

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

12 MARCH 2019

Title:

CAPITAL STRATEGY

**[Portfolio Holder: Cllr Ged Hall]
[Wards Affected: All]**

Summary and purpose:

To seek approval of the overarching Capital Strategy which brings together the Council's detailed policies, procedures and plans relating to cash investments and property assets. This report also seeks approval of the Treasury Management Framework for 2019/2020 which is an integral part of the Capital Strategy and a statutory requirement.

How this report relates to the Council's Corporate Priorities:

This report relates to the Council's People, Place and Prosperity priorities as it provides a governance framework around capital investment to ensure resources are in the right place to deliver the key priority themes set out in the Corporate Strategy.

Equality and Diversity Implications:

The Capital Strategy governs the provision of capital funding when required to support all services including those which promote equality and diversity.

Financial Implications:

The Capital Strategy describes how the Council determines its priorities for capital investment and decides how much it can afford to borrow. The Treasury Management Policy, which requires the achievement of an appropriate balance between risk and return, plays a key role in the generation of investment income required to support service provision.

Legal Implications:

The Prudential Code (the Code) for Capital Finance in Local Authorities and the Code of Practice on Treasury Management, both produced by CIPFA, supports the provisions of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and support strategic planning for capital investment at a local level. Compliance with both codes is a statutory requirement for local authorities.

Background

1. The Code for Capital Finance in Local Authorities issued by CIPFA requires local authorities to determine capital expenditure and investment decisions that are affordable, prudent and sustainable, and to set limits on the amount they can afford

to borrow in the context of capital planning. This requires effective strategic planning and a decision making framework.

2. The Prudential Code establishes a framework that should support:

- (a) local strategic planning;
- (b) local asset management planning; and
- (c) proper option appraisal;

and assist local authorities to ensure that:

- (d) capital expenditure and investment plans are affordable;
- (e) all external borrowing and other long term liabilities are within prudent and sustainable levels; and
- (f) treasury management and other investment decisions are taken in accordance with professional good practice.

and that in taking decisions in relation to (d), (e) and (f) above the local authority can be held accountable by providing a clear and transparent framework.

3. The latest version of the Prudential Code introduced the requirement for local authorities to approve a Capital Strategy from 2018 to provide the framework described above and to ensure good governance. The Council approved an interim Capital Strategy in October 2018 after consideration by the Value for Money Overview and Scrutiny Committee.

4. The purpose of the Capital Strategy is to:

- (a) place decisions about borrowing in the context of the overall longer term financial position of the local authority.
- (b) provide improved links between revenue and capital budgets.
- (c) give a clear and concise view of how the local authority determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite.
- (d) give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

5. The Capital Strategy sits above the more detailed policies, procedures and plans, such as asset management plans and the Treasury Management Strategy, and gives reference to these for those seeking more detailed information. The diagram at Annexe 1 shows how all the Council's detailed documents fit into the Capital Strategy.

6. This report contains the following Annexes:

- Annexe 1 – Capital Strategy infographic
- Annexe 2 – Capital Strategy
- Annexe 3 – Treasury Management Policy
- Annexe 4 – Treasury Management Strategy
- Annexe 5 – Treasury Management Investment Strategy
- Annexe 6 – Prudential Indicators

7. The Capital Strategy is individual to each authority and it details how stewardship, value for money, prudence, sustainability and affordability will be secured for Waverley. Affordability covers all the years in which the capital investment will have a financial impact on the Council. It also ensures the Council meets legislative requirements on reporting.
8. It is a living document that will evolve over time to respond to changing circumstances at the Council. It will be subject to annual review.
9. The updated Capital Strategy is included at Annexe 2.

Treasury Management Framework 2019/2020

10. One of the key documents that underpins the Capital Strategy is the Treasury Management Framework which relates to the management of the Council's monetary investments and cash flows, its banking, money market transactions and borrowing. The effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks is also covered. The framework covers all of the Council's treasury activity and does not distinguish between the General Fund and the Housing Revenue Account funds. The Treasury Management Framework for 2019/20 contains some proposed changes to the existing framework which are highlighted later in this report.
11. This report sets out the proposed Treasury Management Framework for 2019/20, comprising:
 - revised Treasury Management Policy;
 - 2019/20 Treasury Management Strategy; and
 - 2019/20 Treasury Management Investment Strategy.
12. The Council collects around £160 million of income per annum and has, on average, £70m each day invested in money markets. With the introduction of HRA Self-financing in 2012/13 the Treasury Framework also includes borrowing (originally of £192m) and in future this could also include borrowing to support commercial investment.
13. The Treasury Code requires local authorities to maintain their Treasury Management Policy and Strategy in accordance with the Code, and any of its revisions, and with legislation. During 2017 CIPFA revised the Code through a series of consultations. In March 2018 the Government also published a revised Prudential Framework for Capital Finance, which includes the Local Authorities Investment Code and Minimum Revenue Provision (MRP) Guidance. These revisions take effect from April 2019 and are incorporated in the Treasury Management Strategy.
14. CIPFA has produced the Treasury Code and the accompanying guidance notes to help satisfy nine main purposes:
 - (a) To assist public service organisations in the development and maintenance of firm foundations and clear objectives for their treasury management activities, and thereby to add to their credibility in the public eye.

- (b) To emphasise the over-riding importance of effective risk management, as the foundation for treasury management in all public service organisation.
- (c) To provide transparency for treasury management decisions including the choice of counterparties and financial instruments that individual public service organisations intend to use for the prudent management of their financial affairs.
- (d) To encourage the pursuit of value for money in treasury management, and to promote the reasoned use, development and appreciation of appropriate and practical measures of performance.
- (e) To enable CIPFA members to fulfil their professional and contractual responsibilities to the organisations they serve and, in accordance with the members' charter, "to maintain and develop the professional competence of both themselves and those they supervise".
- (f) To help facilitate a standardisation and codification of treasury management policies and practices in the public services.
- (g) To assist those involved in the regulation and review of treasury management in the public services, particularly those charged with the audit of the same.
- (h) To foster a continuing debate on the relevance and currency of the statutory and regulatory regimes under which treasury management in the various parts of the public services operates.
- (i) To further the understanding and confidence of, and to act as a reference work for, financial and other institutions whose businesses bring them into contact with the treasury management activities of public service organisations.

Treasury Management Statements

15. The key documents which are produced in accordance with the requirements of the Code and require annual approval by the Council are as follows:

- Treasury Management Policy

This is included at Annexe 3 and sets out the headline objectives of the Treasury Management function.

- Treasury Management Strategy 2019/20

This is included at Annexe 4 and sets out the way in which the Council's policy objectives for Treasury Management will be achieved and the high level approach to borrowing and treasury investment. As required by the Code, the Strategy includes a statement of Waverley's Treasury Management Practices (TMPs) which set out specific areas of note and how they will be dealt with.

- Treasury Management Investment Strategy 2019/20

This is included at Annexe 5 and sets out how Waverley's treasury investments will be managed, in accordance with the Treasury Management Strategy, and how this will help achieve Waverley's policy objectives.

Borrowing

16. With the approval of the Property Development Strategy, overseen by the Investment Advisory Board, and the Government's significant reduction in Waverley's New Homes Bonus funding, it is likely that the Council will need to borrow in future years to acquire and/or develop commercial property assets in order to generate revenue for the General Fund budget and to support the local economy.
17. In order to respond quickly to opportunities that arise and ensure flexibility in making capital financing arrangements, the decision to borrow to finance capital expenditure has been delegated to the Executive by the Council, subject to the limits within the Treasury Management Framework and provided that the annual revenue cost of the borrowing is within the Executive's authorised spending limit for each transaction.

Prudential Indicators to 2021/22

18. The Prudential Code requires local authorities to self-regulate the affordability, prudence and sustainability of capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of prudential indicators.
 - affordability - a local authority must consider the affordability of its capital investment during all the years in which it will have a financial impact on the authority.
 - Prudence - a local authority must be cautious and ensure that its capital investment decisions can deliver the authority's asset management and Corporate Strategy and link capital investment to service priorities.
 - Sustainability - capital investment must consider the cost of maintaining existing assets.
19. The Prudential Code imposes on local authorities clear governance procedures for setting and revising prudential indicators to deliver accountability in taking capital financing, borrowing and treasury management decisions.
20. The Prudential Code and the Treasury Code contain indicators which are designed to support and record local decision making in a manner that is publicly accountable. Each Local Authority must adopt a set of indicators which reflects its individual circumstances.
21. The Council's indicators are contained at Annexe 6.

Conclusion

22. All of the Council's Strategies, Policies, Procedures and Plans need to work together to ensure good governance and financial resilience for the Council. The Capital Strategy demonstrates how they fit together to ensure this will be achieved.

Comments from the Value for Money & Customer Services Overview and Scrutiny Committee

23. The Value for Money and Customer Service O&S Committee considered this item at its meeting on 18 February 2019 and made the following observations.
- The Committee thanked officers for their hard work in producing the Capital Strategy and Treasury Management documentation and welcomed the inclusion of an 'infographic' outlining how the processes and documentation underpinning the Strategy fitted together. A suggestion was made to review some of the terminology to make it even more accessible.
 - In relation to the Treasury Management documentation, the Committee suggested adding further narrative and clarification to the sections on HRA borrowing, TMP 4, and Prudential Indicators 2, 4 and 10.
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Recommendation

That the Executive recommends to Council that it approves the:

- 1) Capital Strategy for 2019/20;
 - 2) Prudential Indicators; and
 - 3) Treasury Management Framework for 2019/20.
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Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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