10 February 2021	ITEM: 11 Decision: 110551
Cabinet	
Capital Strategy 2021/22	
Wards and communities affected: All	**Key Decision:** Key
Report of: Councillor Shane Hebb, Deputy Leader and Portfolio Holder for Finance and Transformation	
Accountable Assistant Director: Jonathan Wilson, Assistant Director - Finance	
Accountable Director: Sean Clark, Corporate Director of Finance, Governance and Property	
This report is public	

Executive Summary

The Capital Strategy sets out the strategic framework underpinning capital expenditure and the associated financing at the Council. It also includes the Treasury Management Strategy. These are set in accordance with revised guidance contained in The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code). The strategy continues to support the Council's ambitions through the ongoing investments which create revenue returns which can then be allocated to spending on the services for Thurrock residents.

The Code requires local authorities to determine the Capital Strategy and the associated Prudential Indicators on an annual basis for the forthcoming three years. The annual strategy also includes the Treasury Management Strategy that is a requirement of the Ministry for Housing, Communities and Local Government Investment Guidance.

In accordance with the above Codes, this report:

a) sets out the Capital strategy for 2021/22;

b) confirms the proposed Prudential Indicators; and

c) sets the Capital and Treasury Management projections for 2021/22.

1 Recommendations

That the Cabinet recommends that Full Council:

1.1 Approve the Capital Strategy for 2021/22 including approval of the Annual Minimum Revenue Provision (MRP) statement for 2021/22;

1.2 Approve the adoption of the prudential indicators as set out in Appendix 1;

1.3 Note the revised 2020/21 and 2021/22 Treasury Management projections as set out in Annex 1 paragraph 2.32; and

1.4 Notes the comments from the Corporate Overview and Scrutiny Committee as set out in section 5.

2 Introduction and Background

2.1 The Capital Strategy and the Annual MRP Statement are prepared under the terms of the CIPFA Prudential Code for Capital Finance in Local Authorities (the Code) and approval is sought for the adoption of the Prudential Indicators that have been developed in accordance with the Code.

2.2 The report also includes a forecast for Interest Receivable from Investments and the indicative Interest Payable on Borrowing.

2.3 The report covers a range of areas as set out below with the detailed document attached at Appendix 1.

Borrowing Activity

3 Issues, Options and Analysis of Options

3.1 The Capital strategy of the Council is attached as an appendix to this report and has been set with consideration of relevant legislation and appropriate guidance. This includes Annex 1 which incorporates the Treasury Management Strategy. The Prudential Indicators are governed by decisions made on the revenue and capital budgets.

3.2 The Capital Strategy sets out a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It includes the following:

- Details of capital expenditure and financing;
- The governance arrangements around the identification and approval of capital bids;
- Details on the sources of funding and projections on capital receipts;
- The strategic approach of the Council to borrowing and the governance arrangements in place;
- The proposed prudential indicators;

- Details of the Council's strategic approach to investments and commercial activities: including the approach pausing (i.e. not undertaking new investment activity, and not budgeting for replacing current investment activity when existing bonds mature), and a reduction of over £350m from projected approved borrowing levels;

- Details of other liabilities and revenue implications arising from this strategy; and

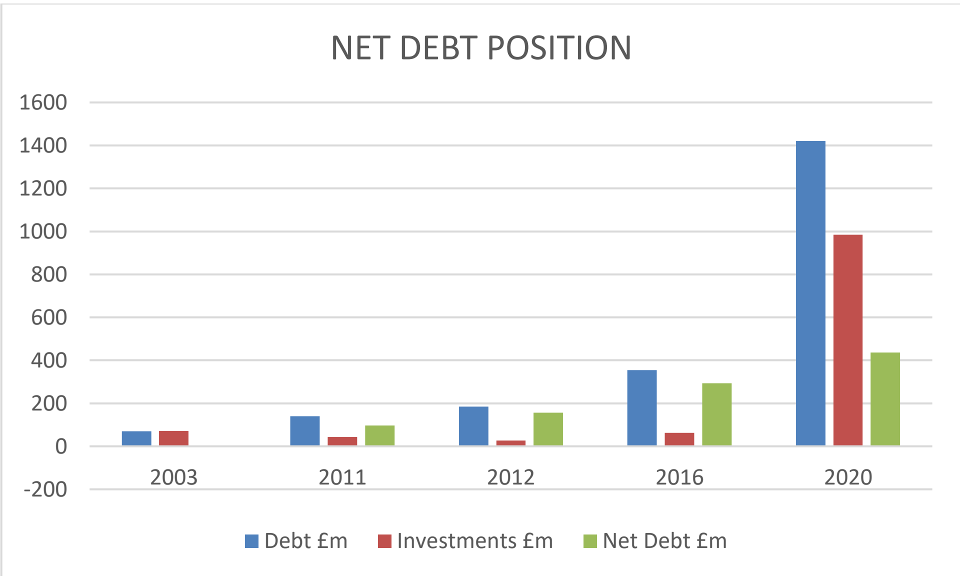
- A further annex containing the detailed treasury management strategy that supports the capital strategy. This includes the annual statement on the Minimum Revenue Provision.

3.3 There are two key areas in this report for Members to be particularly mindful of:

a) The Council has held significant levels of temporary borrowing since 2010 and hence there is potential exposure to interest rate changes and availability of funding. Officers continue to monitor this and react as necessary to any changes in the economy; and

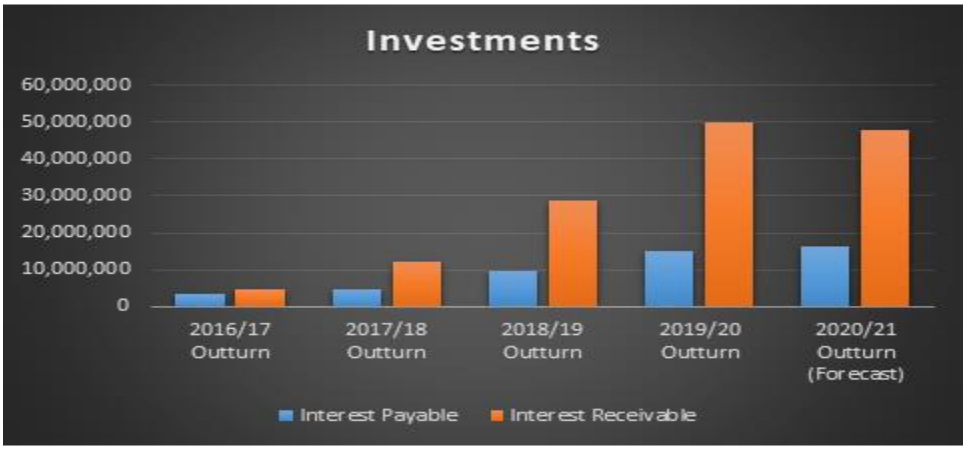
b) The approach taken to the Minimum Revenue Provision (as set out in Annex 1).

3.4 It is also worth noting how borrowing activity has changed over the years. The graph below sets out the gross borrowing and investments at certain points over the last 20 years and then the net borrowing position. The net position is the council's core debt, as it has always been, and represents the amount that will not be repaid through maturing investments but through revenue amounts raised through council tax on an annual basis – the Minimum Revenue Provision (MRP) - and through setting aside capital receipts where available. The core debt is the accumulation of borrowing to fund capital projects.



Notes:

- Pre 2004, borrowing for capital purposes was restricted by government to credit approvals that were awarded on an annual basis. Capital expenditure was funded through these credit approvals (with the revenue impact funded by government through the Revenue Support Grant), capital receipts, and a higher proportion of grants;
- 2004 saw the introduction of the prudential Code that allowed councils to borrow for capital activity without the need for a credit approval. This approach ultimately led to lower proportions of grant and supported borrowing;
- In 2011/12 the government changed the Housing (HRA) Subsidy System that led to a national reallocation of HRA debt, with some authorities receiving significant sums to redeem debt whilst other, like Thurrock, received significant increased debt (£161m) as a result. This was, however, offset in Thurrock through no longer having to make annual payments to the government from the rents collected;
- Between 2012 and 31 March 2016, Thurrock Council had taken out its first investments in CCLA;
- The period 2016 to 2020 sees the significant increase in both debt and investments in line with the unanimously agreed Investment Strategy. A key point to recognise in this period is that net debt had increased by £143m but this includes the £100m taken out at the end of March 2020 to support Covid-19 cash flow challenges; and
- The Strategy has realised interest receivable in the calculations of the council's spending power. This manifests as income into the revenue account to provide stability of funding, whilst council services were in the process of being reviewed, and enhancing services above those required of a local authority – i.e. funding additional police resource across the borough, investment into mental health initiatives in schools, investing in one-off technology to improve the street and park scenes of the borough etc., along with the trebling of general reserves since 2016. The graph shows the interest receivable against that payable.



3.5 Members will recall that the council voted to support the formation of a constituted committee arrangement, to improve the level of oversight and monitoring around the council's investment activity. A "Shadow" board has operated since Autumn 2020, whilst Terms of Reference are developed and readied for a Members' decision in May 2021 at the Annual General Meeting. An Investment Strategy Statement is also being developed, for publication in the early municipal year, which will be published on the council website, and will condense all information around the council's commercial activities into one document, which will enable easy reference and reading for interested parties and residents.

3.6 As announced in December 2020, the Capital Strategy approach is now scheduled to account for no new investment activity, and is not currently budgeting for replacing investment activity when existing bonds mature.

4 Reasons for Recommendation

4.1 There is a statutory requirement for the Capital Strategy and the Annual Minimum Revenue Provision Statement to be ratified by Full Council. This report and appendices have been written in line with best practice and the Council's spending plans

5 Consultation (including Overview and Scrutiny, if applicable)

5.1 As set out in section 4, the report is based on best practice and the Council's spending plans that have been scrutinised throughout recent months.

5.2 The Shadow Investment Committee will also be provided an opportunity to review the proposals, and Cabinet will be briefed of any commentary the committee raise on the night this report is heard.

5.3 Corporate Overview and Scrutiny Committee considered the report at their meeting on 21 January 2021.

5.4 The discussion included consideration of:

- capital expenditure, capital financing and treasury management activity;
- a summary of the overall treasury position of the Council and wider consideration of the investment strategy that has provided additional financial resources of circa £90m to support the delivery of core services over the last three years; and
- An overview of the impact of the guidance the Council is required to meet on the treasury activity undertaken. This included discussion of the agreed pause to the investment strategy in light of the updated guidance on the conditions that must now be met to secure borrowing from the Public Works Loans Board. This applied from November 2020.

6 Impact on corporate policies, priorities, performance and community impact

6.1 Treasury Management plays a significant role in funding the delivery of services to the community. The debt restructuring carried out in August 2010 will have contributed savings in the region of £32.3m by the end of 2020/21 and Investment activity has contributed some £90m over the last four years.

7 Implications

7.1 Financial

Implications verified by: **Chris Buckley**

Treasury Management Officer

The financial implications are included in the main body of the report and appendix. Investment income generated from the Investment Strategy contributes significantly to the council's financial position.

7.2 Legal

Implications verified by: **Ian Hunt**

Assistant Director Law and Governance and Monitoring Officer

The report is in accordance with the Local Government Act 2003, related secondary legislation and other requirements including the Prudential Code.

Publication of the strategies is a statutory requirement and conforms to best practice as required by the CIPFA Code of Practice.

7.3 Diversity and Equality

Implications verified by: **Natalie Smith**

Strategic Lead - Community Development and Equalities

There are no direct diversity implications noted in this report

7.4 **Other implications (where significant) –** i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental

- Not applicable

8 **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- Revised CIPFA Prudential Code
- Revised draft ODPM's Guidance on Local Government Investments
- Revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- Investment Strategy
- Treasury sector Briefings

9. Appendices to the report

- Appendix 1 – Capital Strategy Report 2021/22
- Annex 1 – Treasury Management Strategy 2021/22

Report Author:

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