

**CAPITAL STRATEGY 2019/20****Report of the Borough Treasurer****1. Introduction**

- 1.1 CIPFA's Prudential Code for Capital Finance in Local Authorities provides a framework for ensuring that capital investment is prudent, affordable and sustainable. The Code was first published in 2003, with the last update being in 2011. Since then the landscape for public service delivery has changed significantly, particularly with sustained reductions in Government grant funding and the developing localism agenda. CIPFA undertook a consultation exercise, which raised a number of issues particularly in respect of longer-term planning, the minimum revenue provision, increasing commercialism and understanding of risk. As a result, CIPFA published a revised Prudential Code in December 2017.
- 1.2 The revised Code requires Authorities to produce a Capital Strategy each year with effect from the 1 April 2019. The Capital Strategy must be tailored to the Council's individual circumstances and will demonstrate that:
- The Council takes capital expenditure and investment decisions in line with service objectives;
  - Properly takes account of stewardship;
  - Properly takes account of value for money;
  - Properly takes account of prudence;
  - Properly takes account of sustainability; and
  - Properly takes account of affordability.
- 1.3 The Capital Strategy provides a high-level overview of how capital investment decisions contribute towards the provision of services. It sets out the long-term context in which capital expenditure and investment decisions are made, giving due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 1.4 Effective management of the Council's available capital resources is fundamental to achieving its corporate priorities and realising its local and regional ambitions. The Capital Strategy provides a framework for optimising and managing the capital resources available to the Council and the implications for future financial sustainability of the Council.
- 1.5 The Capital Strategy extends beyond the Council's individual activities. Increased powers around commercialism have led to the Council becoming increasingly complex, including the creation of subsidiary companies. It is vital that those tasked with governance fully understand the financial risks that the Council is exposed to, including the residual risks and liabilities that it is subject to.
- 1.6 The Strategy sets out the principles, policies and elements underlying the management of capital resources, which are in line with and supplement those within the Council's Medium Term Financial Strategy.

**2. Requirements of the Capital Strategy**

2.1 The requirements of the Capital Strategy are as follows:

- The Capital Strategy must articulate effective planning, option appraisal, risk management and governance processes in relation to capital investment.
- The Capital Strategy needs to include sufficient detail to allow Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.
- The revised Code suggests that the Council produces a suite of local prudential indicators to demonstrate affordability, prudence and sustainability over the longer term. The prudential indicator requirements under the previous code illustrated the impact of capital investment over the three-year capital programme. These indicators have been developed to demonstrate the impact of planned capital investment on future Council revenue budgets over a much longer term (up to 50 years, which is the normal maximum asset life for minimum revenue provision as set out in MHCLG's Statutory Guidance on Minimum Revenue Provision).

2.2 To meet these requirements the Capital Strategy will focus on the following key areas:

- **Capital Expenditure** – Provide an overview of governance processes for approval and monitoring of capital expenditure, provide a long-term view of the Council's capital expenditure plans and an overview of its asset management planning, and provide detail of any restrictions to borrowing or funding linked to these plans.
- **Debt, Borrowing and Treasury Management** – Provide projections of the capital financing requirement (i.e. unfunded capital expenditure requiring external borrowing) and provide details of the required provision for repayment of debt over the life of the underlying asset (minimum revenue provision).
- **Commercial Activity** – Provide detail of the Council's approach to commercial investment activities, including ensuring effective due diligence and risk appetite and the requirements for independent and expert advice.
- **Knowledge and Skills** – Provide detail of the knowledge and skills required both internally by Officers and externally by external advisors.
- **Affordability and Risk** – ensure the Chief Finance Officer reports explicitly on the deliverability, affordability and risk associated with the Capital Strategy.

2.3 It should be noted that the Capital Strategy is a formalisation of other plans, strategies, policies and documents that the Council already has in place. The Capital Strategy will bring these together in an overarching policy document that ensures a robust overarching governance process for the Council's capital investment decisions is in place.

2.4 Overarching key Council strategies and plans impacting on the Capital Strategy include the following:-

- **Medium Term Financial Plan** – this is a review of the Council's revenue budget position, providing a framework for forecasting future resources based on known factors affecting the Council's financial position as well as incorporating local and national trends on budget pressures.

- Treasury Management Strategy - this includes the Annual Investment Strategy, Minimum Revenue Provision Policy and Prudential Indicators. This is a comprehensive strategy on the Council's treasury management activities and clearly demonstrates the interdependent relationship between the Council's capital expenditure plans and treasury management activities. The Prudential Code sets out that Authorities may present their Treasury Management Strategy and Capital Strategy as a joint document. However, it is the Council's view that this will create an overly long and complex document and, contrary to the aims of the Code, may lead to less understanding of the Council's capital investment decisions. On this basis, the Council will maintain a separate Treasury Management Strategy and Capital Strategy.
- Council Plan 2019/20 – this document sets out the Council's priorities and how these will be achieved, with the aim of making the Borough an even better place to live, work, study and visit. The Council is committed to working with partners and communities to provide citizens with the best possible opportunities to succeed. This will be done via five core outcomes:
  - People are able to make positive choices to be independent;
  - People who need support will get it;
  - Stockport will benefit from a thriving economy;
  - Stockport will be a place people want to live; and,
  - Communities in Stockport will be safe and resilient.

### **3. The Role of Officers and Members**

- 3.1 A fundamental principle of the Capital Strategy is accountability. This will need to be promoted and demonstrated by Officers and Members throughout the capital investment and planning process, and include the use of effective monitoring and reporting mechanisms.
- 3.2 The Capital Strategy includes a comprehensive section on governance. This includes the approval process for capital investment decisions, setting out the roles and responsibilities of Officers and Members with respect to decision-making and subsequent monitoring of projects to ensure full accountability and stewardship for the capital investment decisions made.
- 3.3 The role of Cabinet and Scrutiny Members includes:
  - Receive proposals for capital investment projects;
  - Receive quarterly capital monitoring reports including a final outturn report;
  - Review and propose updates to the Capital Strategy to Council; and,
  - Propose annually the updated three-year capital programme to Council.
- 3.4 The role of Portfolio Holders includes:
  - Receive proposals for projects for inclusion in the capital programme;
  - Receive reports outlining bids for capital funding; and
  - Receive detailed capital monitoring information on schemes within their Portfolio through the provision of monitoring reports and other information.

### **4. Development of Stockport's Capital Strategy**

- 4.1 In preparing the Capital Strategy, Finance Officers have attended CIPFA's technical update courses and held discussions with the Council's Treasury Management

advisors, Link Asset Services, about the requirements of the revised Prudential Code. It is widely accepted that moving from reporting a three-year Capital Programme to reporting on much longer term capital developments will be very much work in progress and will need to be developed over several years.

- 4.2 The Capital Strategy is a Council Policy document that must align to the Council's corporate and strategic objectives. One of the main objectives of the Capital Strategy is to ensure that capital investment decisions are being made in line with the Council plans, policies and objectives. In addition consideration will also be given to the impact of external influences such as the Greater Manchester Spatial Framework.
- 4.3 Continuing with the trend of the last few years, the Council has substantial capital investment plans for the Borough, helping to regenerate the economy, create jobs and develop strong communities. Future capital investment plans are extensive and varied and details of these plans over the medium to longer-term period are included in the Capital Strategy.
- 4.4 The following areas of major capital investment have been identified for inclusion in the Capital Strategy:
- Housing;
  - Highways Infrastructure;
  - Town Centre Regeneration;
  - Asset Management Plan; and,
  - Education.
- 4.5 Responsible Officers for each of these areas have provided details of their medium to longer-term plans (five to ten years; going beyond ten years where detail is available) for inclusion.

## **5. Conclusions and Recommendations**

- 5.1 The Borough Treasurer reports that the Council has complied with the Prudential Code and that this Capital Strategy demonstrates that the Council's capital investment plans have due regard to service objectives, stewardship of assets, value for money, prudence, sustainability and affordability.
- 5.2 Cabinet is asked to recommend that the Council Meeting approves
- Capital Prudential Indicators:
    - Capital expenditure forecasts;
    - Capital Financing Requirement projections; and
    - Ratio of financing costs to net revenue stream.
  - The Capital Strategy 2019/20

## **BACKGROUND PAPERS**

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Jonathan Davies on 0161 218 1025 or by email on [jonathan.davies@stockport.gov.uk](mailto:jonathan.davies@stockport.gov.uk)