

<b>18 January 2022</b>		<b>ITEM: 8</b>
<b>Corporate Overview and Scrutiny Committee</b>		
<b>Capital Strategy 2022/23</b>		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Yes	
<b>Report of:</b> Sean Clark, Corporate Director of Resources and Place Delivery		
<b>Accountable Assistant Director:</b> Jonathan Wilson, Assistant Director - Finance		
<b>Accountable Director:</b> Sean Clark, Corporate Director of Resources and Place Delivery		
<b>This report is public</b>		

## Executive Summary

The Capital Strategy sets out the strategic framework underpinning capital expenditure and the associated financing at the Council.

This includes:

- The Capital Project Programme - £550.581m (General Fund, HRA and TRL combined projected to the end of 2022/23.) and:
- The now-historical capital investment activity, which is being wound down over several years and is projected to be funded by £915.759m of borrowing.

These investments continue to deliver a further surplus of £20.172m in 2022/23 once interest on borrowing is repaid (For 2021/22, the projected surplus is £25.798m). This contributes to the £115m after interest that have funded services at levels above the statutory minimum).

It also includes the Treasury Management Strategy. These are set in accordance with revised guidance contained in The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code). It is noted these documents were updated in December 2021 with changes that need to be reflected in the 2023/24 Capital Strategy. These will be assessed and included in the annual update to the strategy.

The strategy is set in the context of the de-prioritisation of the Council's investment approach. This means previously planned investments were not progressed and have been removed from the medium term financial strategy. There is a continued focus on the management of the existing investments that have continued to create

revenue returns that can then be allocated to spending on the services for Thurrock residents.

The Code requires local authorities to determine the Capital Strategy and the associated Prudential Indicators on an annual basis. The annual strategy also includes the Treasury Management Strategy that is a requirement of the Department of Levelling Up, Housing and Communities Investment Guidance.

There are two points of note:

#### 1. Borrowing levels

The borrowing levels set out in the report reflect the ongoing capital project activity in both the General Fund and the HRA alongside planned investments in Thurrock Regeneration Ltd (TRL). It is noted the planned increases in borrowing reflect the wider proposed changes to the capital programme and the associated interest costs will be met from the General Fund, HRA or the associated interest receivable in respect of TRL projects.

There is no new capital investment activity planned and the overall level of debt linked to this starts to reduce further in 2023/24. The balance will be managed down in line with agreed redemption dates (or sooner where the opportunity to do so is made available and can be managed in a financially sustainable way.

#### 2. Capital Financing Requirement

The Capital Financing Requirement sets out the level of borrowing required to support the planned capital activity of the Council. The report sets out the levels through to 2024/25 and confirms the level of borrowing will be within this limit throughout this period.

In accordance with the above Codes, this report:

- a) sets out the Capital strategy for 2022/23;
- b) confirms the proposed Prudential Indicators; and
- c) sets the Capital and Treasury Management projections for 2022/23.

### **1 Recommendation(s)**

- 1.1 That the Corporate Overview and Scrutiny Committee comment on the 2022/23 Capital Strategy for consideration by Cabinet at their meeting on 9 February 2022.**

### **2 Introduction and Background**

- 2.1 The Capital Strategy and the Annual MRP Statement are prepared under the terms of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code) and approval is sought for the adoption of the Prudential Indicators that have been developed in accordance with the Code.

- 2.2 The report also includes a forecast for Interest Receivable from Investments and the indicative Interest Payable on Borrowing.
- 2.3 The report covers a range of areas as set out below with the detailed document attached at Appendix 1.

### **3 Issues, Options and Analysis of Options**

- 3.1 The Capital strategy of the Council is attached as an appendix to this report and has been set with consideration of relevant legislation and appropriate guidance. This includes Annex 1 which incorporates the Treasury Management Strategy. The Prudential Indicators are governed by decisions made on the revenue and capital budgets.
- 3.2 The Capital Strategy sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It includes the following:
- Details of capital expenditure and financing;
  - The governance arrangements around the identification and approval of capital project bids;
  - Details on the sources of funding and projections on capital receipts (assets);
  - The strategic approach of the Council to borrowing and the governance arrangements in place;
  - The proposed prudential indicators for 2022/23;
  - Details of the Council's strategic approach to historic investments and commercial activities, and on-going management;
  - Details of other liabilities and revenue implications arising from this strategy; and
  - A further annex containing the detailed treasury management strategy that supports the capital strategy. This includes the annual statement on the Minimum Revenue Provision.
- 3.3 There are two key areas in this report for Members to be particularly mindful of:
- a) The Council has held significant levels of temporary borrowing since 2010 though this has reduced significantly over the last two years. It is noted that there are further moves to alternative funders, including the PWLB, likely over the coming year; and
  - b) The approach taken to the Minimum Revenue Provision (as set out in Annex 1).

- 3.4 The capital strategy reflects the requirements of the The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code). These documents were updated in December 2021, and the broad focus of the changes are to ensure the capital programme, investment activity and the associated borrowing is proportionate to the financial capacity of the organisation. The 2023/24 capital strategy will reflect the detailed requirements of the guidance and the Council continues to manage capital, investment and borrowing activity and effectively manages associated financial risk appropriately. Furthermore, it is noted the Council has deprioritised the Investment Strategy and hence the application of the new guidance will apply to the existing investment portfolio as it concludes.
- 3.5 There are further proposed updates to the guidance on the Minimum Revenue Provision. The government is proposing changes to regulations to make sure that practices remain prudent and consistent across the sector. The consultation raises a specific concern around how MRP has been applied in respect of commercial property held for investment purposes. This remains at the consultation phase and the final guidance will be considered in due course.

#### **4 Reasons for Recommendation**

- 4.1 There is a statutory requirement for the Capital Strategy and the Annual Minimum Revenue Provision Statement to be ratified by Full Council. This report and appendices have been written in line with best practice and the Council's spending plans

#### **5 Consultation (including Overview and Scrutiny, if applicable)**

- 5.1 As set out in this report, the Capital Strategy is largely based on best practice and the Council's spending plans.
- 5.2 Any comments from the Corporate Overview and Scrutiny Committee will be reported to Cabinet for their consideration.

#### **6 Impact on corporate policies, priorities, performance and community impact**

- 6.1 Treasury Management plays a significant role in funding the delivery of services to the community. The debt restructuring carried out in August 2010 will have contributed savings in the region of £34m by the end of 2021/22 and Investment activity has contributed circa £115m of additional income over the last five years.

## **7 Implications**

### **7.1 Financial**

Implications verified by: **Chris Buckley**  
**Treasury Management Officer**

The financial implications are included in the main body of the report and appendix.

### **7.2 Legal**

Implications verified by: **Gina Clarke**  
**Corporate Governance Lawyer and**  
**Deputy Monitoring Officer**

The report is in accordance with the Local Government Act 2003, related secondary legislation and other requirements including the Prudential Code.

Publication of the strategies is a statutory requirement and conforms to best practice as required by the CIPFA Code of Practice.

### **7.3 Diversity and Equality**

Implications verified by: **Natalie Smith**  
**Community Development Officer**

There are no direct diversity implications noted in this report

### **7.4 Other implications** (where significant) – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, Climate Change and Impact on Looked After Children)

- Not applicable

## **8 Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- Investment Strategy
- Treasury sector Briefings

**9. Appendices to the report**

- Appendix 1 – Capital Strategy Report 2022/23
- Annex 1 – Treasury Management Strategy 2022/23

**Report Author:**

Chris Buckley

Senior Financial Accountant, Corporate Finance