Annex f) – Update on Capital Strategy

To provide an update on the requirements to produce a Capital Strategy.

1. INTRODUCTION

1.1 Following consultation in 2017 CIPFA have published revised editions of the Treasury Management Code and the Prudential Code, both of which are required to be adopted by PCCs.

1.2 The stated objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of authorities are affordable, prudent and sustainable, and that treasury management and investment decisions are taken in accordance with good professional practice and in full understanding of the risks involved. In exceptional cases the Prudential Code should provide a framework which will demonstrate that there is a danger of not ensuring this, so that the authority concerned can take timely remedial action.

1.3 The main changes in the 2017 Prudential Code relate to determining a Capital and Investment Strategy and governance arrangements.

1.4 In February 2018 the Ministry of Housing, Communities and Local Government (MHCLG) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

2. CAPITAL STRATEGY REQUIREMENTS

2.1 The Code states the following:

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, authorities should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The capital strategy should form a part of the authority's integrated revenue, capital and balance sheet planning.

3. MHCLG INVESTMENT GUIDANCE AND MINIMUM REVENUE PROVISION

3.1 Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans". The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

3.2 The definition of prudent MRP has been changed to “put aside revenue over time to cover the Capital Financing Requirement”. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy can no longer be retrospective.

4. IMPLICATIONS

4.1 Work has commenced to:

- Update the capital expenditure programme of requirements, for an outline 5 year period. There will be more accuracy and focus on the next 1-3 years. This includes Estates and ICT programmes;
- Improve the profiling of capital expenditure requirements across years;
- Consider common elements for Alliance in conjunction with Devon and Cornwall with the aim to reach an agreed forecast of capital spending requirements, agreed profile and agreed prioritisation, and
- Review asset disposal plans and monitoring of capital receipts.

4.2 To support the spending requirements, funding and financing options will be considered in the context of the Revised Prudential Code (Practitioner’s guidance due to be issued in July 2018). It may be necessary to revise the Treasury Management Strategy.

4.3 Capital Strategies will be written, in accordance with latest guidance and proportionate to our circumstances.

4.4 This work is timetabled during 2018 to ensure that the impact of the capital programme on revenue resources is reflected in the next update of the Medium Term Financial Strategy.

4.5 Governance arrangements will also be reviewed to ensure compliance with the Revised Code.