

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
11 February 2020

Subject: CAPITAL STRATEGY 2020/21

All Wards
Portfolio Holder for Finance and Economic Development: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of the capital strategy is to give a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code require from 2019/20 and onwards, local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. 2020/21 is the second time the capital strategy had been produced.
- 1.3 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure, risk appetite and to meet legislative requirements on reporting.
- 1.4 This capital strategy is attached at Annex A and sets out the long term decisions on capital expenditure and capital investments and explains the approach to the:
- High level overview of:
 - Service objectives relating to investments;
 - Corporate governance arrangements for non-treasury investment activities;
 - Overview of how associated risk is managed:
 - Risks associated with treasury investments (treasury management investments) and non-treasury investments (commercial investments);
 - Implications for future financial sustainability:
 - Expected income, costs and resulting contribution;
 - Debt related to the activity and the associated interest costs;
 - Payback period (Minimum Revenue Provision (MRP) policy);
 - Other ratio analysis;
- 1.5 This capital strategy is a key document for the Council and forms part of the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service and commercial investments are usually associated with capital expenditure in relation to an asset. It should be noted that both treasury and non-treasury investments are reported in the annual Capital Programme Budget, Treasury Management Strategy Statement and Prudential Indicator report and also during the year, quarterly monitoring updates – Quarterly Capital Monitoring and Treasury Management Reports – are provided to Cabinet where treasury and non-treasury investments are reported through Prudential, Borrowing and Investment Indicators.

- 1.6 The non-treasury investments - due to the expenditure being either for commercial activity or for valid service delivery - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this type of capital expenditure will either be approved at Cabinet or Council in individual reports or in the capital programme cycle. For clarity this is where the capital programme is set on an annual basis in February prior to the beginning of each financial year or in quarterly monitoring reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.
- 1.7 In order to undertake non-treasury investments the appropriate legal powers will be reviewed to ensure they are in place and also reports will include the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources. The Council will use its "power to invest" for the prudent management of the Council's financial affairs.
- 1.8 The Council has considered the Statutory Guidance on Local Government Investments (3rd Edition) (April 2018) in accordance with Local Government Act 2003 and also the CIPFA Prudential Code (amended 2017) when writing the capital strategy and has considered the corporate governance arrangements under which the Council invests for non-treasury capital expenditure specifically for a commercial purpose; detail of this is included in Annex A at paragraph 7.0.
- 1.9 Monitoring of all capital expenditure and investments will be included in the capital monitoring and treasury management reports that go to Cabinet and Council on a quarterly basis.
- 1.10 The chief finance officer – Director of Finance (S151 Officer) - will report on the affordability and risk associated with the capital strategy when capital expenditure is to occur on non-treasury investments and will have access to specialised advice to enable conclusions to be reached, where appropriate.

2.0 LINK TO COUNCIL PRIORITIES:

- 2.1 The capital strategy enables all the Council Plan priorities to be achieved as it gives a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services; along with an overview of how associated risk is managed and the implications for future financial sustainability to enable the Council Plan priorities to be available in the long term.

3.0 RISK ASSESSMENT:

- 3.1 There are no risks associated in approving the recommendation.

4.0 FINANCIAL IMPLICATIONS:

- 4.1 The financial implications are dealt with in the body of the report.

5.0 LEGAL IMPLICATIONS:

- 5.1 The Capital Strategy is required as stated in the Statutory Guidance on Local Government Investments ((3rd Edition) Issued under section 15(1)(a) of the Local Government Act 2003 and is effective for financial years commencing on or after 1 April 2018. This is also detailed in the updated Prudential Code and Treasury Management Code where The Prudential Code means the statutory code of practice, issued by CIPFA: "The Prudential Code for Capital Finance in Local Authorities, 2017 Edition" and the Treasury Management Code means the statutory code of practice issued by CIPFA: "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".

5.2 The Council has sought legal advice to confirm under which legal powers it is acquiring commercial properties, Counsel's advice on the legal status of the CIPFA guidance and how the capital strategy and non-treasury commercial activity fit with the guidance. This guidance is available in separate reports provided to Cabinet during 2019/20 and will also be referred to for non-treasury commercial activities and in future reports.

6.0 EQUALITY/DIVERSITY ISSUES

6.1 Equality and Diversity Issues have been considered however there are no direct issues associated with this capital strategy report. It should be noted that some capital schemes will have specific implications for equalities and these implications will be assessed by departments when individual schemes are put forward to be approved in the capital programme every year.

7.0 RECOMMENDATIONS:

7.1 That Cabinet approves and recommends to Council the Capital Strategy 2020/21 attached at Annex A of the report.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE AND COMMERCIAL (S151 OFFICER)

Background papers: 10 Year Capital Programme
Treasury Management Strategy Statement
10 Year Financial Strategy 2020/21 to 2029/30

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