

CAPITAL STRATEGY 2020/21

Finance & Investment Advisory Committee - 23 January 2020

Report of the: Chief Officer Finance & Trading

Status: For Decision

Also considered by: Cabinet - 4 February 2020

Council - 25 February 2020

Key Decision: No

Executive Summary: This report presents the Capital Strategy for 2020/21. The Capital Strategy forms part of the Council's policy and strategy documents, providing guidance on the Council's capital programme and the use of its capital resources. It has to be approved by Cabinet and Full Council.

Its aim is to ensure that Members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The guidance in this strategy complements and supplements the Medium Term Financial Plan, the Property Investment Strategy and the Treasury Management Policy and Strategy.

This report supports the Key Aim of efficient management of the Council's resources.

Portfolio Holder Cllr. Matthew Dickins

Contact Officer Roy Parsons, Principal Accountant - Ext 7204

Recommendation to Finance & Investment Advisory Committee: That the report be noted and comments forwarded to Cabinet.

Recommendation to Cabinet: That, subject to the comments of the Finance & Investment Advisory Committee, Cabinet recommend that Council approve the Capital Strategy for 2020/21 as shown in the Appendix.

Recommendation to Council: That the Capital Strategy for 2020/21, as shown in the Appendix, be approved.

Reason for recommendations: To agree the Capital Strategy for 2020/21.

Background

- 1 Following a substantial review process during 2017 both the Prudential Code for Capital Finance in Local Authorities (the 'Prudential Code') and the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (the 'Treasury Management Code') were updated and issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017.
- 2 The Ministry of Housing, Communities and Local Government (MHCLG) issued its Statutory Guidance on Local Government Investments (3rd Edition) in February 2018. The Statutory Investment Guidance was amended in response to changing practices for local authority investments (for example, for investment in economic regeneration and authorities investing in non-financial assets) and it follows up on the changes to the CIPFA codes.
- 3 Local authorities in England are required to 'have regard' to the Statutory Investment Guidance as the Guidance was issued by the Secretary of State under Section 15 (1) of the Local Government Act 2003.

Introduction

- 4 The revised CIPFA Codes require, for 2019/20 onwards, all local authorities to prepare a Capital Strategy report, which will provide the following:
 - A high level, long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
 - An overview of how the associated risk is managed; and
 - The implications for future financial sustainability.
- 5 This Council's Capital Strategy for 2020/21 is presented in the Appendix. It has not changed from the 2019/20 version.
- 6 The aim of this Capital Strategy is to ensure that all elected Members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance and risk appetite.
- 7 The Capital Strategy has direct links to other key strategic and policy documents, such as:
 - The Council Plan;
 - The Ten Year Budget and Budget Strategy;
 - The Local Plan;
 - Asset Management Plan;

- Treasury Management Policy And Strategy;
 - Property Investment Strategy; and
 - Capital Programme
- 8 The Capital Strategy complements the above documents by defining the approach, structure and governance for the effective financing and Management of the Council's capital investment needs and ambitions. It outlines how the Council's existing capital resources will be effectively managed to meet the planned needs and opportunities and for meeting the ambitions for future longer term capital investments.
- 9 It is intended that the Capital Strategy will be reviewed annually to reflect changes in circumstances.

Key Implications

Financial

The report forms part of the Council's Budget and Policy framework.

Legal Implications and Risk Assessment Statement

Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority.

All capital expenditure carries an element of risk which will be considered as part of the decision-making process for individual capital schemes.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

This Capital Strategy report fulfils the requirements of the CIPFA Prudential Code and the CIPFA Treasury Management Code, which were issued in December 2017.

In line with the revised CIPFA Codes, the Capital Strategy must be considered by Council and this is planned for its meeting on 25 February 2020.

Background Papers: None

Adrian Rowbotham
Chief Officer Finance & Trading

The Capital Strategy 2020/21

Purpose of the Capital Strategy

- 1 The Capital Strategy sets out how the Council will manage the investment and financing of capital resources to contribute towards the achievement of its key objectives and priorities. This includes the appraisal process for determining investment decisions and the process for identifying and prioritising funding requirements.
- 2 The Capital Strategy is a framework by which capital expenditure decisions are made. It is required under the Prudential Code as a measure of good governance.
- 3 The objectives of the Capital Strategy are to:
 - Prioritise and deploy capital resources in advancement of corporate objectives;
 - Support service plans;
 - Look for opportunities for cross-cutting and joined up investment;
 - Invest in assets that reflect the visions and aspirations of local people in service delivery; and
 - Manage investment and the Council's property and other assets effectively and efficiently.
- 4 The strategy considers all aspects of the Council's capital expenditure and forms part of the Council's integrated revenue, capital and balance sheet planning.
- 5 The strategy covers capital expenditure, capital financing and asset management and is one of the Council's key strategies. It also gives an overview of how risk is managed and the implications for future financial sustainability. It also provides a set of objectives and a framework, within the CIPFA Codes and statutory legislation, by which new capital projects are evaluated and investment decisions made, whilst ensuring that funding is targeted towards meeting corporate priorities.
- 6 The Capital Strategy:
 - States the Council's processes for project initiation, deciding on the prioritisation of capital projects and monitoring and evaluating schemes;
 - Takes account of significant revenue implications;

- Provides a framework for the management and monitoring of the capital programme;
- Identifies funding streams and provides a basis to inform bidding for additional capital resources (e.g. government initiatives); and
- Informs the corporate review of existing properties.

Project Initiation

- 7 Capital projects are subject to a robust justification process, bringing together a clear business case with sufficient detailed costings to ensure that transparent decisions can be taken. Proposals are given independent oversight and review of the project in terms of validation arrangements, estimated figures and project milestones. Business cases are prepared in accordance with good project management principles.
- 8 A formal process is drawn up to ensure that projects are subject to thorough oversight for the duration of the scheme. Project management sits with the initiating team or department and there are clearly defined areas of responsibility for each task within the project.
- 9 For larger projects where feasibility is less certain, more robust business cases are prepared before bids for funds are made. This includes undertaking all preparatory work to fully understand the requirements of a project before a budget is sought. There must be a clear link between budgets and service plans.

Prioritisation of capital projects

- 10 Capital projects will be assessed for:
 - Strategic fit - corporate objectives are being met by the expenditure;
 - Identified need - e.g. essential repairs and maintenance of existing assets;
 - Achievability - this may include alternatives to direct expenditure by the Council such as partnerships with others;
 - Affordability - to ensure that total capital expenditure remains within sustainable limits;
 - Practicality and deliverability;
 - Revenue generation achieved from the investment; and
 - Non-monetary impacts such as future economic growth, social well-being or environmental improvement.

Monitoring and evaluating schemes

- 11 For all capital investment the appropriate level of due diligence will be undertaken, with the extent and depth reflecting the level of risk being considered. Due diligence will include:
- Identification of the risk to both the capital sums invested and the returns;
 - Understanding the potential impact on the financial sustainability of the Council if the risks come to fruition;
 - Identifying assets being held for security against any potential debt or charges on assets; and
 - Seeking independent and expert advice where necessary.
- 12 The Chief Officer Finance & Trading will ensure that Members are adequately informed and understand the risks of capital investment.
- 13 Project proposals will be put to Council for formal approval together with funding requirements and, if successful, will form the Council's capital programme which is its plan of capital investment for future years. This ensures that the Council's overall capital strategy, governance procedures and risk appetite are fully understood by all Members.

Revenue implications

- 14 The revenue implications of capital investment must always be considered in investment decisions and the 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 deployed; and
 - Running costs associated with the asset (e.g. employee salaries, heat and light, administrative support costs and future maintenance).

Savings, including benefits, to identify include:

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

Funding the Capital Strategy

- 15 Proposals for capital projects must identify the funding requirements for the timescale of the project including any revenue implications. Funding must be appropriate for the project and will come from:
- Reserves;
 - Capital receipts - from the sale of assets or finance lease receipts;
 - Government grants - such as disabled facilities grant funding;
 - Third party grants and contributions;
 - Community Infrastructure Levy;
 - Revenue contributions;
 - Other developer contributions; and
 - External borrowing.
- 16 The Secretary of State believes that individual local authorities are best placed to decide which projects will be most effective for their area. The key criteria to use when deciding whether expenditure can be funded by the increased flexible use of capital receipts is that it is forecast to generate ongoing savings.

Borrowing

- 17 The Council's approach to borrowing is set out in its Treasury Management Strategy Statement. The Council may consider internal or external borrowing. Prior to undertaking any external borrowing, affordability, the maturity profile of existing debt, interest rate and refinancing risk and the borrowing source should be given due consideration.
- 18 Local authorities are required to set aside some of their revenues as provision for debt each year of an amount considered to be 'prudent' (the Minimum Revenue Provision or MRP). Prudent provision should ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefit.

Commercial activities and investment property

- 19 CIPFA defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

- 20 With reductions in funding that the Council has faced, it is having to look at commercial activities and property investment to supplement its income and support service delivery. However, to minimise risk of potential loss of income in the longer term, it needs to ensure that any investment opportunities are based upon sound decision making that considers the future likelihood of investment income reducing. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave properties remaining vacant.
- 21 The detail is contained in the Council's Property Investment Strategy which documents the Council's requirements, but when making commercial investment decisions the Council will follow the following principles:
- Commercial investments will only be made to enhance the Council's asset portfolio and will be linked to delivery of the Ten Year Budget;
 - Consideration will be given to the economic development potential of any investment decision;
 - Expert advice will be sought to ensure that any investment decision is based upon sound market intelligence, forecasts for future investment returns and yields that offer sound investment return without risking the capital invested;
 - Any borrowing linked to investment opportunities is secured upon the potential guaranteed element of the investment return so that any liability can be met from the activity undertaken; and
 - Investment opportunities will always ensure that the Council's investment is protected as far as possible either through increases in capital value or from guaranteed revenue income.
- 22 The Property Investment Strategy makes it clear that the Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by a robust governance process. However, proportionality in respect of overall resources will remain an important factor.

Knowledge and skills

- 23 The Council has professionally qualified staff across a range of disciplines, including finance, legal and property that follow continuous professional development (CPD) and maintain knowledge and skills through attendance on courses and through regular technical updates from appropriate bodies.
- 24 The Council utilises the knowledge and skills of these officers when considering capital investment decisions and, where necessary, it also relies on the expert knowledge of specialist external advisors. Some of these advisors are contracted long term or are appointed on an ad-hoc basis where

necessary. Link Asset Services, provide treasury management advice, including investments, borrowing and capital financing.

- 25 External professional advice will always be sought when considering any major commercial property investment decision.