



<u>Committee and Date</u>
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<u>Item</u>
<u>Public</u>

CAPITAL STRATEGY 2020/21 - 2024/25

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1. Summary

- 1.1 The Council is required to prepare a Capital Strategy which demonstrates 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 2019/20 financial year was the first year that the Council had to prepare a Capital Strategy and ensure that the Council was complying with the revised Prudential Code for Capital Finance in Local Authorities that CIPFA published in 2017.
- 1.2 The Council's Capital Strategy 2020/21 - 2024/25 has been updated to reflect new capital projects and further amended to take account of additional guidance, "Prudential Property Investment" issued by CIPFA in November 2019.
- 1.3 The strategy gives an overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of services, but importantly considers the associated risks for future financial sustainability. The strategy also considers governance and management of risk in capital investments implemented by the Council.
- 1.4 The capital programme for 2020/21 to 2022/23 is also considered within the Capital Strategy and schemes are only included within the Capital Programme once they have been approved by the Capital Investment Board following a stringent gateway approval mechanism and the appropriate approval has been sought from Cabinet or Council

2. Recommendations

2.1 It is recommended that members:

- A. Agree and recommend to Council the adoption of the Capital Strategy 2020/21 - 2024/25 attached as Appendix 1.
- B. Agree and recommend to Council the revised Capital Programme as set out in the report and detailed at Section 7 and Appendix B to the Capital Strategy.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. The development of the Council's Capital Strategy is a fundamental process in evaluating the financial risks arising from investment projects, both in terms of the risks arising from the individual projects and the impact that they have on the Council's financial position and sustainability.
- 3.2. The Strategy outlines the process for evaluating business cases for investment, which always considers the financial and non-financial risks arising from the project.
- 3.3. The Strategy also focusses on the overall financing capability of the Council to take forward prospective schemes and categorises potential projects into investment categories and types. Each investment category and type is evaluated to consider the level of investment risk associated with them. Each investment type is then given a risk score which gives a basis for the level of exposure the Council should consider when deciding which capital projects to pursue. Further details of the risk analysis are provided in Section 5 of the Capital Strategy attached.

4. Financial Implications

- 4.1 The Capital Strategy 2020/21 - 2024/25 has a direct and significant impact on the Council's financial position. The Capital Programme 2020/21 to 2022/23 includes funding from self-financed prudential borrowing of £102.420m, capital receipts of £17.823m and Housing Revenue Account revenue contributions of £8.180m.
- 4.2 Self-financed prudential borrowing impacts the revenue budget through the creation of a minimum revenue provision (MRP) to provide for the repayment of external debt.

- 4.3 There is currently a projected shortfall on capital receipts in 2020/21 of £4.093m rising to £9.494m in 2021/22. Disposals need to be progressed to ensure they are realised and so remove or minimise the funding shortfall. Any shortfall in capital receipts may need to be financed through prudential borrowing, increasing the impact on the revenue budget.

5. Climate Change Appraisal

- 5.1 The Council approved a Climate Change Strategy Framework in December 2019. Schemes detailed in the Capital Programme 2020/21 to 2022/23 and the development of future projects will take into consideration the Council's Climate Change Strategy Framework; promoting sustainable development, reducing Shropshire's overall carbon footprint and generating energy and cost savings wherever possible.

6. Background

6.1. Development of the Capital Strategy

- 6.1.1 Following the introduction of the revised Prudential Code for Capital Finance in Local Authorities by CIPFA in 2017, the Council considered and evaluated the necessary processes and procedures that we needed to have embedded in order to comply with the requirements of the Code. These processes and procedures have been developed further and are now firmly embedded within the Council.
- 6.1.2 In November 2019, CIPFA issued additional guidance "Prudential Property Investment", the objective of which is to explain the provisions in the updated Prudential Code and Framework that relate to the acquisition of properties intended to make investment returns and confirm their implications in the light of the growing activity and the changes to statutory guidance. The Capital Strategy has been revised and updated to take account of this guidance.
- 6.1.3 The "Hopper" process, developed by the Council during 2018/19, to provide a clear framework and set out governance arrangements for the consideration and evaluation of capital projects, has been further developed over the last twelve months and is firmly embedded within the Council.
- 6.1.4 Alongside this, the Council continues to consider the potential investment fund that could be available to take forward prospective projects. Prior to the finalisation of the Council's initial Capital Strategy, workshops were held with officers and members to consider the investment categories and risks that need to be considered when evaluating where the Council invests money into large scale projects.
- 6.1.5 The outcome of these activities enabled the Council's initial Capital Strategy to be drawn up and this has now been updated to include additional guidance and learning over the last twelve months. Whilst the Strategy detailed in Appendix 1 is the current position of projects and funding available, it is recognised that this will be constantly changing as new projects come forward and business cases are developed to confirm projected figures.

6.1.5 It is recognised that this Strategy and the projects identified within this Strategy need to be consistent with other Corporate Strategies including the Financial Strategy, the Treasury Strategy, the Corporate Plan, the Economic Growth Strategy, the Commercial Strategy, the Asset Management Strategy, the Housing Strategy and the Workforce Digital Strategy. Work has been undertaken, and will continue, to ensure this consistency and alignment.

6.2. Capital Programme 2020/21 - 2022/23

6.2.1 The capital programme for 2020/21 to 2022/23 is shown in the table below and reported in more detail in the Capital Strategy.

Scheme Description	2020/21 Revised Budget £	2021/22 Revised Budget £	2022/23 Revised Budget £
<u>General Fund</u>			
Adult Services	7,277,407	3,200,000	3,200,000
Children's Services	15,611,241	11,000,000	5,500,000
Commercial Services	35,357,250	20,000,000	20,000,000
Place	40,867,841	36,934,566	55,709,635
Public Health	1,400,000	-	-
Resources & Support	260,000	-	-
Total General Fund	100,773,739	71,134,566	84,409,635
Housing Revenue Account	22,255,610	18,700,000	18,700,000
Total Approved Budget	123,029,349	89,834,566	103,109,635

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Financial Strategy 2020/21 - 2024/25 - Council, 12th February 2020
Financial Monitoring Report Quarter 3 - 2019/20 - Cabinet, 12th February 2020
Treasury Strategy 2020/21 - Cabinet, 12th February 2020

Cabinet Member (Portfolio Holder)

David Minnery: Portfolio Holder - Finance & Corporate Support

Local Member

All

Appendices

Appendix 1 - Capital Strategy 2020/21 To 2024/25