Allerdale Borough Council

Executive – 11 May 2022

Council – 27 July 2022

Capital Investment Strategy 2022-23

Portfolio holder	Councillor Colin Sharpe PH Finance and Legal
Report from	Catherine Nicholson Chief Officer - Assets & s151 Officer telephone no: 01900-702503 email: catherine.nicholson@allerdale.gov.uk
Wards affected	All
Is this a key decision	No

1.0 The reason for the decision

1.1 To approve the Authority's Capital Investment Strategy ('Capital Strategy') for 2022-23.

1.2 The Capital Investment Strategy provides a high level overview of how the capital programme is determined. It identifies the issues and options that influence capital spending and sets out how the resources and capital programme will be managed.

1.3 The Capital Strategy document sets out the Authority's ambitions and priorities over the short, medium to longer term and provides a framework for the review and management of existing assets. It indicates the opportunities for partnership working and has a direct relationship with the Treasury Management Strategy and the opportunities and limitations on activity through the treasury management and prudential indicators.

2.0 Recommendations

2.1 It is recommended that Members approve the Capital Investment Strategy set out in Appendix A.

3.0 Background and Introduction

The Prudential Framework

3.1 Introduced on 1 April 2004, the Prudential System for Capital Finance, (the Prudential Framework) establishes the framework for local authority capital investment. It provides local authorities with the freedom to determine and self-regulate their own programmes of capital investment and the amount of borrowing undertaken to fund that investment. However, in exercising those freedoms authorities must follow due process and be able to demonstrate the affordability, prudence and sustainability of their capital expenditure and borrowing plans.

3.2 The statutory framework for the prudential system is set out in Part 1 of the Local Government Act 2003 ('the 2003 Act') and the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (as amended) - ('the 2003 Regulations'). This sets the legal framework within which local government may undertake capital expenditure and central Government may regulate that activity.

3.3 These legislative provisions are supported by the following statutory Codes of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and by statutory guidance issued by the Department for Levelling Up, Housing & Communities (DLUHC) (formerly the Ministry of Housing, Communities & Local Government (MHCLG)):

- The Prudential Code for Capital Finance in Local Authorities - 2021 Edition - ('the Prudential Code')
- The Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2021 Edition - ('the Treasury Management Code')
- Department for Levelling Up, Housing & Communities (DLUHC) Guidance on Local Government Investments - third edition (February 2018)
- DLUHC guidance on Minimum Revenue Provision - fourth edition (February 2018).

3.4 In carrying out their functions in relation to capital finance and treasury management (including determination of the affordable borrowing limit) legislative provisions, included in the Local Government Act 2003 and accompanying regulations, require authorities to "have regard to" the Prudential Code, Treasury Management Code and statutory guidance issued by DLUHC.

The Prudential Code

3.5 The objectives of the Prudential Code for Capital Finance in Local Authorities are to provide a framework for local authority capital finance that, within a clear reporting framework, will ensure for individual local authorities that:

i. capital expenditure and investment plans are affordable (i.e. total capital investment remains within sustainable limits over the life of the asset and any underlying borrowing) and proportionate
ii. all external borrowing and other long-term liabilities are within prudent and sustainable levels
iii. the risks associated with investments for service and commercial purposes are proportionate to an authority's financial capacity – i.e. plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services
iv. treasury management and other investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the authority.

3.6 In December 2021, following two consultations, The Chartered Institute of Public Finance and Accountancy published updated editions of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code). The 2021 editions replace the 2017 versions of the Codes.

3.7 Substantive changes introduced by the 2021 edition of the Prudential Code include a number of changes relevant to the Authority's capital and treasury strategy documents. These include:

- strengthened provisions in relation to borrowing in advance of need in order to profit from additional sums borrowed, with the relevant parts of the Code augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code
- the inclusion of proportionality as an objective of the Prudential Code and the addition of a requirement to carry out an assessment to ensure risks associated with service and commercial investments are proportionate to an authority's financial capacity – i.e. that plausible losses could be absorbed in existing budgets or usable reserves without unmanageable detriment to local services
- a new requirement for capital strategies to report investments under the following headings: service, treasury management and commercial investments
- a requirement to monitor Prudential Indicators on a quarterly basis.

3.8 The revised edition of the Prudential Code applies with immediate effect. However, local authorities may defer introducing the revised reporting requirements until the 2023-24 financial year. The revised reporting requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement that an authority must not borrow to invest primarily for financial return, apply with immediate effect.

3.9 The Authority's existing Capital Investment Strategy (approved in March 2021) already satisfies all core principles of the revised Code. This includes the requirement that an authority must not borrow to invest primarily for financial return. Therefore, given the late publication of the updated Code relative to the Authority's budget timetable, the implications of Local Government Reorganisation on the medium and longer term planning horizons and the option for full implementation of the updated (2021) Prudential Code to be deferred until 2023-24, no major revisions have been made to the Capital Investment Strategy previously adopted for 2021-22.

3.10 Minor changes have however been made to section 5.4 (borrowing in advance of need) to reflect the revisions included in the 2021 edition of the Prudential Code in relation to borrowing primarily for financial return. Additional text has been added:

- to make clear that the Authority will not borrow to invest primarily for financial return
- confirming that investment or spending decisions that increase the Authority's capital financing requirement, and which may therefore lead to new borrowing, are not considered appropriate unless directly and primarily related to the functions of the Authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- setting out legitimate examples of prudent borrowing.

3.11 Following the changes to the PWLB's lending terms, effective from 26 November 2020, the PWLB will no longer lend to local authorities that plan to buy investment assets primarily for yield. In order to protect the Authority's ongoing access to the PWLB as a source of borrowing, the Authority will, in the context of its Capital Strategy, only include in its capital programme, capital expenditure on projects and schemes that have characteristics consistent with the PWLB's lending criteria. The Authority will not acquire investment assets primarily for yield.

Determining a capital strategy

3.12 In order to demonstrate that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires all local authorities to have in place a capital strategy that sets out the long-term context in which capital expenditure, borrowing and investment decisions are made and which gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

3.13 The Authority's Capital Investment Strategy ('Capital Strategy') for 2022-23 is set out in Appendix A. It provides a high-level overview of how the capital programme is formulated and how capital expenditure, capital financing, investments and treasury management activity contribute to the delivery of the Authority's plans and provision of services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

3.14 The Capital Strategy sets out the Authority's strategic ambitions in the short, medium and longer terms, providing a link with the ambitions, priority objectives and principles set out in the Council Strategy. It also sets out the core principles which underpin development of the Authority's capital programme.

3.15 Other key areas covered by the Capital Investment Strategy include:

- **Capital Expenditure**: an overview of the Authority's capital expenditure plans, capital resources, the principles and processes to be followed in connection with the disposal and acquisition of land and property and asset management planning arrangements
- **Debt, borrowing and treasury management**: an overview of the impact of capital expenditure plans on borrowing levels; long-term projection of external debt; the approach to providing for the repayment of debt in accordance with statutory guidance; the statutory limit on debt and the Authority's approach to borrowing for the acquisition of commercial type investments (investments made primarily for financial return)
- **Governance:** an overview of the governance process for approval and monitoring of capital expenditure, including how capital expenditure is prioritised in relation to the strategic priorities and policies of the Authority; restrictions and formal limits placed on the Authority's exposure to loans made to third parties, joint ventures, subsidiaries or associates
- **Other long-term liabilities and financial guarantees:** an overview of the governance process for approval and monitoring and ongoing risk management of financial guarantees and other long-term liabilities
- **Capacity, knowledge and skills:** a summary of the knowledge and skills available to the Authority; requirements for engaging independent and expert advice and arrangements for providing training for staff and elected members.

3.16 Expenditure falling within the scope of the Capital Strategy includes:

- capital expenditure on operational assets
- 'service investments' in financial assets such as loans to third parties supporting service outcomes and investments in subsidiaries and joint ventures made for policy reasons (rather than for treasury management purposes)

- ‘commercial investments’ in financial assets (such as shares and loans) and in non-financial assets (for example, investment property) held primarily for financial return.

3.17 Investments in financial instruments held for treasury management purposes (i.e. investments that arise from the Authority’s cash flows or treasury risk management activity and which ultimately represent balances that need to be invested until the cash is required for use in the course of business) are dealt with in the Authority’s Treasury Management and Investment Strategies.

3.18 The Capital Investment Strategy is a working document intended for use by all stakeholders involved in decisions over capital investment activity.

4.0 Delivery arrangements

4.1 Not applicable to this decision/report

5.0 Implications and Impact

Contribution to Council Strategy Priorities, Outputs and Outcomes

5.1 The focus of this strategy is to ensure the Authority is able to make capital investment decision in order to meet its corporate priorities and objectives.

Finance/Resource implications

5.2 The Capital Investment Strategy forms an integral component of the Authority’s strategic and financial planning framework, designed to ensure that the Authority’s capital expenditure and investment plans are affordable and proportionate and that external borrowing and other long-term liabilities are within prudent and sustainable levels.

5.3 A summary of the Authority’s three-year capital expenditure programme for 2022-23 and the following two financial years (2023-24 and 2024-25) together with a summary of how this expenditure will be financed is set out in table 2 and Appendix A of the Capital Investment Strategy document.

Legal and governance implications

5.4 In order to demonstrate that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability, proportionality and affordability, the Prudential Code for Capital Finance in Local Authorities 2021 (the Prudential Code) requires all local authorities to have in place a capital strategy setting out how the Authority:

- determines its priorities for capital investment,
- decides how much it can afford to borrow, and
- sets its risk appetite.

5.5 In carrying out their functions in relation to capital expenditure, capital financing, investing and treasury management activity (including determination of the affordable borrowing limit) under part 1 of the Local Government Act 2003, legislative provisions require local authorities to “have regard to” the Prudential Code, Treasury Management Code and statutory guidance issued by DLUHC.

Risk analysis

5.6 Not applicable to this decision/report.

Increasing satisfaction and service

5.7 Not applicable to this decision/report.

Equality impacts

5.8 Will be considered as part of the Full Business Cases for capital schemes.

Health and Safety impacts

5.9 Not applicable to this decision/report.

Health, wellbeing and community safety impacts

5.10 Not applicable to this decision/report.

Environmental/sustainability impacts

5.11 Not applicable to this decision/report.

Other significant implications

5.12 There are no other significant implications arising from report.

Appendices attached to this report

Appendix	Title of appendix
A	Capital Investment Strategy 2022-23

Background documents available

Name of background document	Where it is available
None	-

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