

Report of	Meeting	Date
Director of Policy & Governance	Governance Committee	23/01/2019

GOVERNMENT REQUIREMENTS OF THE CAPITAL STRATEGY REPORT

PURPOSE OF REPORT

1. To update the committee on the requirements of the new Capital Strategy report to be submitted with the budget papers to Full Council on 26 February 2019.

RECOMMENDATION(S)

2. To note the government guidance and requirements of the Capital Strategy report
3. To note where the council can meet with requirements of the guidance and to note where further work will be required
4. That members provide any input into what they believe should be included in the Capital Strategy report

EXECUTIVE SUMMARY OF REPORT

5. It is a new requirement in 2019 for councils to submit a Capital Strategy report alongside the budget setting papers to Full Council. The aim of the Capital Strategy is to introduce a more strategic report that provided an overview to decision makers of the investment and borrowing risk position of the authority and the governance arrangements in place to manage those risks. This is a reaction to the increasing number of councils investing in commercial assets to generate revenue and bridge budget deficits.
6. The report also covers treasury management activity therefore it is possible to combine the treasury management strategy into the capital strategy. The capital strategy has four main sections:
 - Capital Expenditure
 - Treasury Management
 - Commercial Activity
 - Knowledge & Skills
7. This report outlines what the requirements of each section are and how the council will meet these in the report. At this stage the council is not able to meet all the requirements due to the council's Asset Management Plan still being undertaken. The report includes two appendices for members to consider the risk appetite of the council and what indicators the council could use to monitor the risk in its commercial activities.
8. It is the decision of the council as to whether it brings the existing Treasury Management Strategy into the Capital Strategy. It is proposed in this paper that they remain separate.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

Guidance

10. The guidance for the reporting requirements of the capital strategy comes from two documents:
- The Prudential Code
 - The Treasury Management Code
11. This is further supported by CIPFA's capital strategy checklist and the MHCLG Statutory Investment Guidance.

Purpose

12. The aim of the Capital Strategy is to introduce a more strategic report that provided an overview to decision makers of the investment and borrowing risk position of the authority and the governance arrangements in place to manage those risks.
13. The Government believes that local authorities need to be better at explaining “why” not just “what” they are doing with their investment activity. Investment activity now includes capital expenditure rather than previous treasury management reports that focussed on the investment of the council's cash.
14. The report also covers treasury management activity therefore it is possible to combine the treasury management strategy into the capital strategy. The capital strategy has four main sections:
- Capital Expenditure
 - Treasury Management
 - Commercial Activity
 - Knowledge & Skills
15. It is not the intention of the report to duplicate work already completed, as such the report will make reference to other strategies the council has already approved. The Capital Strategy's Treasury Management section is practically identical to the current Treasury Management Strategy. It is proposed that the Capital Strategy will therefore summarise the highlights of the Treasury Management Strategy that will be submitted to Full Council alongside the Capital Strategy.
16. The Capital Strategy is to be approved annually by Full Council alongside the budget setting papers.

CAPITAL EXPENDITURE

17. This section outlines how the capital programme fits in with the authority's wider objectives and the framework in place to ensure effective and sustainable investment. There are four separate subsections.

Governance

18. The requirements of this section include:

- Link between the capital programme and strategic service plans
- The pipeline process for capital projects
- The authority's policies surrounding capitalisation

19. Chorley Council's Capital Strategy will provide the following:

- The stages of scrutiny and approval a new capital project must go through including the use of project management tools, such as business cases, to ensure the benefits of the project are linked to corporate objectives, that they are sustainable and that these benefits are monitored.
- The definition of capital is outlined in the constitution

Long Term Plans

20. The requirements of this section include:

- Long term forecast of capital expenditure including disposals and borrowing
- The basis for estimating future costs and the use of sensitivity analysis to model external and internal risks.

21. Chorley Council's Capital Strategy will provide the following:

- A summary of the capital programme and how it is financed including borrowing. The council's four major capital projects - Housing Company, Primrose, Strawberry Fields and MW Extension – will be outlined separately as these provide the majority of the capital programme and therefore the greatest risk.
- Available resources including reserves and uncommitted capital receipts
- Reference to the Treasury Management Strategy and its analysis of the capital financing requirement and the limit to which the council could borrow in the future

22. It should be noted that the ambition of the Government is to provide a long term capital programme i.e. over 5 years. The council's only approved long term budget relates to the Housing Company and it is the opinion of officers that providing this information will not give any further indication of the capital programme's sustainability, affordability or risk. As such it is proposed to provide the capital programme summary for 2018/19 to 2021/22

Asset Management Plans

23. The requirements of this section include:

- Overview of the asset management plan
- Ongoing costs associated with existing assets

24. It is the council's ambition to create an asset management plan however due to the temporary difficulties in filling posts in Property Services this work has not yet been undertaken. Resources have been set aside and qualified staff recruited to begin this process however it will not be finalised prior to Full Council on 26 February 2019. As such it is the ambition of the council to include this plan in the 2019/20 Capital Strategy and

therefore provide a long-term view of the capital programme and how it manages existing assets.

25. The 2018/19 Capital Strategy will provide an analysis of the prior year spend relating to the maintenance of its assets and provide confirmation that the budget set aside in the past has been sufficient to meet these costs. Using this information, the budget set aside in future years for asset maintenance, including leisure centres, is deemed to be a prudent estimate of the budget required to manage the council assets. However this will not be confirmed until an asset management plan is created and scrutinised in the new financial year.

TREASURY MANAGEMENT

26. It is for individual authorities to decide whether to include their treasury management strategy and annual investment strategy as part of a capital strategy, or to do them separately. However, our own recommendation is that the capital strategy should be a high level corporate document dealing with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management, and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority. It should also deal with significant commercial, (focused on income generation), investments in appropriate detail so that members can properly assess the particular risks in this area.
27. It is proposed that the Capital Strategy will summarise the highlights of the Treasury Management Strategy that will be submitted to Full Council alongside the Capital Strategy.

COMMERCIAL ACTIVITY

Other Investments

28. The requirements of this section include:
- Local authorities should disclose the contribution that all other investments make towards service delivery objective(s) and towards the balanced budget
 - Authorities should include sufficient information to allow the reader to understand the extent of commercial activity that the authority is involved in. This should be over the long term.
29. Chorley Council's Capital Strategy will provide the following:
- A summary of the major capital projects and existing purchased assets that generating net income to the council. This will include the income, running costs, borrowing costs and net income associated with each asset over the coming 10 years.
 - It will describe the reasons these are held by the authority including profit, regeneration, responding to market failure

Governance & Risk Management

30. The requirements of this section include:
- The policies and procedures for the approval of commercial activity
 - How the authority will use independent and external expert advice
 - Outline the authority's overall risk appetite
31. The policies, procedures and use of external advice will be covered in the first section of the Capital Strategy.
32. Chorley Council's Capital Strategy will provide the following:

- A description of the various types of risk the council faces including financial, reputational, strategic, environmental
- It will then describe the council's appetite for each risk, examples are given in appendix 1.
- The amount of capital invested and the potential volatility of the fair value compared to the initial investment
- Quantitative indicators that allow councillors and the public to assess a local authority's total risk exposure. Potential indicators are included in Appendix 2, indicators would be monitored twice a year and reported alongside the mid-year review of the Treasury Management Strategy.
- Council's risk management process and how this will be used to monitor the risks surrounding these investments

KNOWLEDGE AND SKILLS

33. The requirements of this section include:

- The skills and knowledge available within the authority
- How the authority uses external advisers
- How the authority arranges training for staff and councillors to ensure that they have the required skills and are kept up to date

34. The Capital Strategy will cover these requirements

IMPLICATIONS OF REPORT

35. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

36. The requirements of the Capital Strategy report are outlined in this document. The report will be taken to Full Council on 26 February 2019.

COMMENTS OF THE MONITORING OFFICER

37. The report properly states the obligation on the Council to prepare and publish a Capital Strategy. The proposed approach would satisfy this requirement.

REBCCA HUDDLESTON
DIRECTOR OF POLICY & GOVERNANCE

Report Author	Ext	Date
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