



**South  
Cambridgeshire  
District Council**



## Capital Strategy

**FEBRUARY 2023 2024**

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## **1. Introduction**

The Capital Strategy forms a part of the Council's overall corporate planning framework. It provides the mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's overarching corporate priorities and objectives over a medium term, five year, planning horizon.

It sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, funding, management and monitoring. The strategy has direct links to the Corporate Asset Plan (CAP) and Housing Revenue Account (HRA) Asset Management Plan and forms a key part of the Council's Medium Term Financial Strategy (MTFS).

The Capital Strategy includes sufficient detail to allow Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and how this meets legislative requirements on reporting.

## **2. Strategic Aims**

- 2.1 The Council's long term vision is set out in the 2020-2025 Business Plan in which four themes guide the approach, each focussed on enhancing South Cambridgeshire as a place where people, communities, businesses can grow and realise their potential.
- 2.2 The 2020-2025 Business Plan is seen as an overarching document that links individual Service Plans and Council Strategies, including the Capital Strategy. The Capital Strategy supports the achievement of the Council's vision through investment in the assets the Council owns, the delivery of key infrastructure to support growth and improvement in services, and through improvements to the services and systems that the Council utilises. The key aims of the Capital Strategy are to:
  - Provide a clear context within which proposals for new capital expenditure are evaluated to ensure that all capital investment is targeted at meeting the Council's vision, aims, approaches and actions;
  - Deliver projects that focus on delivering revenue benefits in the form of spend to save, spend to earn or generate growth in revenue income;
  - Set out how the council identifies, programmes and prioritises capital requirements and proposals arising from the Business Plan, Service Plans, CAP and other related strategies;
  - Consider options available for funding capital expenditure and how resources may be maximised, to generate investment in the area, to determine an affordable and sustainable funding policy framework whilst minimising the ongoing revenue implications of any such investment;
  - Identify the resources available for capital investment over the MTFS planning period; and
  - Establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, and the achievement of value for money.

## **3. Investment Priorities**

- 3.1 Underlying the Capital Strategy is the recognition that the financial resources available to meet corporate priorities are constrained in the current economic and political climate. Central government support for capital investment has reduced significantly over the last few years, along with these reductions is the recognition that the Council must rely on internal resources and find ways in which investment decisions can be either self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

- 3.2 Against the background of limited central government support the capital programme identifies the total investment needed to support the achievement of Council's aims and objectives such as housing, economic development and climate emergency. The Council's capital investment plans are also important to the ongoing financial resilience of the authority given the key objective of investing in commercial assets to deliver a positive financial return for the benefit of the revenue budget.
- 3.3 Significant investment in council housing over the last few years has succeeded in producing a property portfolio generally at or above the decent homes standard and the delivery of a new build programme. Imposed reductions in property rent of 1% for 4 years from April 2016 and the threat of the need to sell high value voids impacted the Council's ability to continue this level of programme in the longer term, necessitating a strategic review of assets, service delivery and financing. In the short term the new build programme has been maintained by utilising resources previously ear-marked for potential debt redemption, but this does mean that the authority will need to refinance its housing debt when it matures. A commitment to repeal the sale of high value voids legislation and the removal of the HRA borrowing cap mean that a longer-term program of new build can now be developed.
- 3.4 Although the Council has commercial property investments, housing continues to make up the Council's largest asset, so there are limited opportunities to raise capital receipts through disposals, therefore, the limited capital resources available through grant, capital receipts and private sector contributions are prioritised to maximise outputs with minimum ongoing future revenue costs.
- 3.5 Capital investment in the Council's wholly owned subsidiary, Ermine Street Housing, and other loans for commercial & service investment purposes, offer the opportunity to realise interest receipts which will contribute to the Council's revenue funding.
- 3.6 Cambridgeshire is an area of growth with the Greater Cambridge Partnership (formerly City Deal) offering financial support to deliver infrastructure to facilitate the delivery of homes and business space, as set out in the draft local plans for Cambridge City and South Cambridgeshire council areas. This will in turn contribute towards council funding in the longer term in the form of additional council tax and business rates receipts.
- 3.7 A further opportunity is the designation of Enterprise and Development Zones, including sites at Cambourne Business Park, Cambridge Research Park and Northstowe, which have the potential to offer incentives to enable the creation of new businesses and employment.
- 3.8 The major themes of the Capital Programme are, therefore, as follows:
- **Economic Investment:** The Council will continue to seek investments that generate longer term growth. These projects will yield a combination of revenue generation (business rates, rent or interest), jobs and capital infrastructure investment, based on sound business cases. This also includes investment to support the Business Plan priority "Green to the Core" with consequent carbon reduction and revenue payback benefits.
  - **Existing Housing:** Significant investment has been made in recent years to raise the standard of council dwellings to meet the government's decent homes standard. In addition to the decent homes investment, the authority has previously invested in energy conservation projects such as external wall insulation, solar energy initiatives and renewable heating sources.

- **New Housing Supply and Housing Partnerships:** The Council are managing a new build programme in-house, which is anticipated to deliver an average of just over 50 new homes per annum to meet local housing need. Opportunities to work with the Combined Authority to deliver new affordable homes in the district are also being fully explored.
- **Commercial Housing Enterprise Initiatives:** The Council has established a Housing Company (South Cambs Limited trading as Ermine Street Housing) to enable the supply of private rented housing stock.
- **Strengthen the Council's Asset Base:** An approved Investment Strategy aims to provide a robust and viable framework for the acquisition of commercial property investments in the pursuance of redevelopment and regeneration opportunities that contribute to Business Plan objectives and can deliver positive financial returns to the Council.
- **Maintaining Corporate Property Assets:** Significant investment is committed in the capital programme towards maintaining the Council's assets, including environmental improvements. To manage its maintenance liability, the Council is rationalising its office accommodation through sub-let of office space, providing a contribution to ongoing revenue savings. A process of on-going reviews will identify potential alternative use of office buildings and car park for capital investment to generate long term revenue savings.
- **Efficiency through Technology:** The Council is investing in technology to deliver a digital solution to the transformation of service delivery and in so will increase the accessibility of Council services and reduce operating costs. The Council's ICT service is shared with Cambridge City and Huntingdonshire District Councils, and appropriate investment into ICT hardware and software will continue to be undertaken on a case by case basis, the primary focus being improved technologies on a spend to save basis.
- **Refuse and Recycling Collection:** A shared trade and domestic waste collection service with Cambridge City Council, supported by capital investment, will achieve long term revenue savings through service rationalisation and vehicle efficiencies.
- **Community Projects:** Capital grants to other organisations will be considered where the council incurs no staff or other recurring costs; these organisations are, however, expected to raise additional capital resources from the National Lottery, Sports Council, etc. The Council has a funding toolkit on its website to assist organisations seeking funding.

#### **4. Governance Arrangements**

- 4.1 The Council has various mechanisms in place which seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Council's over-arching aims.
- 4.2 An integrated service and financial planning process is followed. Within this framework all proposals for capital investment are required to demonstrate how they contribute to the Council's aims and objectives. The evaluation process for investment proposals aligns corporate objectives with costs and benefits ensuring delivery of efficiency and value for money. Investment appraisal forms and the criteria for prioritising capital bids are available to managers on the Council intranet.

#### 4.3 Specific governance processes include:

- Democratic decision making and scrutiny processes which provide overall political direction and ensure accountability for the investment in the capital programme. These processes include:
  - The Council which is ultimately responsible for approving investment and the capital programme;
  - The Cabinet which is responsible for setting the corporate framework and political priorities to be reflected in the capital programme, with Cabinet receiving regular monitoring reports;
  - The Scrutiny and Overview Committee which is responsible for scrutiny of the Capital Strategy and capital programme;
  - The need for compliance with Standing Orders and Financial Regulations.
- Officer groups which bring together a range of service interests and professional expertise. These include:
  - The Executive Leadership Team which has overall responsibility for the strategic development, management and monitoring of the capital programme;
  - Corporate Management Team, providing service manager review and monitoring of key areas;
  - Specific project boards with wide ranging membership, for example the Greater Cambridge Partnership Board;
  - Management teams which overview reports for investments prior to Executive Leadership Team and Cabinet approval;
  - Project Teams created to oversee significant capital projects as required.

4.4 Council assets are kept under review, valuations of land and property being undertaken by a professionally qualified valuer every five years, with an annual review at year end to ensure material changes in asset value are accounted for. The CAP and HRA Asset Management Plan will ensure that a comprehensive forward plan of maintenance and improvement work is identified to support funding allocations in the Council's forward capital programme.

## **5. Capital Programme Monitoring**

5.1 Effective arrangements for the management of capital expenditure are essential, including the assessment of project outcomes, budget profiling, deliverability and the achievement of value for money. In terms of project outcomes and deliverability, the Cabinet will, therefore, receive an annual report covering:

- the details of schemes commenced on time;
- the details of schemes completed on time;
- how many schemes were completed within budget;
- the extent to which predetermined investment objectives were met.

5.2 A post implementation review of key capital projects should be undertaken by the relevant Lead Officer and reported to Cabinet as part of the annual report.

5.3 Established monitoring processes should ensure that project risks, such as project slippage, lack of engagement from project managers, skills shortage, poor IT systems, are identified, evaluated and managed. Risks should be clearly identified in the Council's risk register and the impact of any such risks on key investment priorities should be reported to Cabinet as part of regular monitoring reports.

## **6. Capital Expenditure and Financing**

- 6.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. For local government this includes spending on assets owned by other bodies, i.e. loans and grants enabling them to acquire assets. The Council has limited discretion on what counts as capital expenditure; capital spending below £10,000 (the deemed de-minimus value) is not capitalised and, as such, is charged to revenue.
- 6.2 Details of gross capital expenditure approved in the current Capital Programme are set out in Annex A **Prudential Indicator 1: Estimates of Capital Expenditure**.
- 6.3 Under certain circumstances the Council acts as an intermediary for central government in relation to transferring specific capital grants to third parties. The Council is committed to actively working with partners in the public, private and voluntary sectors to maximise capital investment in order to promote the social, economic and environmental wellbeing of the District and its residents.
- 6.4 Capital expenditure must be financed, either from external sources (government grants/external contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The main sources of capital funding are summarised below:
- **Central Government:**
    - Grants are allocated in relation to specific programmes or projects and the Council would seek to maximise such allocations, developing appropriate projects which reflect government and partnership led initiatives and agendas while addressing the needs of the District. In general terms, the major source of capital funding available to the Council has been grant approvals allocated by Central Government to specific or non-specific projects. This is, however, a diminishing resource and, where a priority is identified, alternative funds need to be sourced.
    - A significant amount of current funding is in the form of the New Homes Bonus (NHB) part of which is allocated to fund future capital infrastructure through the Greater Cambridge Partnership.
  - **Third Party Funding:**
    - Capital grants represent project specific funding for capital projects, in addition to those from central government, more usually received from quasigovernment sources or other national organisations. In developing capital proposals, the Council will seek to maximise such external contributions, subject to any related grant conditions being consistent with the Council's policy, aims and outcomes.
  - **Private Contributions:**
    - The Council will seek to maximise developer contributions (e.g. for the provision of affordable housing or sustainable community needs) through the Section 106 process and will also review the potential of the new Community Infrastructure Levy (CIL) to support on-going investment.

- The Council will continue to work with the private sector to utilise or re-purpose redundant assets to facilitate regeneration and employment creation.
- **Borrowing:**
  - The Council has discretion to undertake prudential 'unsupported' borrowing under the Prudential Code. This discretion is subject to compliance with the Code's regulatory framework which requires any such borrowing to be prudent, affordable and sustainable.
  - Given the pressure on the Council's revenue budget in future years, prudent use will be made of this discretion in cases where there is a clear financial benefit such as invest to save, spend to earn or regeneration schemes which do not increase expenditure in the longer term.
- **Capital Receipts:**
  - Unallocated capital receipts received prior to April 2012 are available for general use and, as such, will be used for General Fund and/or HRA capital expenditure. Capital receipts received after April 2012 primarily relate to HRA property and land sales, the use of which is subject to detailed national regulations and associated guidance. The Capital Programme will detail anticipated capital receipts and the proposed use of these within the constraints imposed.
  - Most disposals relate to dwellings sold under the government right to buy scheme; the scheme allows the retention of some of the receipts subject to certain conditions i.e. used to fund the delivery of new social housing to a maximum of 30% of any dwelling funded through this method, with the balance being funded from the Council's own resources or by borrowing.
  - Capital receipts from asset disposal are a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment as and when received, with restrictions on the use of HRA receipts for any other purpose.
- **Lease Finance:**
  - Where alternative funding is not available for vehicles or minor equipment, and the revenue budget does not allow for a full capital repayment, and there is a robust business case then the option of leasing may be considered.
- **Revenue Contributions:**
  - Capital expenditure may be funded directly from revenue as specific budget provision, however, the pressures on the Council's revenue budget and Council Tax levels limits the extent to which this may be exercised as a source of capital funding for the General Fund. Revenue is used extensively to support the HRA programme, whilst maintaining the minimum level of reserves.

- 6.5 External contributions include Section 106 developer contributions or CIL. Local Authorities in receipt of CIL or S106 contributions must now produce an Infrastructure Funding Statement (IFS) as a result of recent changes to legislation - the Community Infrastructure Levy (Amendment) (England) (No.2) Regulations 2019. It sets out income receivable and how the money is being spent or plans to be spent. A link to the Council's IFS is included in the Strategy.
- 6.6 Council resources will be allocated to programmes based on asset values to manage long term yield and revenue implications. Where possible, capital receipts will be focussed on assets with short term life span, e.g. vehicles and equipment, and the unsupported borrowing on long term assets e.g. land and buildings.
- 6.7 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). The Council sets aside the MRP for debt repayment in accordance with its MRP policy as set out in the Treasury Management Strategy.
- 6.8 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 planned Capital Financing Requirement is set out in Annex A **Prudential Indicator 2: Estimates of Capital Financing Requirement.**

## **7 Asset Management**

- 7.1 To ensure that General Fund capital assets continue to be of long term use, the Council has a **Corporate Asset Plan (CAP)**. The CAP priorities are to:
1. Manage assets strategically as a corporate resource and continue to embed the Corporate Landlord model;
  2. Support and empower local people by providing the right property, in the right place, at the right time;
  3. Provide value for money and secure efficiencies for the future;
  4. Support economic growth and regeneration by supporting and responding to local business needs;
  5. Work effectively with partners to maximise sharing and delivery opportunities;
  6. Reduce the environmental impact of the estate through initiatives such as energy reduction/efficiencies.
- 7.2 Asset condition assessments will be regularly undertaken to inform the identification of capital replacements within the CAP.
- 7.3 A separate HRA Asset Management Plan also exists to ensure the effective management of the Council's HRA assets.
- 7.4 Asset disposals: Where a capital asset is no longer needed by the Council, it may be sold so that the proceeds, known as capital receipts, can be used to fund investment on new assets or to repay outstanding debt. The Council has also been permitted to spend capital receipts on service transformation projects based on the Direction issued by the Secretary of State under Sections 16(2)(b) and 20 of the Local Government Act 2003: Treatment of costs as Capital Expenditure. Further statutory guidance, effective from 1 April 2022, requires the Council to establish a Flexible Use of Capital Receipts Policy.



- 7.5 The Council's Flexible Use of Capital Receipts Policy is, therefore, as follows: The Council may treat as capital expenditure, expenditure which although in normal circumstances is a revenue cost is deemed to be Capital Expenditure consistent with Capitalisation Directions issued by DLUHC for the period 2022/2023 to 2024/2025. The Capitalisation Direction sets out the categories of revenue that can be deemed capital and the reporting requirements applicable. All revenue expenditure that is capitalised should give rise to ongoing revenue savings, i.e. transformational in nature. The type of revenue spend, limits on spending and the savings arising from this are required to be set out in a schedule and approved by Full Council (as part of the Capital Strategy). The spending limits cannot be exceeded without further approval by Full Council. Whilst this option is available for use, there is no expectation that the Council will make use of the Capital Receipts flexibility.

## **8 Treasury Management**

- 8.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts. The Council typically has cash available in the short-term as revenue income is received before it is spent, but in the long-term capital expenditure is incurred before being financed. The short term revenue cash balances are offset against capital expenditure to reduce overall borrowing.
- 8.2 The Council's main objective when borrowing from external sources is 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 less costly short term loans and long term fixed rate loans where the future cost is known but is higher.
- 8.3 Projected levels of the Council's total outstanding debt (which comprises borrowing and lease liabilities) compared with the Capital Financing Requirement are shown in Annex A **Prudential Indicator 3: Gross Debt and the Capital Financing Requirement**. Debt remains below the Capital Financing Requirement as required by statutory guidance.
- 8.4 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 Limits are set out in Annex A **Prudential Indicator 4: Authorised Limit and the Operational Boundary for External Debt**.
- 8.5 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain (i.e. commercial venture with a long term revenue stream anticipated) are not considered to be part of treasury management. The Council's policy on treasury investment 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 bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation.
- 8.6 Decision on treasury management investment and borrowing are made daily and are, therefore, delegated to the Head of Finance, being the Council's Chief Finance Officer and appropriately qualified staff, who must act in line with the Treasury Management Strategy that is approved annually by Council.

- 8.7 Due regard will be given to the prevailing rules in relation to local authority borrowing from the PWLB and, in particular, the impact of borrowing for the acquisition of commercial assets on the Council's wider borrowing requirements. Due regard will be given to the guidance published by HM Treasury on 25 November 2020 entitled, "Public Works Loan Board: future lending terms – Response to the consultation". The new borrowing rules restrict the ability of local authorities to borrow from PWLB for pure investment in commercial property.
- 8.8 As a condition of accessing the PWLB, Local Authorities must submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB. As part of this, the Head of Finance will need to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years. This assessment is based on their professional interpretation of guidance issued. When applying for a new loan, the Local Authority must confirm that the plans they have submitted remain current and provide assurance that they do not intend to buy investment assets primarily for yield.
- 8.9 **The Council does not intend to borrow to invest for the primary purpose of financial return and, therefore, retains full access to the PWLB. The Council acknowledges that, if in the future it ~~if the Council~~ intends to buy commercial assets primarily for yield (even by using reserves) then they will be prevented from taking any PWLB borrowing and will need to consider alternative sources of funding. It is not, therefore, permitted to reprofile the capital programme so that borrowing is only used on allowed projects, with internal borrowing used for commercial activities.**

## **9 Investment Strategy**

- 9.1 In addition to the Capital Strategy, the Council is now required to have a separately approved Investment Strategy.
- 9.2 With central government financial support for local public services declining, Council investment in commercial property, although not purely for financial gain does nevertheless generate a financial return. In addition, the Council may lend to its wholly owned company Ermine Street Housing for financial gain.
- 9.3 A key objective of the Investment Strategy was to invest in commercial assets to achieve a positive financial return, however, following the PWLB consultation response of November 2020 there is now a presumption against investments made purely for yield. The capital programme currently assumes spend of £406 **51** million between ~~2022/2023~~ **2023/2024** and ~~2027/2028~~ **2028/2029**. This will be reviewed annually in light of progress against the Strategy and availability of potential investments that meet the new criteria. This Investment Strategy still continues to be important to the Council's capital investment plans and to the ongoing financial resilience of the authority.
- 9.4 With financial return of the existing investments being a key objective (i.e. not a subsidised provision), the Council acknowledges higher risk on commercial property investment than with treasury investments. The principal risk exposures include vacancy rates due to market conditions and external economic influences; potential reduction in both rental and capital values due to market changes; obsolescence due to changing demand and technological changes; and the impact of Minimum Energy Efficiency Regulations 2015. These risks are managed in accordance with the Council's approved CAP through proactive estates management practices and regular reviews of the performance of and continued requirement for each asset.

## 10 Revenue Budget Implications

- 10.1 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. **Financing costs (before deducting investment income – a change under the revised Prudential Code 2021) are, this is** compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government Grants. Forecasts are set out in Annex A **Prudential Indicator 5: Proportion of Financing Costs to Net Revenue Stream.**
- 10.2 Due to the very long term nature of capital expenditure and financing, the revenue budget implications of capital expenditure incurred in the next few years could potentially extend for up to 50 years into the future. The Capital Programme is formulated within the financial constraints of the Council's Prudential Indicators set out in Annex A to this Strategy.
- 10.3 In assessing affordability, the Council takes a whole life costing approach to capital investment decisions whereby the Council not only has to consider the availability of internal and external resources but also has to quantify the impact of such investment decision on future revenue budgets and tax-payers.
- 10.4 The Council is committed to achieving value for money when making investment decisions and compliance with the regulations relating to the Prudential Framework for Capital Finance and reporting requirements set out in the Code of Practice on Local Authority Accounting. The Head of Finance as the Council's Chief Finance Officer is required, under Section 25 of the Local Government Act 2003, to report on the robustness of estimates (in relation to the proposed budget) and the adequacy of financial reserves. This Section 25 Report takes into account the Council's capital investment plans and, as such, incorporates the Prudential Code requirements of the proposed capital programme being prudent, affordable and sustainable.

## 11 Knowledge and Skills

- 11.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Executive is a qualified accountant with ~~46~~ **17** years' experience. The Head of Finance is a qualified accountant and has ~~29~~ **30** years' experience. A designated Accountancy Assistant with relevant experience completes the structure which will ensure the Council meets the requirements of MiFiD II Professional Investor. The Council supports junior staff to study towards relevant professional qualifications including CIPFA and RICS.
- 11.2 Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently contracts Link Asset Services as its Treasury Management Advisor and, where property consultants are required, they will be RICS qualified. The use of consultants is regarded as more cost effective than employing such staff directly, and the approach adopted ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 11.3 Councillors undertake training on the Capital Strategy and supporting Investment Strategy and Treasury Management Strategy, and regular reports on treasury management performance are submitted to the established Audit & Corporate Governance Committee.

## 12 Reference Documents and Relevant Documents

12.1 This Strategy covers the requirements of the updated 2021 Prudential Code, including the Prudential Indicators. The key reference documents include:

- CIPFA Prudential Code for Capital Finance in Local Authorities 2021 ~~2017~~ Edition
- CIPFA Prudential Code for Capital Finance in Local Authorities Guidance Notes for Practitioners 2021 ~~2018~~ Edition
- CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021 ~~2017~~ Edition
- CIPFA Guidance on Prudential Property Investment
- CIPFA Code of Practice on Local Authority Accounting in the UK 2022/2023 ~~2019/2020~~
- Statutory Guidance on Local Government Investment (3rd Edition) 2018
- Statutory Guidance on the Minimum Revenue Provision 2018

12.2 Reference is made to a number of relevant documents that provides more details of the projects, risks, funding and timescales. The links are as follows:

- Business Plan:  
<https://www.scams.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/our-business-plan/>
- Revenue and Capital Estimates: [2023/2024 budget to be considered at the meeting]
- Corporate Asset Plan:  
<https://www.scams.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/corporate-asset-plan/>
- HRA Asset Management Plan:
- Medium Term Financial Strategy:  
<https://www.scams.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/medium-term-financial-strategy/>
- Investment Strategy:  
<https://www.scams.gov.uk/your-council-and-democracy/performance-and-plans/our-investment-strategy/>
- Treasury Management Strategy: [Draft document to be considered at the meeting]
- Infrastructure Funding Statement  
[Infrastructure Funding Statement - South Cambs District Council \(scams.gov.uk\)](https://www.scams.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/infrastructure-funding-statement)
- Standing Orders:  
<https://scams.moderngov.co.uk/documents/s106702/01%20-%20Standing%20Orders>

- Financial Regulations:

<https://scams.moderngov.co.uk/documents/s106707/06%20-%20Financial%20Regulations>

## Recommended **Capital** Prudential Indicators

The Prudential Indicators and Limits are based on currently known information and, in particular, the approved capital programme. Consequently, the indicators and limits set out below are subject to change (e.g. if any amendments are made to the capital programme).

These indicators and limits are to ensure the Council manages its finances in a clear and transparent manner, and that the impact of capital expenditure decisions on current and future budgets is understood.

### 1. Estimates of Capital Expenditure (National Indicator)

This indicator provides the level of gross capital expenditure that is estimated to be incurred. The estimated expenditure includes schemes where funding has already been approved.

|                            | 2022/2023<br>Actual<br>£000 | 2023/2024<br>Forecast<br>£000 | 2024/2025<br>Forecast<br>£000 | 2025/2026<br>Forecast<br>£000 | 2026/2027<br>Forecast<br>£000 |
|----------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Capital Expenditure</b> | 36,925                      | 76,921                        | 58,514                        | 62,397                        | 41,693                        |

### 2. Estimates of Capital Financing Requirement (National Indicator)

This indicator provides a limit for which net external borrowing will not be exceeded, except on a short-term basis. The Council has met this requirement in previous years and there are no difficulties envisaged in the current or future years based on current plans and policies known at this time.

|                                      | 2022/2023<br>Actual<br>£000 | 2023/2024<br>Forecast<br>£000 | 2024/2025<br>Forecast<br>£000 | 2025/2026<br>Forecast<br>£000 | 2026/2027<br>Forecast<br>£000 |
|--------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Capital Financing Requirement</b> | 371,408                     | 379,972                       | 389,054                       | 398,222                       | 407,140                       |

### 3. Gross Debt and the Capital Financing Requirement (National Indicator)

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. As can be seen from the indicator, the Council expects to comply with this in the medium term.

|                                      | 2022/2023<br>Actual<br>£000 | 2023/2024<br>Forecast<br>£000 | 2024/2025<br>Forecast<br>£000 | 2025/2026<br>Forecast<br>£000 | 2026/2027<br>Forecast<br>£000 |
|--------------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Debt (including Leases)</b>       | 245,123                     | 245,123                       | 261,123                       | 273,123                       | 283,123                       |
| <b>Capital Financing Requirement</b> | 371,408                     | 379,972                       | 389,054                       | 398,222                       | 407,140                       |
| <b>Difference</b>                    | 126,285                     | 134,849                       | 127,931                       | 125,099                       | 124,017                       |

#### 4. **Authorised Limit and the Operational Boundary for External Debt (National Indicator)**

This Authorised Limit determines the maximum total amount the Council will be able to borrow. The limit for Other Long-Term Liabilities has been included to allow the Council to enter into Finance Leases; the limit needs to accommodate the new leasing Accounting Standard IFRS 16 (adopted by CIPFA in the Code of Practice on Local Authority Accounting from 1 April 2020) which requires all leases and rental agreements to be held on the Council's Balance Sheet as an asset and lease liability. The Operational Boundary indicator represents the prudent level of borrowing and will be reviewed annually. The figures from 2022/2023 onwards have been reduced due to the reduction in the capital programme relating to the investment strategy allocations.

|  | 2022/2023<br>Limit<br>£000 | 2023/2024<br>Limit<br>£000 | 2024/2025<br>Limit<br>£000 | 2025/2026<br>Limit<br>£000 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Authorised limit – borrowing                       | 421,408                    | 429,972                    | 439,054                    | 448,222                    |
| Authorised limit – other long term liabilities     | -                          | -                          | -                          | -                          |
| <b>Authorised limit – total external debt</b>      | 421,408                    | 429,972                    | 439,054                    | 448,222                    |
| Operational boundary – borrowing                   | 416,408                    | 424,972                    | 434,054                    | 443,222                    |
| Operational boundary – other long term liabilities | -                          | -                          | -                          | -                          |
| <b>Operational boundary – total external debt</b>  | 416,408                    | 424,972                    | 434,054                    | 443,222                    |

#### 5. **Estimates of the Proportion of Financing Costs to net revenue stream (National Indicator)**

This indicator provides the ratio of financing costs to the Council's estimated net revenue expenditure budget (i.e. the expenditure financed by the revenue support grant, business rate redistribution, council tax and collection fund surplus share). **Under the updated Prudential Code 2021, investment income is no longer netted off from financing costs. Prior year comparators have, therefore, been updated.**

**The profile of financing costs is set out below and has been incorporated into the Council's Medium Term Financial Strategy forecasts.**

|                                | 2022/2023<br>Actual<br>£000 | 2023/2024<br>Forecast<br>£000 | 2024/2025<br>Forecast<br>£000 | 2025/2026<br>Forecast<br>£000 | 2026/2027<br>Forecast<br>£000 |
|--------------------------------|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <b>Financing Costs</b>         | 1,588                       | 1,979                         | 3,418                         | 2,782                         | 3,182                         |
| <b>% of Net Revenue Stream</b> | 6.4                         | 6.0                           | 11.8                          | 9.1                           | 14.4                          |

The national indicators for capital expenditure, capital financing requirement and debt expenditure as a percentage of net revenue stream show increases which need to be set against the context of significant income contributions to the revenue budget from commercial property investment. This is identified in the "Net Commercial Income to Net Service Expenditure" ratio at paragraph 8.4.2 of the separate Investment Strategy.