EXETER CITY COUNCIL

CAPITAL STRATEGY 2022/23

1. Introduction

1.1. This capital strategy sets out how, when the City Council considers often-competing demands for investments, it takes account of stewardship, value for money, prudence, sustainability and affordability in a long term context, and gives due consideration to both risk and reward and impact on the achievement of the Council's priority outcomes. It is part of the Council's integrated operational, revenue, capital and balance sheet planning.

1.2. As local authorities become increasingly complex and diverse, it is vital that Councillors and senior Officers are fully informed about the long term context in which investment decisions are made and about all the financial and operational risks to which the authority is exposed. With local authorities having increasingly wide powers around commercialisation and being part of group arrangements or combined authorities, it is increasingly important for Councils to take into account the residual risks and liabilities all around them.

1.3. This capital strategy covers both the General Fund and the Housing Revenue Account, supporting service provision and linking with the Council's Corporate Strategy and Medium Term Financial Strategy. It provides a framework for the development of the three year capital programme.

2. Purpose and Aims

2.1. The purpose of this capital strategy is to help achieve the strategic priorities of the Corporate Plan, which are to:

- Help deliver the emerging Exeter Vision 2040, by providing services and developments that build on Exeter's growth and success and meet local communities' aspirations.

- Focus on the Council's corporate priorities:

    - Delivering Net Zero Exeter 2030
    - Promote active and healthy lifestyles
    - Build great neighbourhoods
    - Provide value-for-money services
    - Lead a well-run council

These priorities contribute to developing the Exeter Vision for 2040, which at the time of writing (December 2020) is:

"By the time they are an adult, a child born in Exeter today will live in a city that is inclusive, healthy and sustainable – a city where the opportunities and benefits of prosperity are shared and all citizens are able to participate fully in the city's economic, social, cultural and civic life."

2.2. The Prudential Code for Capital Finance in Local Authorities was updated by the Chartered Institute of Public Finance and Accountancy in December 2017. The framework established by the Prudential Code supports local strategic planning, local asset management planning and proper option appraisal.

2.3. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

2.4. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long run financing implications and potential risks to the authority.

2.5. The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3. What is Capital Expenditure?

3.1. An understanding of what constitutes capital expenditure is fundamental to realising the benefits that an authority can obtain under the Prudential framework. Unless expenditure qualifies as capital it will normally fall outside the scope of the framework and be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years' revenues.

There are three ways in which expenditure can qualify as capital under the framework:-

- The expenditure results in the acquisition, construction or enhancement of fixed assets (tangible and intangible) in accordance with 'proper practices'.
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

4. Approach to Capital Investment

4.1. The Council's approach to capital investment is fundamental to the Council's financial planning processes. It aims to ensure that:

- Capital expenditure contributes to the achievement of the Council's strategic plan.
- An affordable and sustainable capital programme is delivered.
- Use of resources and value for money is maximised.
- A clear framework for making capital expenditure decisions is provided.
- A corporate approach to generating capital resources is established.
- Access to sufficient long term assets to provide services are acquired and retained.
- Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged.
- An appraisal and prioritisation process for new schemes is robust.

5. Governance Arrangements

5.1. Capital Programme Approvals

The Authority's constitution and financial regulations govern the capital programme as set out below:

- All capital expenditure must be carried out in accordance with the financial regulations and the Council's Constitution.
- The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards.
- The Capital Programme approved by Full Council as part of the Council's annual budget report sets the capital funding availability for the Council, the prioritisation of funding and the schemes receiving entry into the Capital Programme.
- Officers are not authorised to commit expenditure without prior formal approval as set out in the financial regulations.
- Each scheme must be under the control of a responsible person/project manager.
- Any agreements (such as section 106) which contractually commit to procure capital schemes will need to follow the same approval process as other capital expenditure before it can be formally incorporated into the capital programme.

Full Council:

- Approves the capital programme as part of the Annual Budget Report within the strategic boundaries set by the Council.
- Approves capital schemes into the approved capital programme to enable commencement of delivery and schemes to start to incur expenditure.

6. Funding Streams

Exeter City Council's Capital Programme is funded from a mix of sources including:

- **Prudential Borrowing** – The introduction of the Prudential Code in 2004 allowed the Council to undertake unsupported borrowing. This borrowing is subject to the requirements of the Prudential Code for Capital Expenditure for Local Authorities. The Council must ensure that unsupported borrowing is affordable, prudent and cost effective. This funding can also be used as an option to front fund development to stimulate growth. This has provided the Council with the flexibility to raise capital funding as demand and business need have dictated. This type of borrowing has revenue implications for the Council in the form of financing costs. An authority must not borrow to invest primarily for financial return.

- **External Grants** – such as disabled facilities grant funding

- **Section 106, Community Infrastructure Levy (CIL) and External Contributions** – Elements of the capital programme are funded by contributions from private sector developers and partners.

- **Revenue Funding –** The Council can use revenue resources to fund capital projects on a direct basis and this funding avenue has been used in the past. However, pressures on the Council's revenue budget has reduced options in this area and therefore the preference is for Invest to Save options to be adopted where feasible.

- **Capital Receipts –** The Council is able to generate capital receipts through the sale of surplus assets such as land and buildings. The Council seeks to maximise the level of these resources which will be available to support the Council's plans.

The size of the Capital Programme will be influenced by funding sources and financing costs. The main limiting factor on the Council's ability to undertake capital investment is whether the revenue resource is available to support in full the implications of capital expenditure, both borrowing costs and running costs, after allowing for any support provided by central government, now mainly through capital grants.

The Council is required to set aside a Minimum Revenue Provision (MRP) in respect of capital expenditure previously financed by borrowing. To reduce risk and minimise cost on the General Fund, it has been decided to defer borrowing where possible, however some targeted long term borrowing will be undertaken in 2022-23, where the costs will be offset against future income streams.

Revenue Implications

The revenue implications of capital investment must always be considered in investment decisions and prioritisation of projects. These include costs and savings implications.
Costs to consider include:

- Cost of borrowing (including Minimum Revenue Provision)
- Loss of investment income if reserves or useable capital receipts are used
- Running costs associated with the asset:

Savings, including benefits, to identify in the proposal include:

- Any positive impact of investment and economic growth on the Council's council tax base and business rates income
- Capital projects that generate income, revenue savings or efficiencies

7. Stewardship of Assets

The Council's Asset Management Plan sets out the condition of its assets and the arrangements for managing these effectively. The Council's Corporate Property Strategy enhances these arrangements, including increasing the awareness that efficient use of property is an important element of maximising the value obtained from the Council's overall resources.

An extensive stock condition survey has been carried out on the majority of the Council's assets. This has identified actions required and has built the capital programme for the next four years.

8. Service Objectives

The option appraisal of proposed capital schemes overseen considers, amongst other factors, the following:

- How the proposal help achieve the objectives and priorities set out in the Council's Strategic Plan 2018-2021.

- How the proposal will help achieve objectives set out in Departmental Strategic Plans.

- The service improvements and other anticipated benefits expected to be delivered from the investment.

9. Monitoring

- Capital budget holders are responsible for providing quarterly forecasts to the Finance Team. Any slippage, acceleration, underspends or overspends on schemes is identified as soon as possible.

- All forecasts are collated by the Finance Team and reported to the Executive and Council on a quarterly basis.

DIRECTOR FINANCE
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