

2. Recommendations

2.1 It is recommended that members:

- A. Agree the adoption of the Capital Strategy 2021/22 - 2025/26 attached as Appendix 1.
- B. Note the prioritised schemes identified at Section 8 and the associated impact on the revenue budget.
- C. Agree the revised Capital Programme as set out in the report and detailed at Section 6 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 2021/22 - 2025/26 has a direct and significant impact on the Council's financial position. The Capital Programme 2021/22 to 2023/24 includes funding from self-financed prudential borrowing of £98.767m, capital receipts of £20.945m and Housing Revenue Account revenue contributions of £5.300m.
- 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 2021/22 of £8.959m rising to £13.959m in 2022/23. 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 2021/22 to 2023/24 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 two years. 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 2021/22 - 2023/24

6.2.1 The capital programme for 2021/22 to 2023/24 is shown in the table below and reported in more detail in the Capital Strategy.

	2021/22 Revised Budget £	2022/23 Revised Budget £	2023/24 Revised Budget £
General Fund			
Adult Services	8,976,088	3,200,000	-
Children's Services	21,794,735	5,500,000	-
Place & Enterprise	98,234,054	86,233,274	-
Workforce & Transformation	1,000,000	-	-
Total General Fund	130,004,877	94,933,274	-
Housing Revenue Account	20,148,353	19,828,300	14,000,000
Total Approved Budget	150,153,230	114,761,574	14,000,000

6.3 Future Capital Scheme Prioritisation

6.3.1 The Council has an aspirational programme of capital schemes, the total estimated capital cost of which is £399.578m, with £291.054m anticipated to require funding through borrowing. Undertaking all these schemes would create significant funding issues and an unaffordable impact on future revenue budgets. The Capital Strategy, therefore, aims to create an affordable programme of future capital schemes by prioritising those schemes which the Council is effectively already committed to, either as a result of having already secured external funding or having already committed to in the public domain.

6.3.2 This prioritisation methodology has identified schemes with a total estimated capital cost of £215.623m, of which £175.391 is anticipated to require funding through borrowing. This level of borrowing is estimated to result in an additional maximum revenue requirement, i.e. additional MRP requirement, of £9.477m by 2027/28. The affordability of this impact must be realistically appraised in light of other competing budget pressures when considered in future Financial Strategies.

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

Financial Strategy 2021/22 - 2025/26 - Council, 25th February 2021
Financial Monitoring Report Quarter 3 - 2020/21 - Cabinet, 8th February 2021
Treasury Strategy 2021/22 - Cabinet, 8th February 2021

Cabinet Member (Portfolio Holder)

David Minnery: Portfolio Holder - Finance & Corporate Support

Local Member

All

Appendices

Appendix 1 - Capital Strategy 2021/22 To 2025/26