

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

7 FEBRUARY 2023

Title:

Capital Strategy 2023/2024
Incorporating Treasury Management Strategy and Asset Investment Strategy

Portfolio Holder: Cllr Mark Merryweather, Portfolio Holder for Finance

Head of Service: Peter Vickers, Executive Head of Finance

Key decision: Yes

Access: Public

1. Purpose and summary

- 1.1 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.
- 1.2 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.
- 1.3 It also gives an overview of how associated risk is managed and the implications for future financial sustainability.

2. Recommendation

- 2.1 It is recommended that the Executive, after considering comments from the Resources Overview and Scrutiny Committee, makes the following recommendations to Council:
 1. The five-year Capital Strategy for 2023/2028, incorporating the Treasury Management Strategy, Prudential Indicators and Asset Investment Strategy, for approval.
 2. That Full Council delegate authority to the Executive for the financial year 2023/2024, subject to a positive recommendation from the Asset Investment Advisory Board and agreement from the Chief Executive and Strategic Director:
 - a. to bid, negotiate and complete on property acquisitions and investments in land and buildings 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; and

- b. to determine a funding strategy for the acquisition or investment in line with the Treasury Management Strategy; and
- c. to appoint advisors and undertake appropriate due diligence for each property acquisition and investment proposal as necessary; and
- d. to complete the legal matters and signing of contracts to execute the transactions referred to above

3. **Reason for the recommendation**

- 3.1 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.
- 3.2 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.
- 3.3 CPFA have also issued two professional Codes of Practice to which the Council is required to “have regard to”. These Codes provide frameworks that are 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’.
- 3.4 Both codes were updated and adopted in December 2021 in response to a rise in local authorities undertaking commercial investments, purchasing property solely to make a return, with concerns where these investments were financed by borrowing which is not deemed prudent investment. CIPFA hopes that these strengthened Codes will alleviate further government intervention in the Prudential Framework and ensure local decision making is protected.
- 3.5 As well as complying with the CIPFA codes, the Council must adhere to a set of lending terms that supports local authority investment in permissible categories of local authority capital expenditure if it wants to borrow from the Public Works Loan

Board (PWLB). This is 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.

3.6 Permissible categories:

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

3.7 The Council's Capital Strategy, Treasury Management Strategy and Asset Investment Strategy are aligned to the CIPFA 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

3.8 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. However it should be noted the Trusts are separate legal entities that follow the Council's governance policies and regulations.
- The CIPFA Codes and Government guidelines for access to the PWLB should 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.

4. Governance

4.1 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). 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.

4.2 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 AIAB will satisfy itself that the investment in line with the Council's strategies, is within the Council's 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.

- 4.3 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 continue into 2023/2024 the Council delegation to the Executive to approve investment decisions up to the value of £10 million that was in place up to the end of March 2021 and agreed for 2022/2023, with an annual requirement to review and revalidate the delegation alongside the Capital Strategy annual approval.

5. Relationship to the Corporate Strategy and Service Plan

- 5.1 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
- 5.2 The Council will only consider property investments that support the Corporate Strategy and Service Plans.

6. Implications of decision

Resource (Finance, procurement, staffing, IT)

- 6.1 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

- 6.2 Risk management is addressed in each strategy.
- 6.3 The Capital Strategy describes how the Council determines its priorities for capital investment and decides how much it can afford to borrow.
- 6.4 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

- 6.5 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

- 6.6 There are no direct equality, diversity, or inclusion implications in 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

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

7. Consultation and engagement

- 7.1 The Resources Overview and Scrutiny committee scrutinised the Capital Strategy on 31 January 2023.

8. Other options considered

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

9. Governance journey

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

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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