Portsmouth
CITY COUNCIL

Title of meeting:	Cabinet City Council
Date of meeting:	Tuesday 09 March 2021
Subject:	Capital Strategy 2021/22 - 2030/31
Report by:	Director of Finance & Resources
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

---

1. Executive Summary

1.1. 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.

1.2. 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

1.3. 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 be predicted with a high degree of certainty to adequately service the debt.

1.4. 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.

1.5. 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

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

Making Provision for the Repayment of Debt

1.7. 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

1.8. 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 earnt 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

1.9. According to the 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 2020 the Council had invested £171.9m in commercial properties with plans to further invest £11.1m 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 01 April 2018. The guidance no longer permits Councils to borrow primarily 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. On 25 November 2020, the Chancellor denied access to the Public Works Loans Board (PWLB) for any local authority, which has the purchase of assets primarily for yield in its three-year capital programme. There are no purchases of investment property primarily for yield in the capital programme from 2021/22 onwards.

1.10. 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

1.11. 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

1.12. 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

2.1. The purpose of this report is to:

- enable the City Council to adopt a long term Capital Strategy from 2021/22 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 inter-relationship between business planning 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) 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 450% of GF net service expenditure or;

(ii) Overall investment income from investment properties and long term treasury management investments exceeds 9.0% of GF net service expenditure.

4. Background

4.1. In March 2020, the City Council approved the 10 year Capital Strategy starting in 2020/21

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

4.3. This report outlines the Council's Capital Strategy and aspirations for the next 10 years, starting from 2021/22. 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.

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

5. Reasons for recommendations

5.1. 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

6.1. 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

7.1. 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's comments

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

……
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

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by …… on ……

……
Signed by: