

<b>REPORT TO:</b>	Cabinet	7 February 2022
<b>LEAD CABINET MEMBER:</b>	Councillor John Williams, Lead Cabinet Member for Finance	
<b>LEAD OFFICER:</b>	Peter Maddock, Head of Finance	

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## Capital Strategy

### Executive Summary

1. To undertake the annual review of the Capital Strategy and to consider a refreshed version of the Capital Strategy for adoption by the Council.
2. This is a key decision as the report seeks to establish a strategy that is designed to set the policy framework for the development, management and monitoring of all capital investment and the prioritisation of the Council's capital resources.

### Recommendation

3. Cabinet is requested to consider the report and, if satisfied, recommend to Full Council 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, including 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 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 of the Prudential Code 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 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. The Capital Strategy was fully reviewed and refreshed as part of the 2020/2021 budget setting process having regard to established guidance and best practice and an updated version, reproduced at **Appendix A** was approved by Council for adoption at its meeting on 23 February 2021.
10. In reviewing the Capital Strategy, the following guiding principles continue to be applied as these 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.
11. A review of the strategy has identified some minor updates to the Capital Strategy as follows:
- The requirement to provide an Infrastructure Funding Statement for the preceding year. The latest statement was produced for 2020/2021 during December 2021 and a link to that document is provided within the strategy
  - The need to reflect the focus of the Investment Strategy towards Commercial and Service Investment and, in particular, the presumption against the acquisition of commercial assets primarily for yield having regard to prevailing rules in relation to local authority borrowing.
  - The annual review and update of Prudential Indicators that are identified in the adopted Strategy at **Annex A**.
  - Changes to reflect the time period of the updated Strategy and minor designation variations.
12. 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 are summarised at **Annex A** to the revised Capital Strategy.
13. An updated version of the Capital Strategy is attached at **Appendix A** with the proposed changes to the current version of the Strategy, approved on 20 February 2020, identified in red and crossed through text.

### **Investment Strategy**

14. 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.

15. The Investment Strategy was reviewed in response to new borrowing rules for commercial investments introduced from 26 November 2020 and an updated version was considered by Cabinet at its meeting on 6 December 2021. This is scheduled to be considered by Council at its meeting on 22 February 2022.

### **Treasury Management Strategy**

16. 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**

17. 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**

18. 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**

19. 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**

20. 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**

21. 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.

22.

## **Risk**

23. 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**

24. 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**

25. 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.
26. 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:

- Investment Strategy – Report to Council: 28 November 2019
- HM Treasury Document entitled “Public Works Loan Board: future lending terms – Response to the consultation” issued on 25 November 2020.
- Medium Term Financial Strategy – Report to Cabinet: 7 December 2020
- Medium Term Financial Strategy – Report to Council: 23 February 2021
- Capital Strategy – Report to Cabinet: 3 February 2021
- Capital Strategy – Report to Council: 23 February 2021
- Investment Strategy – Report to Cabinet: 6 December 2021

## Appendices

A Capital Strategy

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