a new report for 2019/20, giving 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.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that 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, for example assets costing below £6,000 are not capitalised and are charged to revenue in year.

- For details of the Council's policy on capitalisation, see: Statement of Accounts 2017/18 page 21, Accounting Policies point 19 - Statement of Accounts

In 2019/20, the Council is planning capital expenditure of £17.623m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
General Fund services	7.761	5.258	17.623	24.884	60.759
TOTAL	7.761	5.258	17.623	24.884	60.759

The capital programme includes a variety of projects from large regeneration to smaller individual projects, the main capital projects are detailed below:

Kings Walk – The initial project included a capital investment of £5m from the City Councils project partners Reef. This initial investment was for improvements and conversion of the former BHS store, Kings Walk car park and improvements to the Mall. The next phase will look to make further enhancements to the Mall in line with the Councils investment in Kings Square, and will explore further opportunities such as key worker accommodation. The Council anticipates initially borrowing to facilitate this project, with borrowing costs being met by the forecast income.

There is also the opportunity for further unit purchases by the Council. This will be done on a case by case basis, as the Council continues to redevelop the area. Borrowing costs will be met from income generated through the project.

Kings Quarter – following recent completion of the Bus Station, the project continues with the redevelopment of Kings Square. Planning and enabling works have already been committed at £1m, which will be funded from a combination of capital receipts and the Regeneration fund. Future costs will be funded from borrowing, initially borrowing costs will be met from the VAT shelter income, before been offset against income generated from the development.

Railway Station – Work will redevelop the station and link it to the Bus Station and City Centre, this project will be funded via the LEP.

The Fleece – The Council continues to explore opportunities for the redevelopment of this iconic part of the City. The Council will support the redevelopment, but this project is anticipated to be developer led.

Governance: The Capital Projects Steering group and/or the Property Investment Board review projects for inclusion within the Council's capital programme. Projects are collated by finance who calculate the financing cost (which can be nil if the project is fully externally financed). The groups appraise all bids based on a comparison of service priorities against financing costs and makes recommendations for the capital programme. 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 see: Money Plan

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 debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
External sources	6.550	3.456	0.929	0.574	0.494
Own resources	1.211	0.761	0.694	0.310	0.265
Debt	0	1.041	15.000	24.000	60.000
TOTAL	**7.761**	**5.258**	**17.623**	**24.884**	**60.759**

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 and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Own resources	0.529	0.560	0.871	1.229	2.126

- The Council's full minimum revenue provision statement is available here: Treasury Management Strategy - MRP

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 and capital receipts used to replace debt. The CFR is expected to increase by £15.377m during 2019/20. 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 in £ millions

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	45.032	45.513	60.642	83.413	141.287
TOTAL CFR	**45.032**	**45.513**	**60.642**	**83.413**	**141.287**

Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. Gloucester City Council has a diverse estate from ancient monuments to commercial property. The asset management strategy details our approach to managing our diverse assets including our acquisitions and disposals, planned maintenance, governance and performance.

- The Council's asset management strategy can be read here: Asset Management Strategy

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 plans to receive £2.703m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Asset sales	0.914	0.160	2.703	0.000	0.000
Loans repaid	0.000	0.000	0.000	0.000	0.000

TOTAL	**0.914**	**0.160**	**2.703**	**0.000**	**0.000**

- The Council's Flexible Use of Capital Receipts Policy is available here: Flexible Use of Capital Receipts Policy

Treasury Management

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 being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

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 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases are shown below, compared with the capital financing requirement (see above).

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

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Debt (incl. PFI & leases)	37.542	38.863	55.233	79.596	139.952
Capital Financing Requirement	45.032	45.513	60.890	83.413	141.287

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.

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.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	**2019/20 limit**	**2020/21 limit**	**2021/22 limit**

Authorised limit - borrowing	£55	£110	£110	£110
Authorised limit - PFI and leases	£35	£35	£35	£35
Authorised limit - total external debt	£90	£145	£145	£145
Operational boundary - borrowing	£50	£105	£105	£105
Operational boundary - PFI and leases	£25	£25	£25	£25
Operational boundary - total external debt	£75	£130	£130	£130

- Further details on borrowing are in pages 11 to 15 of the treasury management strategy Treasury Management Strategy

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.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that 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 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.

- Further details on treasury investments are in pages 16 to 21 of the treasury management strategy - Treasury Management Strategy

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Policy and Resources and staff, who must act in line with the treasury management strategy approved by Council. Half yearly reports on treasury management activity are presented to Audit and Governance Committee which is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council makes investments to assist local public services, including making loans to local service providers, businesses to promote economic growth, the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs.

Governance: Decisions on service investments are made by the relevant service manager in consultation with the Head of policy and Resources and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital

expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

With central government financial support for local public services declining, the Council produced a Property Investment Strategy for investments in commercial property purely or mainly for financial gain.

With financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include a fall in capital value on purchases, or vacancies within purchased property. These risks are managed in accordance with our Property Investment Strategy. In order that commercial investments remain proportionate to the size of the authority, these are subject to an overall maximum investment limit of £80m.

Governance: Decisions on commercial investments are made by the Property Investment Board in line with the criteria and limits approved by council in the Property Investment Strategy which include delegation for the Head of Policy and Resources to approve purchases up to £15m with purchases greater than £15m requiring Cabinet approval.

- Further details on other commercial activities are in the Property Investment Strategy: Property Investment Strategy

Liabilities

In addition to debt of £37.542m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £63.964m). It has also set aside £1.8m to cover risks of provisions, this mainly relates to NNDR appeals, were the Council has estimated the costs arising from appeals by ratepayers. The Council did not have any contingent liabilities in 2017/18.

Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with head of Policy and Resources. The risk of liabilities crystallising and requiring payment is monitored by finance.

- Further details on provisions (page 50), liabilities and guarantees are on page 65 of the 2017/18 statement of accounts - Statement of Accounts

Revenue Budget Implications

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 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Financing costs (£m)	2.075	2.138	2.460	2.343	2.343
Proportion of net revenue stream	12.40%	13.04%	14.41%	13.74%	14.04%

- Further details on the revenue implications of capital expenditure are noted within the 2019/20 revenue budget - Money Plan

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 Head of Policy and Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Policy and Resources is a qualified accountant with 25 years' experience, the Accountancy Managers are both qualified accountants with 25 and 14 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and CIMA.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Asset Services as treasury management advisers, the Council employs property consultants on a case by case basis. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

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