

Waverley Borough Council

Report to: Executive

Date: 6 February 2024

Ward(s) affected: All

Report of Director: Transformation & Governance

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Report Status: Open

Key Decision: Yes

Capital Strategy 2024/25

1. Executive 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. The Capital Strategy (Annexe C1) 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 Strategy (including the Prudential Indicators) (Annexe TM2), and the Asset Investment Strategy (Land and Buildings) (Annexe A3). It also

gives an overview of how associated risk is managed and the implications for future financial sustainability.

- 1.2 The Infographic at Annexe 4 illustrates the Capital Strategy framework.
- 1.3 There are two enhancements from prior years. Firstly, within the Treasury Management Strategy (Annexe TM2) paragraphs 2.38 and 2.39 have been added to cover the charging of interest on internal borrowing and repayment of HRA internal borrowing. Secondly an appendix has been added to the Asset Investment Strategy (Annexe A3) which outlines the 'Principles of Appraisals and Viability Assessments' that the Council follows. For the avoidance of doubt, these enhancements are to either better document the Council's existing procedures or to document processes which have been anticipated but not yet implemented to date (e.g. as with HRA internal borrowing).

2. Recommendation to Executive

The Executive, after considering comments from the Resources Overview and Scrutiny Committee, is asked to recommend:

That the Council approves:

- 2.1 The five-year Capital Strategy for 2024/2029, incorporating the Treasury Management Strategy, Prudential Indicators and Asset Investment Strategy, for approval.
- 2.2 That Full Council delegate authority to the Executive for the financial year 2024/25, 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(s) for 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.

4. Exemption from publication

Not exempt

5. Purpose of Report

- 5.1 To set out the proposals for the Capital Strategy, Treasury Management Strategy and Asset Investment Strategy for 2024-25

- 5.2 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. 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.

6. Strategic Priorities

- 6.1 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
- 6.2 The Council will only consider property investments that support the Corporate Strategy and Service Plans.

7. Background

- 7.1 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.
- 7.2 CIPFA 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’.

7.3 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.

7.4 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.

7.5 Permissible categories:

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

7.6 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 (Annexe C1)
- Treasury Management Strategy (Annexe TM2)
- Asset Investment Strategy (Annexe A3)

8. Consultations

8.1 The Resources Overview and Scrutiny committee reviewed the Capital Strategy on 15 January 2023.

9. Key Risks

9.1 Risk management is addressed in each strategy.

9.2 The Capital Strategy (Annexe C1) describes how the Council determines its priorities for capital investment and decides how much it can afford to borrow.

9.3 The Treasury Management Strategy (Annexe TM2) 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.

10. Financial Implications

- 10.1 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.

11. Legal Implications

- 11.1 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.

12. Human Resource Implications

- 12.1 No direct implication

13. Equality and Diversity Implications

- 13.1 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.

14. Climate Change/Sustainability Implications

- 14.1 There are no direct climate emergency declaration implications from the changes made to the capital strategy (see paragraph 1.3).

As stated in the Asset Investment Strategy (Annexe A3) the council is committed to prioritising asset investment that has a positive impact on the environment and aligns with the council's corporate priorities.

Asset investment will include environmental considerations where the financial viability of the investment remains positive.

Investments will be assessed on their contribution to council's financial sustainability and at least a revenue neutral impact on the MTFP, which in turn finances and supports the council's Corporate Objectives including the Climate Emergency declaration.

17. Summary of Options

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

18. Conclusion

18.1 Adoption of the Capital Strategy, Treasury Management Strategy and Asset Investment Strategy will aid a financially resilient Waverley.

19. Background Papers

19.1 Feb Council 2023 for prior year strategies

20. Appendices

20.1 Annexe C1 – Capital Strategy 2024/25

20.2 Annexe TM2 – Treasury Management Strategy 2024/25

20.3 Annexe A3 – Asset Investment Strategy 2024/25

20.4 Annexe 4 – Capital Strategy Infographic 2024/25

Please ensure the following service areas have signed off your report.
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| Service | Sign off date |
|----------------------------|---------------|
| Finance / S.151 Officer | 20/12/2023 |
| Legal / Governance | Jan 24 |
| HR | n/a |
| Equalities | n/a |
| Lead Councillor | 04/01/2024 |
| CMB | 19/12/2023 |
| Executive Briefing/Liaison | 04/01/2024 |
| Committee Services | 25/1/24 |