

Title of meeting: Cabinet
City Council

Date of meeting: 10th March 2020 (Cabinet)
17th March 2020 (City Council)

Subject: Capital Strategy 2020/21 - 2029/30

Report by: Director of Finance and Resources (Section 151 Officer)

Wards affected: All

Key decision: Yes

Full Council decision: Yes

1. Executive Summary

The Council's ten year capital strategy was first approved in March 2019. The Capital Strategy is dynamic and is therefore updated annually as capital investment plans mature.

The Capital Strategy sets out the overarching capital aspirations and how both capital expenditure and investment decisions are made, whilst taking into consideration risks and rewards. There are 2 parts to the Capital Strategy

Part I - Capital Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA) describes the capital strategy as "the long-term strategy for investment in assets and for obtaining the resources required for that investment". When a capital scheme is approved by Members, it is at that point in time that a decision is made how to finance the scheme. If the scheme generates either sufficient income or savings, it can be financed from borrowing so long as either the income or savings can adequately service the debt.

At the time of scheme approval, should the Council have surplus cash, it may choose to fund capital expenditure financed by borrowing from its surplus cash in the short-term, and delay going out to the market to physically borrow the required cash for the capital scheme until a later date. Prior to any borrowing a full business case and financial appraisal is prepared that can satisfactorily demonstrate with good certainty that cost savings / additional income or value uplift of the development which will accrue directly to the Council will at least cover the cost of that borrowing on a sustained basis over the lifetime of the borrowing undertaken.

Whether to take long term borrowing, or use surplus cash in the short-term and delay a decision to take longer term borrowing forms part of the Treasury Management Policy and is not considered here.

Part II - Borrowing and Investing in Property

Part II considers the implications of the Council's future capital expenditure plans on borrowing and investing.

Making Provision for the Repayment of Debt

Repayment of borrowing must be provided for upon completion of General Fund schemes financed by borrowing, it is the Council's policy to provide for the repayment of the debt over the asset's useful economic life not exceeding 50 years. This is known as the **Minimum Revenue Provision (MRP)** and is based on an annuity method of calculation. This methodology results in a lower MRP for new assets in the early years presenting the council with the opportunity to build income streams and build savings over this period. However, MRP will increase year on year, but not necessarily in real terms after inflation is taken into account.

Timing of Borrowing

In contrast, when the Council has surplus cash, instead of investing that surplus cash through the Treasury Management Policy it can use it in the short term as a source of finance for capital expenditure. The resulting loss of interest earned on investments can be more cost effective than borrowing the required funds straight away. However, this delays taking external borrowing rather than avoiding the need to borrow completely.

Investments in Property

According to CIPFA Treasury Management Code, **Investment in Commercial Properties Acquired through the Capital Programme** are also regarded as investments in addition to **Investments of Surplus Cash**

As at 31 March 2019 the Council had invested £160m in commercial properties with plans to further invest £23m in commercial properties from borrowing that was secured in 2016/17. The Government issued revised statutory guidance on local government investments early in 2018, effective from 1st April 2018. The guidance no longer permits Councils to borrow in order to acquire investment property portfolios outside the economic area to generate a surplus. The Council had previously approved and borrowed funds to enable the purchase of a £183m commercial property portfolio. At the time the Government issued its revised guidance £128m had already been invested in commercial properties with £55m left to spend. Having had regard to this guidance, the Council intends to invest the residual £55m into commercial properties as planned. The key reasons for continuing to pursue such a strategy are:

- Funds have already been borrowed and will need to be invested with lower returns if the Council does not pursue its strategy to acquire investment properties
- Not completing the strategy to acquire the complete portfolio would result in risk being spread over a smaller number of properties and leave the portfolio inadequately diversified across locations and economic sectors
- The Council has strict criteria for the acquisition of properties which are designed with the primary objective of protecting the capital sum invested
- The commercial property investment portfolio is an integral part of the Council's overall medium term financial strategy

To ensure that the Council does not become over reliant on Investment income, a number of indicators are calculated in accordance with government guidance. These are included in the Appendix of Part II.

Skills and Knowledge of Staff

Treasury Management and Capital accounting requirements are complex and heavily regulated. As a consequence, staff are provided with adequate training so that they have sufficient **skills and knowledge**, assisted by Link Asset Services, to undertake the treasury management function in house.

Treasury Management Reporting

The Council's strategy for borrowing and investing surplus cash is contained in its Treasury Management Policy elsewhere on the agenda. All **Treasury Management Policies** are considered by the Cabinet and approved by the City Council on an annual basis. All reports on treasury management including monitoring reports are scrutinised by the Governance and Audit and Standards Committee.

2. Purpose of Report

The purpose of this report is to:

- enable the City Council to adopt a long term Capital Strategy from 2020/21 onwards
- inform members and the wider community of the Council's Capital Strategy
- ensure that Members are aware of the overall strategy, governance procedures and risk appetite
- highlight the business planning inter-relationship between the Capital Strategy, Capital Programme, the Revenue Budget, the Medium Term Financial Strategy and Treasury Management

Simple Business Planning Model



Link Asset Services

- ensure the council has sufficient liquidity to meet the cashflow arising from the capital programme

3. Recommendations

3.1 That Part I of the Capital Strategy (Capital Expenditure and Aspirations) be approved including:

- a) The Short / Medium / Long-term Aspirations set out in Appendix 1

3.2 That Part II of the Capital Strategy (Borrowing and Investing in Property) be approved including:

- a) The Minimum Revenue Provision (MRP) for Debt Repayment Policy (Part II, paragraph 1.5)
- b) The investment indicators in Part II - Appendix 2 (part II, paragraph 2.5)
- c) That the Director of Finance and Resources (Section 151 Officer) will bring a report to the next Cabinet and City Council if (part II, paragraph 2.5):
 - (i) The Council's gross General Fund (GF) debt exceeds 400% of GF net service expenditure or;
 - (ii) Overall investment income from investment properties and long term treasury management investments exceeds 7.9% of GF net service expenditure

4. Background

On 19th March 2019, the City Council approved the 10 year Capital Strategy starting in 2019/20

The Capital Strategy establishes the approach to both capital expenditure and investment decisions.

This report outlines the Council's Capital Strategy and aspirations for the next 10 years, starting from 2020/21. The Capital Strategy is dynamic and will be updated annually as capital investment plans mature. The Capital Programme and "new starts" (including the Housing Investment Capital Programme) is approved each year by Full Council, in accordance with the Capital Strategy.

The Capital Strategy fulfils the requirements of the revised Prudential Code for Capital Finance in Local Authorities 2017.

5. Reasons for Recommendations

Adopting a Capital Strategy will enable a longer term view to be taken of capital expenditure, borrowing and investment. The Capital Strategy is also intended to facilitate integration between the Council's aspirations, its Capital Programme and its Treasury Management Strategy.

6. Integrated Impact Assessment (EIA)

This Capital Strategy identifies capital schemes that may be included in future capital programmes. Sums are not earmarked for capital schemes until they are included in the capital programme. Prior to the commencement of any capital scheme, a report and financial appraisal on that scheme will be approved either by the Portfolio Holder, the Cabinet or the City Council and at that time an Integrated Impact Assessment will be undertaken.

7. Legal Implications - Pending Legal

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Resources (Section 151 Officer) comments

All financial considerations are contained within the body of the report and the attached appendix.

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Signed by Director of Finance and Resources (Section 151 Officer)

Appendices:

Part I Capital Strategy

Sub Appendices:

Appendix 1 Capital Aspirations

Part II Borrowing and Investment including Investment Indicators

Sub Appendices:

Appendix 2 Investment Indicators

Glossary

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

| Title of document | | Location |
|-------------------|--|--------------------|
| 1 | Information pertaining to the Capital Strategy | Financial Services |