



Governance Scrutiny Group

Thursday, 4 February 2021

Capital and Investment Strategy 2021/22 to 2025/26

Report of the Executive Manager – Finance and Corporate Services

1. Purpose of report

- 1.1. The purpose of this report is to provide the Group with details of the Capital and Investment Strategy for 2021/22 to 2025/26 focusing on both traditional treasury activity and the Council's commercial property investments.
- 1.2. The Local Government Act 2003 requires the Council to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (updated December 2017) when carrying out capital and treasury management activities, and revised guidance was issued by MHCLG on Local Authority Investments in 2018.
- 1.3. The objectives of the CIPFA Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with the treasury management strategy.
- 1.4. The Capital and Investment Strategy 2021/22 to 2025/26 reflects Government Guidance, and CIPFA Treasury and Prudential codes.

2. Recommendation

- 2.1. It is **RECOMMENDED** that the Governance Scrutiny Group scrutinise and recommend for approval by Full Council:
 - a) The Capital Strategy and Capital Prudential Indicators and Limits for 2021/22 to 2025/26 contained within Appendix A (paragraphs 4 to 16)
 - b) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraphs 17 and 18) which sets out the Council's policy on MRP
 - c) The Treasury Management Strategy 2021/22 to 2025/26 and the Treasury Indicators contained within Appendix A (paragraphs 19 to 65)

- d) The Commercial Investments Indicators and Limits for 2021/22 to 2025/26 contained within Appendix A (paragraphs 66 to 80).

3. Reasons for Recommendation

- 3.1. To comply with Council Financial Regulations, and the Local Government Act 2003 which requires the Council to adhere to the CIPFA Prudential Code for Capital Finance in Local Authorities.

4. Supporting Information

Capital Prudential Indicators

- 4.1. Appendix A (paragraphs 4 to 16) details the Capital Strategy and Capital prudential Indicators for 2021/22 to 2025/26.
- 4.2. The Capital Prudential Indicators highlight the following:
- Projected capital expenditure plans and funding;
 - The Council's Borrowing Need (the Capital Financing Requirement CFR);
 - The on-going impact of the capital programme on the investment balance.

Minimum Revenue Provision Policy

- 4.3. Appendix A (paragraphs 17 and 18) contains the Minimum Revenue Provision (MRP) Policy Statement, which details the methodology used to calculate the charge to the revenue account for the cost of borrowing to fund capital expenditure.
- 4.4. The Government Guidance and the Council's MRP Policy includes limits to the period over which the cost of borrowing can be recovered from the revenue account (a maximum of 40 and 50 years respectively for property and land). It also clarifies the position on Voluntary Revenue Provision (VRP) and that in times of financial crisis then there is the option to not apply VRP.

Treasury Management Strategy

- 4.5. Appendix A (paragraph 19) details the Treasury Management Strategy which covers:
- The current economic climate and prospects for interest rates;
 - The Council's debt and investment projections;
 - The limits and prudence of future debt levels;
 - The affordability impact of the capital programme;
 - The Council's borrowing and investment strategies;
 - Specific limits on treasury activities; and
 - Any local treasury issues.

Commercial Investments

- 4.6. The revised definition of investments in the CIPFA Treasury Code includes assets which the organisation holds primarily for financial returns, such as investment property portfolios.
- 4.7. Appendix A (paragraphs 66 to 80) details the appraisal techniques used to assess commercial investments, and provides a risk assessment of the level of commercial investments by identifying:
- The limit on the Council's dependency on commercial income; and
 - How risk is spread across both commercial sectors and the size of investments proportionately in relation to asset value.
- 4.8 Paragraph 31 of the Strategy confirms the latest guidance from MHCLG that a council cannot borrow for the 'purpose of yield only'.

Conclusion

- 4.9 The Capital Prudential Indicators and Treasury Management Strategy give both a position statement and details of the future position of the Council's Capital, Commercial Investment and Treasury plans. The documents comply with best professional practice and as such are recommended for approval by Full Council.

5. Risks and Uncertainties

- 5.1. The report identifies the risks relating to interest rates, use of counterparties for investments and the returns from commercial investments, particularly in the light of prevailing uncertainty in the global financial markets (such risks are increasingly stark given the international economic crisis as a result of the pandemic).

6. Implications

6.1. Financial Implications

- 6.1.1. Financial Implications are covered in the Capital and Investment Strategy (Appendix A) and integrated into the Council's Medium Term Financial Strategy.

6.2. Legal Implications

- 6.2.1. The Strategy demonstrates compliance with The Local Government Act 2003 and adherence to the CIPFA Prudential Code for Capital Finance in Local Authorities.

6.3. Equalities Implications

- 6.3.1. None

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

6.4.1. None

7. Link to Corporate Priorities

Quality of Life	No direct impact
Efficient Services	Responsible income generation and maximising returns
Sustainable Growth	No direct impact
The Environment	Helping to protect the environment by consideration of carbon footprint and fossil-based investments as referred to in paragraph 38 in appendix A

8. Recommendations

It is RECOMMENDED that the Governance Scrutiny Group scrutinise and recommend for approval by Full Council:

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- b) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraphs 17 and 18) which sets out the Council's policy on MRP
- c) The Treasury Management Strategy 2021/22 to 2025/26 and the Treasury Indicators contained within Appendix A (paragraphs 19 to 65)
- d) The Commercial Investments Indicators and limits for 2021/22 to 2025/26 contained within Appendix A (paragraphs 66 to 80).

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Background papers available for Inspection:	Council Financial Regulations Treasury Management in the Public Services: Code of Practice (CIPFA) The Prudential Code for Capital Finance in Local Authorities (CIPFA)

	Guidance on Local Government Investments (CLG) Statutory Guidance on Minimum Revenue Provision (CLG)
List of appendices:	Appendix A – Capital and Investment Strategy 2021/22 – 2025/26