

WAVERLEY BOROUGH COUNCIL
VALUE FOR MONEY O & S COMMITTEE

25 JANUARY 2022

EXECUTIVE

8TH FEBRUARY 2022

Title:

Capital Strategy 2022/2027
Incorporating Treasury Management Strategy and Asset Investment Strategy

Portfolio Holder: Cllr Mark Merryweather

Head of Service: Peter Vickers

Key decision: Yes

Access: Public

1. Purpose and summary

- 1.1 The purpose of the report is for the Policy O&S Committee to scrutinise the draft Capital Strategy 2022/2027 incorporating Treasury Management Strategy and Asset Investment Strategy and pass comments to the Executive ahead of its meeting on 8th February.
- 1.2 Whilst it is a statutory requirement for local authorities to produce an annual Capital Strategy it is also a best practice approach to longer-term strategic planning and investment to ensure the Council's long-term priorities can be delivered as well as the day-to-day provision of services.
- 1.3 The Capital Strategy (Item 1) brings together the Council's detailed policies, procedures and plans relating to capital expenditure, capital financing and treasury management activity. It incorporates the Treasury Management Framework, Prudential Indicators and Asset Investment Strategy.
- 1.4 It also gives an overview of how associated risk is managed and the implications for future financial sustainability.

2. Recommendation for Overview and Scrutiny Committee

- 2.1 The Policy O&S Committee consider the draft Capital Strategy 2022/2027 incorporating Treasury Management Strategy and Asset Investment Strategy and pass comments and observations to the Executive.

3. Recommendation

3.1 That the Executive recommends to Council:

1. The 5-year Capital Strategy for 2022/2027, incorporating the Treasury Management Strategy, Prudential Indicators and Asset Investment Strategy, for approval.
2. Subject to a positive recommendation from the Asset Investment Advisory Board and agreement from the Chief Executive and Strategic Director, authority be delegated to the Executive:
 - a. to bid, negotiate and complete on property acquisitions and investments with a total individual cost of up to £10m, subject to the decision fully satisfying all criteria and process requirements set out in this Strategy;
 - b. to appoint advisors and undertake appropriate due diligence for each property acquisition and investment proposal as necessary; and
 - c. to complete the legal matters and signing of contracts to execute the transactions referred to above

4. Reason for the recommendation

- 4.1 The Capital Strategy is a whole organisation approach to capital investments(expenditure) and overall strategic planning. It has historically been seen as a finance responsibility but should be steered by the leadership of the Council and is a responsibility of all.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on the aims and requirements of a Capital Strategy focusing on a whole organisation approach to prudent, sustainable and resilient local government investment.
- 4.3 CIPFA have also issued two revised professional Codes of Practice to which the Council is required by law to “have regard to”. These give frameworks designed to support local strategic planning, local asset management planning and proper option appraisal:
 - **The Prudential Code** – developed to support local authorities in taking decisions around their capital investment programmes. The objectives of the Prudential Code are to ensure, within a clear reporting framework, that a local authority’s capital expenditure plans and investment plans are affordable and proportionate; that all external borrowing and other long-term liabilities are within prudent and sustainable levels; that the risks associated with investments for commercial purposes are proportionate to their financial capacity; and that treasury management decisions are taken in accordance with good professional practice.
 - **The Treasury Management Code** - Treasury Management is defined as ‘The management of the organisation’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks’.

4.4 Both of these codes have been out to consultation in 2021 in response to a rise in local authorities undertaking commercial investments, and purchasing property solely to make a return, with particular concerns where these investments have been financed by borrowing. Proposals outlined in the consultations address that borrowing for yield only is a risk to prudent investment. CIPFA hopes that these strengthened Codes will alleviate further government intervention in the Prudential Framework and ensure local decision making is protected.

4.5 The new Codes were published in December 2021.

5. Government intervention

5.1 The government supports local investment in part by offering low cost loans to local authorities through the Public Works Loan Board (PWLB). In March 2020 the government consulted on revising the PWLB's lending terms to reflect the transfer of its lending powers to HM Treasury and to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets bought primarily for yield.

5.2 The outcome of that consultation was a set of lending terms that supports local authority investment in permissible categories of local authority capital expenditure to encapsulate the core activities of local authorities which the government wishes to support, whilst setting out a stricter definition of investment assets bought primarily for yield, which the lending terms restrict.

5.3 Permissible categories:

- service delivery
- housing
- economic regeneration
- treasury management
- and occasionally preventative action, under the prudential regime

6. Capital Strategy

6.1 The Council's Capital Strategy, Treasury Management Strategy and Asset Investment Strategy have been aligned to the new codes and the Government's lending terms. The strategies are detailed at:

- Capital Strategy – Item 1
- Treasury Management Strategy – Item 4
- Asset Investment Strategy – Item 5. This replaces the Property Investment Strategy approved in February 2019 which focused on 'for yield' investments. The Asset Investment Strategy considers overall asset management and investment in property in support of the corporate priorities.

6.2 The key points to note are:

- All three strategies apply to the General Fund, Housing Revenue Account and Trust Assets corporately as a whole organisation approach to asset and cash management. Although the Trusts are separate legal entities they follow the Council's governance policies and regulations.

- The CIPFA Codes and Government guidelines for access to the PWLB will be followed as best practice and to protect borrowing options for the future.
- Cash deposits under the Treasury Management Strategy are fixed rate, fixed term deposits to give certainty and reduce risk
- All property asset investments are to be overseen by the Asset Investment Manager as a corporate approach to deliver best value from assets and development opportunities
- All property investments must be financially viable, any yield element a secondary and proportionate consideration
- All property assets will be assessed to determine if cost of holding outweighs benefits and action taken

7. Governance

- 7.1 The investment governance process is extensively detailed in the Capital Strategy and the Asset Investment Strategy. Decisions on taking forward each investment opportunity will be taken by the Executive based upon detailed consideration and recommendation of the Asset Investment Advisory Board (AIAB, was the Investment Advisory Board). This ensures appropriate rigour in advance of the Executive decision by ensuring only credible options are progressed to the Executive. The composition of the AIAB is cross party to ensure full Member representation.
- 7.2 Officer support is provided by a range of senior and technical officers including finance, legal and property and all meetings will be serviced by the Democratic Services Team. In approving a business case, the Asset Investment Advisory Board will satisfy itself that the investment is in line with the Council's strategies, is and legal powers, it has properly considered the advice from its advisors (both internal and external) and its structure provides the best value for money considering all financial considerations, including taxation.
- 7.3 In recognition of the strong governance process supporting the Asset Investment Strategy, and the need to expedite the approval process in a competitive bidding environment it is being proposed to reinstate the 2019/20-2020/21 Council delegation to the Executive to approve acquisitions up to the value of £10 million that was in place up to the end of March 2021.

8. Relationship to the Corporate Strategy and Service Plan

- 8.1 The Capital Strategy provides a governance framework around capital investment to ensure a best practice approach to longer-term strategic planning and investment to ensure the Council's long-term priorities can be delivered as well as the Service Plans
- 8.2 The Council will only consider investments that support the Corporate Strategy and Service Plans.

9. Implications of decision

Resource (Finance, procurement, staffing, IT)

- 9.1 There are no direct resource implications from this report. However, adoption of the Capital Strategy, Treasury Management Strategy and Asset Investment Strategy will aid a financially resilient Waverley.

Risk management

- 9.2 Risk management is addressed in each strategy.
- 9.3 The Capital Strategy describes how the Council determines its priorities for capital investment and decides how much it can afford to borrow.
- 9.4 The Treasury Management Framework details the control of the risks associated with cash deposits and cash flows, banking, money market transactions and borrowing and the pursuit of optimum performance consistent with those risks. It requires the achievement of an appropriate balance between risk and return and, therefore, plays a key role in the generation of income required to support service provision.

Legal

- 9.5 The CIPFA codes support 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.

Equality, diversity and inclusion

- 9.6 There are no direct equality, diversity or inclusion implications in this report. However, the environmental aspects of the Strategy are incorporated across all annexes of this report. Equality impact assessments are carried out when necessary across the council to ensure service delivery meets the requirements of the Public Sector Equality Duty under the Equality Act 2010.

Climate emergency declaration

- 9.7 There are no direct climate emergency declaration implications in this report.

10. Consultation and engagement

- 10.1 The Policy Overview and Scrutiny committee will scrutinise the Capital Strategy on the 25th January and pass comment onto the Executive before Full Council on 22nd February 2022.

11. Other options considered

- 11.1 It is a statutory requirement for local authorities to produce an annual Capital Strategy.

12. Governance journey

- 12.1 This report followed the Medium-Term Financial Plan and budget through the Committee process.

13. Supporting Documents:

Item 1 – Capital Strategy

Item 2 – Capital Strategy infographic (Annexe 1 to the Capital Strategy)

Item 3 – Asset Management Plan and Capital Ambition (Annexe 2 to the Capital Strategy)

Item 4 – Treasury Management Strategy (Annexe 3 to the Capital Strategy)

Item 5 – Asset Investment Strategy (Annexe 4 to the Capital Strategy)

Background Papers

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

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Agreed and signed off by:

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Head of Finance:

Strategic Director:

Portfolio Holder: