

REPORT TO: Council

20 February 2020

LEAD CABINET MEMBER: Councillor John Williams,
Lead Cabinet Member for Finance

LEAD OFFICER: Trevor Roff, Interim Director of Finance

Capital Strategy

Executive Summary

1. To undertake the annual review of the Council's Capital Strategy and to consider a refreshed version of the Capital Strategy following consideration of it by Cabinet at its meeting on 5 February 2020.
2. This is a key decision as the report seeks to establish a strategy that is designed to sets the policy framework for the development, management and monitoring of all capital investment and the prioritisation of the Council's capital resources.

Recommendation

3. **That Council is requested to consider the report and, if satisfied, to approve (i) the updated Capital Strategy attached at Appendix A to the report which sets the policy framework for the development, management and monitoring of capital investment, and (ii) Prudential Indicators.**

Reason for Recommendation

4. To establish and approve an updated Capital Strategy that complies with CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2017 edition) and Prudential Code Guidance Notes for Practitioners (2018 edition), CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 edition), and revised Statutory Guidance on Local Government Investments (3rd Edition) issued in February 2018.

Details

Background

5. The Capital Strategy outlines the Council's approach to capital investment and seeks to ensure that it maximises the contribution of the Council's limited capital resources to priority areas. It also recognises the need to deliver value for money.
6. The revised Prudential Code (2017 edition) introduced a new requirement for Local Authorities to have an annually approved Capital Strategy and, as such, it is reviewed on an annual basis to reflect the changing needs, priorities and circumstances of the Council. The review has also sought to ensure that the Capital Strategy reflects the requirements of the Prudential Code.

7. The Prudential Code requirements include:

- greater focus on the Local Authorities' approach to commercial investment activities, including processes ensuring effective due diligence and defining risk appetite including proportionality in respect of overall resources;
- a requirement that the Capital Strategy is written in plain English and that it is concise enough to be read and understood by elected members that are not financial specialists;
- a recommendation that the Capital Strategy includes the authorised limit and operational boundary indicators as well as other relevant prudential indicators;
- a summary of the knowledge and skills available to the Council and confirmation that these are commensurate with the Council's risk appetite.

Capital Strategy

8. The intention is to have an overarching document which sets the policy framework for the development, management and monitoring of all capital investment. The Strategy focuses on core principles that underpin the Council's capital programme, the key issues and risks, and the governance framework required to ensure the capital programme is delivered and provides value for money.

9. In reviewing the Capital Strategy, the following guiding principles have been applied which underpin the strategy and approach:

- (a) The Council complies with the requirements of the Prudential Code when considering its capital investment requirements, linking this with the revenue budget. Compliance with the Prudential Code ensures that proposed investment is prudent, sustainable and affordable.
- (b) Capital schemes are prioritised and that the forward capital programme only includes schemes that can be funded from approved borrowing levels, revenue contributions, grants and available and projected capital receipts during the life of the programme;
- (c) Capital investment requirements are considered in the context of a sustainable revenue budget and, as such, the revenue implications of proposed schemes are fully considered, including positive contributions from "invest to save" schemes;
- (d) Endeavours will be made to support revenue contributions to capital expenditure to ensure that funding is available for essential ongoing investment needs. Asset maintenance (property) and replacement equipment (ICT and vehicles) will be fully funded depreciating assets from revenue, subject to affordability;
- (e) Capital projects will be selected via an agreed capital project approval framework, incorporating a robust capital appraisal and feasibility process, and having full regard to affordability. Effective arrangements will be established for monitoring project deliverability, project outcomes and the achievement of value for money.

10. The Medium Term Financial Strategy (MTFS) identifies that an annual review of the Capital Programme will be undertaken and that, in doing so, full regard will be given to the Prudential Indicators before any proposals/decisions are made in respect of a revised programme. The range of Prudential Indicators to be adopted is summarised at **Annex A** to the revised Capital Strategy.
11. It has been appropriate to review the Capital Strategy in light of recent advice proffered by CIPFA, including:
- The need to provide sufficient information about the capital monitoring process. i.e. are there any risks such as slippage, lack of engagement from project managers, skills shortage, poor IT systems etc.
 - The need to ensure that the authorities risk appetite in relation to capital is identified, that risks are identified, assessed and managed.
 - The need to incorporate links to the authority's detailed policies in relation to capitalisation and schemes of delegation that govern the capital process and the approval process i.e. standing orders/financial regulations.
 - The need to provide information in relation to the Council's vision, aims and objectives and how the capital investment is contributing towards them.
 - The need to ensure that sufficient information is provided on the role of the Chief Finance Officer (CFO), and any other governance arrangements.
 - The need to provide sufficient information in relation to the knowledge and skills required to manage the capital programme.
 - The need to present the prudential indicators in an understandable and meaningful way and to ensure that an explanation is given of how they are calculated or what they are intended to inform.
 - The need to make appropriate reference and links to Asset Management (comprising the Corporate Asset Plan, Housing Revenue Account Asset Management Plan and New Build Strategy), the Investment Strategy and Treasury Management Strategy to ensure that detail is available (e.g. the life of key projects, how much they are going to cost, what benefits they are going to provide or what risks are attached to them).
12. The proposed Capital Strategy has been revised and is attached at **Appendix A**. Proposed additions to the current version of the Strategy, approved on 21 February 2019, are identified in red text.

Investment Strategy

13. In addition to the Capital Strategy, the Council is now required to have a separately approved Investment Strategy. Guidance requires the Strategy to be approved by Full Council on an annual basis and, moreover, that any mid-year material changes to the Strategy must also be subject to Full Council approval. In this regard, Council approved a revised Investment Strategy at its meeting on 28 November 2019. Following review, no further revisions are proposed at this time.

Treasury Management Strategy

14. The Council also has a separate Treasury Management Strategy covering treasury investments and borrowing and this is subject to review on an annual basis. A separate report is included on the agenda following the annual review.

Options

15. The option of not adopting the revised Capital Strategy is not considered to be appropriate. Local authorities are accountable to their communities for how they spend their money and for ensuring that this spending is prioritised and represents value for money. Local politicians and officers operate within local governance frameworks of checks and balances to ensure that decision-making is lawful, informed by objective advice, transparent and consultative. Good governance means that proper arrangements are in place to ensure that an authority's intended objectives are achieved and establishing a policy framework for the development, management and monitoring of all capital investment and the prioritisation of the Council's capital resources must be a key commitment to ensure that authorities remain financially sustainable and respond efficiently and effectively to service needs.

Implications

16. In the writing of this report, taking into account the financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered:

Policy

17. The Capital Strategy is one of the fundamental resource management strategies of the Council which should be reviewed annually to determine its ongoing appropriateness in relation to the capital control framework. The Capital Strategy provides the framework for:
 - considering bids for inclusion in the Capital Programme;
 - maximising and allocating the finance available for investment;
 - determining the Council's capital investment priorities;
 - achieving Value for Money from capital schemes;
 - ensuring an ongoing review process;
 - enabling the implementation process of approved schemes;
 - partnership working;
 - cross cutting issues;
 - performance measurement;
 - Minimum Revenue Provision.

Legal

18. The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits. Local Authorities must also have regard to the Investment Guidance issued by Secretary of State under section 15(1)(a) of the Local Government Act 2003.

Financial

19. The Capital Strategy sets out how the Council determines its capital investment priorities in particular in relation to corporate priorities taking into account the capital resources available including borrowing in line with the Council's approved Prudential Indicators. There are no additional resource requirements as a result of the Capital Strategy, but it does provide the framework for assessing and prioritising the use of the Council's limited capital resources.

Risk

20. The purpose of the Capital Strategy is to provide a key financial planning and resource management tool for the Council. An effective strategy for capital investment provides a framework for eliminating the risk of approving schemes which:
 - are not affordable in either capital or ongoing revenue terms;
 - do not meet legal obligations or the Council's key stated priorities.

Environmental

21. There are no environmental implications arising directly from the report. The environmental impacts of each capital scheme are considered as part of the implementation stage of a specific project.

Equality Analysis

22. In preparing this report, due consideration has been given to the Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010.
23. It is considered that the report has no relevance to the Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation. An equality analysis is not needed. Individual capital bids may, however, have specific equality impacts that need to be considered and evaluated.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- General Fund Medium Term Financial Strategy – Report to Cabinet: 7 November 2018
- Budget Report – Report to Cabinet: 6 February 2019
- Business Plan 2019 - 2014 – Report to Council: 21 February 2019
- Medium Term Financial Strategy and General Fund Budget – Report to Council: 21 February 2019
- Investment Strategy – Report to Council: 28 November 2019
- Capital Strategy – Report to Cabinet: 5 February 2020

Appendices

A Capital Strategy

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Appendix A



**South
Cambridgeshire
District Council**



Capital Strategy

February 2020

Councillor John Williams
Lead Member for Finance

Peter Maddock
Head of Finance

1. Introduction

The Capital Strategy forms a part of the Council's overall corporate planning framework. It provides the mechanism by which the Council's capital investment and financing decisions can be aligned with the Council's overarching corporate priorities and objectives over a medium term, five year, planning horizon.

It sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, funding, management **and monitoring**. The strategy has direct links to the Corporate Asset Plan (CAP) and Housing Revenue Account (HRA) Asset Management Plan and forms a key part of the Council's Medium Term Financial Strategy (MTFS).

The Capital Strategy includes sufficient detail to allow Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and how this meets legislative requirements on reporting.

2. Strategic Aims

2.1 The Council's long term vision is set out in the 2019-2024 Business Plan in which four themes guide the approach, each focussed on enhancing South Cambridgeshire as a place where people, communities, businesses can grow and realise their potential.

2.2 The 2019-2024 Business Plan is seen as an overarching document that links individual Service Plans and Council Strategies, including the Capital Strategy. The Capital Strategy supports the achievement of the Council's vision through investment in the assets the Council owns, the delivery of key infrastructure to support growth and improvement in services, and through improvements to the services and systems that the Council utilises. The key aims of the Capital Strategy are to:

- Provide a clear context within which proposals for new capital expenditure are evaluated to ensure that all capital investment is targeted at meeting the Council's vision, aims, approaches and actions;
- Deliver projects that focus on delivering revenue benefits in the form of spend to save, spend to earn or generate growth in revenue income;
- Set out how the council identifies, programmes and prioritises capital requirements and proposals arising from the Business Plan, Service Plans, CAP and other related strategies;
- Consider options available for funding capital expenditure and how resources may be maximised, to generate investment in the area, to determine an affordable and sustainable funding policy framework whilst minimising the ongoing revenue implications of any such investment;
- Identify the resources available for capital investment over the MTFS planning period; and
- Establish effective arrangements for the management of capital expenditure including the assessment of project outcomes, budget profiling, deliverability, and the achievement of value for money.

3. Investment Priorities

3.1 Underlying the Capital Strategy is the recognition that the financial resources available to meet corporate priorities are constrained in the current economic and political climate. Central government support for capital investment has reduced significantly over the last few years, along with these reductions is the recognition that the Council must rely on internal resources and find ways in which investment decisions can be either self-sustaining or generate positive returns both in terms of meeting corporate objectives and producing revenue savings.

- 3.2 Against the background of limited central government support the capital programme identifies the total investment needed to support the Council's aims and objectives such as housing and economic development.
- 3.3 Significant investment in council housing over the last few years has succeeded in producing a property portfolio generally at or above the decent homes standard and the delivery of a new build programme, with the first 80 new properties **being completed already**. Imposed reductions in property rent of 1% for 4 years from April 2016 and the threat of the need to sell high value voids impacted the Council's ability to continue **this** level of programme in the longer term, necessitating a strategic review of assets, service delivery and financing. In the short term the new build programme has been maintained by utilising resources previously ear-marked for potential debt redemption, but this does mean that the authority will need to refinance its housing debt when it matures. A commitment to repeal the sale of high value voids legislation and the removal of the HRA borrowing cap mean that a longer-term program of new build can now be developed.
- 3.4 As the majority of the council's assets are housing, there are limited opportunities to raise capital receipts through disposals, therefore, the limited capital resources available through grant, capital receipts and private sector contributions are prioritised to maximise outputs with minimum ongoing future revenue costs.
- 3.5 Capital investment in the Council's wholly owned subsidiary, Ermine Street Housing, offers the opportunity to realise interest receipts which will contribute to the council's revenue funding.
- 3.6 Cambridgeshire is an area of growth with the Greater Cambridge Partnership (formerly City Deal) offering financial support to deliver infrastructure to facilitate the delivery of homes and business space, as set out in the draft local plans for Cambridge City and South Cambridgeshire council areas. This will in turn contribute towards council funding in the longer term in the form of additional council tax and business rates receipts.
- 3.7 A further opportunity is the designation of Enterprise and Development Zones, including sites at Cambourne Business Park, Cambridge Research Park and Northstowe, which have the potential to offer incentives to enable the creation of new businesses and employment.
- 3.8 The major themes of the Capital Programme are, therefore, as follows:
- **Economic Investment:** The Council will continue to seek investments that generate longer term growth. These projects will yield a combination of revenue generation (business rates or interest), jobs and capital infrastructure investment, based on sound business cases. **This also includes investment to support the Business Plan priority "Green to the Core" with consequent carbon reduction and revenue payback benefits.**
 - **Existing Housing:** Significant investment has been made in recent years to raise the standard of council dwellings to meet the government's decent homes standard. In addition to the decent homes investment, the authority has previously invested in energy conservation projects such as external wall insulation, solar energy initiatives and renewable heating sources. Reduced energy conservation programmes will continue but with the investment level lower due to the reductions in rental income.

- **New Housing Supply and Housing Partnerships:** The Council are managing a new build programme in-house, which is anticipated to deliver an average of just over 50 new homes per annum to meet local housing need. Opportunities to work with the Combined Authority to deliver new affordable homes in the district are also being fully explored.
- **Commercial Housing Enterprise Initiatives:** The Council has established a Housing Company (South Cambs Limited trading as Ermine Street Housing) to enable the supply of private rented housing stock.
- **Strengthen the Council's Asset Base:** An approved Investment Strategy aims to provide a robust and viable framework for the acquisition of commercial property investments and the pursuance of redevelopment and regeneration opportunities that contribute to Business Plan objectives and can deliver positive financial returns to the Council.
- **Maintaining Corporate Property Assets:** Significant investment is committed in the capital programme towards maintaining the Council's assets, including environmental improvements. To manage its maintenance liability, the Council is rationalising its office accommodation through sub-let of office space, providing a contribution to ongoing revenue savings. A process of on-going reviews will identify potential alternative use of office buildings and car park for capital investment to generate long term revenue savings.
- **Efficiency through Technology:** The Council is investing in technology to deliver a digital solution to the transformation of service delivery and in so will increase the accessibility of Council services and reduce operating costs. The Council's ICT service is shared with Cambridge City and Huntingdonshire District Councils, and appropriate investment into ICT hardware and software will continue to be undertaken on a case by case basis, the primary focus being improved technologies on a spend to save basis.
- **Refuse and Recycling Collection:** A shared trade and domestic waste collection service with Cambridge City Council, supported by capital investment, will achieve long term revenue savings through service rationalisation and vehicle efficiencies.
- **Community Projects:** Capital grants to other organisations will be considered where the council incurs no staff or other recurring costs; these organisations are, however, expected to raise additional capital resources from the National Lottery, Sports Council, etc. The Council has a funding toolkit on its website to assist organisations seeking funding.

4. Governance Arrangements

- 4.1 The Council has various mechanisms in place which seek to ensure that there is an integrated approach to addressing cross-cutting issues and developing and improving service delivery through its capital investment in pursuance of the Council's over-arching aims.
- 4.2 An integrated service and financial planning process is followed. Within this framework all proposals for capital investment are required to demonstrate how they contribute to the Council's aims and objectives. The evaluation process for investment proposals aligns corporate objectives with costs and benefits ensuring delivery of efficiency and value for money. Investment appraisal forms and the criteria for prioritising capital bids are available to managers on the Council intranet.

4.3 Specific governance processes include:

- Democratic decision making and scrutiny processes which provide overall political direction and ensure accountability for the investment in the capital programme. These processes include:
 - The Council which is ultimately responsible for approving investment and the capital programme;
 - The Cabinet which is responsible for setting the corporate framework and political priorities to be reflected in the capital programme, with Cabinet receiving regular monitoring reports;
 - The Scrutiny and Overview Committee which is responsible for scrutiny of the Capital Strategy and capital programme;
 - The need for compliance with Standing Orders and Financial Regulations.
- Officer groups which bring together a range of service interests and professional expertise. These include:
 - The Executive Management Team which has overall responsibility for the strategic development, management and monitoring of the capital programme;
 - Corporate Management Team, providing service manager review and monitoring of key areas;
 - Specific project boards with wide ranging membership, for example the Greater Cambridge Partnership Board;
 - Management teams which overview reports for investments prior to Executive Management Team and Cabinet approval;
 - Project Teams created to oversee significant capital projects as required.

4.4 Council assets are kept under review, valuations of land and property being undertaken by a professionally qualified valuer every five years, with an annual review at year end to ensure material changes in asset value are accounted for. The CAP and HRA Asset Management Plan will ensure that a comprehensive forward plan of maintenance and improvement work is identified to support funding allocations in the Council's forward capital programme.

5. Capital Programme Monitoring

5.1 Effective arrangements for the management of capital expenditure are essential, including the assessment of project outcomes, budget profiling, deliverability and the achievement of value for money. In terms of project outcomes and deliverability, the Cabinet will, therefore, receive an annual report covering:

- the details of schemes commenced on time;
- the details of schemes completed on time;
- how many schemes were completed within budget;
- the extent to which predetermined investment objectives were met.

5.2 A post implementation review of key capital projects should be undertaken by the relevant Lead Officer and reported to Cabinet as part of the annual report.

5.3 Established monitoring processes should ensure that project risks, such as project slippage, lack of engagement from project managers, skills shortage, poor IT systems, are identified, evaluated and managed. Risks should be clearly identified in the Council's risk register and the impact of any such risks on key investment priorities should be reported to Cabinet as part of regular monitoring reports.

6. Capital Expenditure and Financing

- 6.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. For local government this includes spending on assets owned by other bodies, i.e. loans and grants enabling them to acquire assets. The Council has limited discretion on what counts as capital expenditure; capital spending below £10,000 (the deemed de-minimus value) is not capitalised and, as such, is charged to revenue.
- 6.2 Details of gross capital expenditure approved in the current Capital Programme are set out in Annex A **Prudential Indicator 1: Estimates of Capital Expenditure**.
- 6.3 Under certain circumstances the Council acts as an intermediary for central government in relation to transferring specific capital grants to third parties. The Council is committed to actively working with partners in the public, private and voluntary sectors to maximise capital investment in order to promote the social, economic and environmental wellbeing of the District and its residents.
- 6.4 Capital expenditure must be financed, either from external sources (government grants/external contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The main sources of capital funding are summarised below:
- **Central Government:**
 - Grants are allocated in relation to specific programmes or projects and the Council would seek to maximise such allocations, developing appropriate projects which reflect government and partnership led initiatives and agendas while addressing the needs of the District. In general terms, the major source of capital funding available to the Council has been grant approvals allocated by Central Government to specific or non-specific projects. This is, however, a diminishing resource and, where a priority is identified, alternative funds need to be sourced.
 - A significant amount of current funding is in the form of the New Homes Bonus (NHB) part of which is allocated to fund future capital infrastructure through the Greater Cambridge Partnership.
 - **Third Party Funding:**
 - Capital grants represent project specific funding for capital projects, in addition to those from central government, more usually received from quasigovernment sources or other national organisations. In developing capital proposals, the Council will seek to maximise such external contributions, subject to any related grant conditions being consistent with the Council's policy, aims and outcomes.
 - **Private Contributions:**
 - The Council will seek to maximise developer contributions (e.g. for the provision of affordable housing or sustainable community needs) through the Section 106 process and will also review the potential of the new Community Infrastructure Levy (CIL) to support on-going investment.

- The Council will continue to work with the private sector to utilise or re-purpose redundant assets to facilitate regeneration and employment creation.
- **Borrowing:**
 - The Council has discretion to undertake prudential 'unsupported' borrowing under the Prudential Code. This discretion is subject to compliance with the Code's regulatory framework which requires any such borrowing to be prudent, affordable and sustainable.
 - Given the pressure on the Council's revenue budget in future years, prudent use will be made of this discretion in cases where there is a clear financial benefit such as invest to save, spend to earn or regeneration schemes which do not increase expenditure in the longer term.
- **Capital Receipts:**
 - Unallocated capital receipts received prior to April 2012 are available for general use and, as such, will be used for General Fund and/or HRA capital expenditure. Capital receipts received after April 2012 primarily relate to HRA property and land sales, the use of which is subject to detailed national regulations and associated guidance. The Capital Programme will detail anticipated capital receipts and the proposed use of these within the constraints imposed.
 - Most disposals relate to dwellings sold under the government right to buy scheme; the scheme allows the retention of some of the receipts subject to certain conditions i.e. used to fund the delivery of new social housing to a maximum of 30% of any dwelling funded through this method, with the balance being funded from the Council's own resources or by borrowing.
 - Capital receipts from asset disposal are a finite funding source and it is important that a planned and structured manner of disposals is created to support the priorities of the Council. Cash receipts from the disposal of surplus assets are to be used to fund new capital investment as and when received, with restrictions on the use of HRA receipts for any other purpose.
- **Lease Finance:**
 - Where alternative funding is not available for vehicles or minor equipment, and the revenue budget does not allow for a full capital repayment, and there is a robust business case then the option of leasing may be considered.
- **Revenue Contributions:**
 - Capital expenditure may be funded directly from revenue as specific budget provision, however, the pressures on the Council's revenue budget and Council Tax levels limits the extent to which this may be exercised as a source of capital funding for the General Fund. Revenue is used extensively to support the HRA programme, whilst maintaining the minimum level of reserves.

- 6.5 Council resources will be allocated to programmes based on asset values to manage long term yield and revenue implications. Where possible, capital receipts will be focussed on assets with short term life span, e.g. vehicles and equipment, and the unsupported borrowing on long term assets e.g. land and buildings.
- 6.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is, therefore, replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). The Council sets aside the MRP for debt repayment in accordance with its MRP policy as set out in the Treasury Management Strategy.
- 6.7 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The planned Capital Financing Requirement is set out in Annex A **Prudential Indicator 2: Estimates of Capital Financing Requirement.**

7 Asset Management

- 7.1 To ensure that General Fund capital assets continue to be of long term use, the Council has a **Corporate Asset Plan (CAP)**. The CAP priorities are to:
1. Manage our assets strategically as a corporate resource and continue to embed the Corporate Landlord model;
 2. Support and empower local people by providing the right property, in the right place, at the right time;
 3. Provide value for money and secure efficiencies for the future;
 4. Support economic growth and regeneration by supporting and responding to local business needs;
 5. Work effectively with partners to maximise sharing and delivery opportunities;
 6. Reduce the environmental impact of our estate through initiatives such as energy reduction/efficiencies.
- 7.2 A separate HRA Asset Management Plan also exists to ensure the effective management of the Council's HRA assets.

8 Treasury Management

- 8.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts. The Council typically has cash available in the short-term as revenue income is received before it is spent, but in the long-term capital expenditure is incurred before being financed. The short term revenue cash balances are offset against capital expenditure to reduce overall borrowing.
- 8.2 The Council's main objective when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting and the Council, therefore, seeks to strike a balance between less costly short term loans and long term fixed rate loans where the future cost is known but higher.
- 8.3 Projected levels of the Council's total outstanding debt (which comprises borrowing and lease liabilities) compared with the Capital Financing Requirement are shown in Annex A **Prudential Indicator 3: Gross Debt and the Capital Financing Requirement.** Debt remains below the Capital Financing Requirement as required by statutory guidance.

- 8.4 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. The Limits are set out in Annex A **Prudential Indicator 4: Authorised Limit and the Operational Boundary for External Debt.**
- 8.5 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain (i.e. commercial venture with a long term revenue stream anticipated) are not considered to be part of treasury management. The Council’s policy on treasury investment is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation.
- 8.6 Decision on treasury management investment and borrowing are made daily and are, therefore, delegated to the Head of Finance, being the Council’s Chief Finance Officer and appropriately qualified staff, who must act in line with the Treasury Management Strategy that is approved annually by Council.

9 Investment Strategy

- 9.1 In addition to the Capital Strategy, the Council is now required to have a separately approved Investment Strategy.
- 9.2 With central government financial support for local public services declining, Council investment in commercial property, although not purely for financial gain does nevertheless generate a financial return. In addition, the Council may lend to its wholly owned company Ermine Street Housing for financial gain.
- 9.3 With financial return being a key objective (i.e. not a subsidised provision), the Council acknowledges higher risk on commercial property investment than with treasury investments. The principal risk exposures include vacancy rates due to market conditions and external economic influences; potential reduction in both rental and capital values due to market changes; obsolescence due to changing demand and technological changes; and the impact of Minimum Energy Efficiency Regulations 2015. These risks are managed in accordance with the Council’s approved CAP through proactive estates management practices and regular reviews of the performance of and continued requirement for each asset.

10 Revenue Budget Implications

- 10.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government Grants. Forecasts are set out in Annex A **Prudential Indicator 5: Proportion of Financing Costs to Net Revenue Stream.**
- 10.2 Due to the very long term nature of capital expenditure and financing, the revenue budget implications of capital expenditure incurred in the next few years could potentially extend for up to 50 years into the future. The Capital Programme is formulated within the financial constraints of the Council’s Prudential Indicators set out in Annex A to this Strategy

- 10.3 In assessing affordability, the Council takes a whole life costing approach to capital investment decisions whereby the Council not only has to consider the availability of internal and external resources but also has to quantify the impact of such investment decision on future revenue budgets and tax payers.
- 10.4 The Council is committed to achieving value for money when making capital investment decision and complies with the regulations relating to the Prudential Framework for Capital Finance and reporting requirements set out in the Code of Practice on Local Authority Accounting. The Head of Finance as the Council's Chief Finance Officer is required, under Section 25 of the Local Government Act 2003, to report on the robustness of estimates (in relation to the proposed budget) and the adequacy of financial reserves. This Section 25 Report takes into account the Council's capital investment plans and, as such, incorporates the Prudential Code requirements of the proposed capital programme being prudent, affordable and sustainable.

11 Knowledge and Skills

- 11.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Executive is a qualified accountant with 13 years' experience. The Head of Finance is a qualified accountant and has 26 years' experience. A designated Accountancy Assistant with relevant experience completes the structure which will ensure the Council meets the requirements of MiFiD II Professional Investor. The Head of Commercial Development & Investment is obtaining the RICS qualification. The Council supports junior staff to study towards relevant professional qualifications including CIPFA and RICS.
- 11.2 Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently contracts Link Asset Services as its Treasury Management Advisor and, where property consultants are required, they will be RICS qualified. The use of consultants is regarded as more cost effective than employing such staff directly, and the approach adopted ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 11.3 Councillors undertake training on the Capital Strategy and supporting Investment Strategy and Treasury Management Strategy, and regular reports on treasury management performance are submitted to the established Audit & Corporate Governance Committee.

12 Reference Documents and Relevant Documents

- 12.1 The key reference documents include:
- CIPFA Prudential Code for Capital Finance in Local Authorities 2017 Edition
 - CIPFA Prudential Code for Capital Finance in Local Authorities Guidance Notes for Practitioners 2018 Edition
 - CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition
 - Statutory Guidance on Local Government Investment (3rd Edition) 2018
 - Statutory Guidance on the Minimum Revenue Provision 2018

12.2 Reference is made to a number of relevant documents that provides more details of the projects, risks, funding and timescales. The links are as follows:

- **Business Plan:**

<https://www.scambs.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/our-business-plan/>

- **Revenue and Capital Estimates:** [2020/2021 budget to be considered at the meeting]

- **Corporate Asset Plan:**

<https://www.scambs.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/corporate-asset-plan/>

- **HRA Asset Management Plan:** [Currently subject to review]

- **Medium Term Financial Strategy:**

<https://www.scambs.gov.uk/your-council-and-democracy/performance-and-plans/council-plans-and-reports/medium-term-financial-strategy/>

- **Investment Strategy:**

<https://www.scambs.gov.uk/your-council-and-democracy/performance-and-plans/our-investment-strategy/>

- **Treasury Management Strategy:** [Draft document to be considered at the meeting]

- **Standing Orders:**

<https://scambs.moderngov.co.uk/documents/s106702/01%20-%20Standing%20Orders>

- **Financial Regulations:**

<https://scambs.moderngov.co.uk/documents/s106707/06%20-%20Financial%20Regulations>

Recommended Prudential Indicators

The Prudential Indicators and Limits are based on currently known information and, in particular, the approved capital programme. Consequently, the indicators and limits set out below are subject to change (e.g. if any amendments are made to the capital programme).

These indicators and limits are to ensure the Council manages its finances in a clear and transparent manner, and that the impact of capital expenditure decisions on current and future budgets is understood.

1. Estimates of Capital Expenditure (National Indicator)

This indicator provides the level of gross capital expenditure that is estimated to be incurred. The estimated expenditure includes schemes where funding has already been approved.

	2018/2019 Actual £000	2019/2020 Forecast £000	2020/2021 Forecast £000	2021/2022 Forecast £000	2022/2023 Forecast £000
Capital Expenditure	42,815	91,026	125,189	109,395	91,616

2. Estimates of Capital Financing Requirement (National Indicator)

This indicator provides a limit for which net external borrowing will not be exceeded, except on a short-term basis. The Council has met this requirement in previous years and there are no difficulties envisaged in the current or future years based on current plans and policies known at this time.

	2018/2019 Actual £000	2019/2020 Forecast £000	2020/2021 Forecast £000	2021/2022 Forecast £000	2022/2023 Forecast £000
Capital Financing Requirement	271,438	335,803	423,693	504,520	575,403

3. Gross Debt and the Capital Financing Requirement (National Indicator)

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. As can be seen from the indicator, the Council expects to comply with this in the medium term.

	2018/2019 Actual £000	2019/2020 Forecast £000	2020/2021 Forecast £000	2021/2022 Forecast £000	2022/2023 Forecast £000
Debt (including Leases)	208,123	253,623	337,726	407,226	475,726
Capital Financing Requirement	271,438	335,803	423,693	504,520	575,403
Difference	63,315	82,180	85,967	97,294	99,677

4. **Authorised Limit and the Operational Boundary for External Debt (National Indicator)**

This Authorised Limit determines the maximum total amount the Council will be able to borrow. The limit for Other Long Term Liabilities has been included to allow the Council to enter into Finance Leases. The Operational Boundary indicator represents the prudent level of borrowing and will be reviewed annually.

	2018/2019 Limit £000	2019/2020 Limit £000	2020/2021 Limit £000	2021/2022 Limit £000
Authorised limit – borrowing	281,438	345,803	433,693	514,520
Authorised limit – other long term liabilities	-	-	-	-
Authorised limit – total external debt	281,438	345,803	433,693	514,520
Operational boundary – borrowing	276,438	340,803	428,693	509,520
Operational boundary – other long term liabilities	-	-	-	-
Operational boundary – total external debt	276,438	340,803	428,693	509,520

5. **Proportion of Financing Costs to net revenue stream (National Indicator)**

This indicator provides the ratio of financing costs to the Council's estimated net revenue expenditure budget (i.e. the expenditure financed by the revenue support grant, business rate redistribution, council tax and collection fund surplus share).

	2018/2019 Actual £000	2019/2020 Forecast £000	2020/2021 Forecast £000	2021/2022 Forecast £000	2022/2023 Forecast £000
Financing Costs	87	639	3,516	5,600	7,100
% of Net Revenue Stream	0.3	2.7	14.5	35.0	44.6