



**Report to: Policy and Resources Committee, 5<sup>th</sup> February 2019**

**Report of: Corporate Director Finance and Resources**

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**Subject: CAPITAL AND INVESTMENT STRATEGIES 2019/20 – 20121/22**

**1. Recommendations**

**1.1 That the Committee recommends to Council that:**

- i. the Capital Strategy and Investment Strategy for 2019/20 be adopted; and**
- ii. the Authorised Limit and Operational Boundary for external debt be revised in accordance with the proposals set out in the report.**

**2. Background**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has statutory responsibility for publishing guidance on local authority finance and accountancy. As part of the revised Prudential Code on Capital Accounting 2017 (published February 2018) CIPFA requires local authorities to publish a Capital Strategy which sets out the proposed approach to managing for capital expenditure in the next financial year and as part of medium-term financial planning.
- 2.2 The Capital Strategy must be reviewed annually and approved by Full Council before the start of the financial year. Its purpose is to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services along with an overview of how associated risk is managed and the implications for future financial sustainability. Its purpose is to ensure that Members are fully informed of the plans and proposals with regard to capital spending, capital investments and the decisions taken in respect of them.
- 2.3 The Ministry for Communities and Local Government (MHCLG) has published guidance relating to capital investment strategies being followed by local authorities. This was prompted by concerns within central government regarding the extent to which local authorities are engaging in commercial investments, are using low-cost PWLB financing to generate a commercial return and are relying in such income to support services.
- 2.4 The guidance was issued under section 15(1)(a) of the Local Government Act 2003 and is effective for financial years commencing on or after 1 April 2018. It requires local authorities to publish an Investment Strategy alongside, or as part of, the Capital Strategy as soon as possible within the financial year 2018/19.
- 2.5 It should be noted, in particular, that the capital spend and income plans and the associated Prudential Indicators are based on known commitments. Proposals which may arise from the Development Fund agreed by the Policy and Resources Committee in July 2018 have not been included at this stage as there are no

proposals sufficiently developed to form part of the strategic approach. Separate reports relating to any such proposals will be presented to Committee and, where necessary, Full Council, in due course, and the relevant reports will provide updates of the Prudential Indicators so that the impact of decisions can be assessed in the light of the Capital Strategy before they are taken.

- 2.6 Proposals that are currently under consideration will potentially need to be funded from borrowing. In line with the Commercial Strategy, these investments will be for the purposes of supporting development within the City boundary or improving the well-being of Worcester’s communities, while providing a return sufficient to cover financing costs. To provide sufficient headroom for these proposals, the Capital Strategy indicates that the Operational Boundary and Upper Limit for borrowing need to be revised in accordance with Table 1 below. More detail on the reasons for this proposed changes are provided in the Capital Strategy.
- 2.7 Under the Prudential Code, the Council is required to set an affordable borrowing limit (also termed the authorised limit for external debt). In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.
- 2.8 The Council revised the Operational Boundary and Authorised Limit in October 2018 as part of the establishment of the Development Fund. However the limits must be reviewed annually as part of the prudential regime. The proposed limits set out in the table below include sufficient capacity to borrow to allow Development Fund proposals that are currently in discussion or may be brought forward during the 2019/20 financial year:

	<b>2018/19 limit £m</b>	<b>2019/20 limit £m</b>	<b>2020/21 limit £m</b>	<b>2021/22 limit £m</b>
Authorised limit	32.4	51	55	57
Operational boundary	26.8	44	48	49

### **3. Preferred Option**

- 3.1 To approve the Capital Strategy for 2019/20 – 2021/22 and Investment Strategy for 2019/20 – 2021/22 and revised Operational Boundary and Authorised Limit for external debt.

### **4. Alternative Options Considered**

- 4.1 The Capital Strategy and Investment Strategy are new documents for 2019/20 required under statutory guidance published by CIPFA and MHCLG. Alternative approaches to defined policies included in the strategies, such as the maximum level of the Development Fund or the level of capital expenditure to be incurred are considered as part of the individual reports for the relevant schemes.

## **5. Implications**

### **5.1 Financial and Budgetary Implications**

There are no direct financial implications arising from the strategies themselves, which set out the principles governing proposed capital expenditure and capital investment, other than those set out in this covering report. Any proposals for capital spending and, in particular, any proposals arising from the Development Fund or investments in third parties, will be subject to separate reports. Such reports will meet the criteria for clarity of purpose, risk assessment and formal financial evaluation as stated in the strategies.

### **5.2 Legal and Governance Implications**

The Capital Strategy meets the Council's statutory obligations arising from the CIPFA Prudential Code on Capital Accounting 2017 and is subject to Full Council approval. The Investment Strategy meets the statutory guidance issued under section 15(1)(a) of the Local Government Act 2003.

### **5.3 Risk Implications**

The Corporate Risk Register includes two relevant risks relating to the Council's overall finances:

- CRK-002 City Plan Priorities – Resources
- CRK-005 Local Government Funding.

The Commercial Strategy and Development Fund report highlighted the fact that the funding position for the Council is shifting from one based on central government funding to one based on income generated through local taxation and through fees and charges for services and investments. Relying on income from local sources is inherently riskier than relying on income from pre-determined government grants. The Capital and Investment Strategies are designed to ensure that these risks are fully considered and Full Council has full sight of those considerations.

A further corporate risk relates to the portfolio of 'commercial' investments that the Council holds:

- CRK-006 Investment Portfolio

This addresses the question of macro-economic changes, such as a recession, affecting the income levels generated by the portfolio. Some of the indicators in the strategies, particularly those showing the extent to which the Council is reliant on such income to support services, are designed to enable this risk to be assessed continuously and changes in the risk profile reported to Members regularly.

### **5.4 Corporate/Policy Implications**

The Capital Strategy draws together the objectives and policy proposals set out in the Commercial Strategy, The Development Fund report, The Capital and Asset Management Framework and the Income Generation Strategy which were all published during 2018. These support the Council's objectives, set out in the budget report of October 2016, to increase income to mitigate the loss of central government funding through the revenue Support Grant. The Investment Strategy, similarly, is designed to work within the framework set out in these documents and under the strategic aims of the Capital Strategy.

### 5.5 Equality Implications

There are no direct equalities implications arising from the strategies. Any implications arising from specific proposals will be addressed in the relevant reports.

### 5.6 Human Resources Implications

There are no direct equalities implications arising from the strategies. Any implications arising from specific proposals will be addressed in the relevant reports.

### 5.7 Health and Safety Implications

There are no direct equalities implications arising from the strategies. Any implications arising from specific proposals will be addressed in the relevant reports.

### 5.8 Social, Environmental and Economic Implications

Capital investment provides opportunities for the Council to provide assets, improve infrastructure and facilities and support the development of services for the benefit of local residents, local businesses and local service users, including tourists. The Development Fund report makes clear that such investments must balance both the need to generate income with the opportunity to improve wellbeing for local people or enhance the local area. The Capital Strategy and Investment Strategy seek to implement this approach by demonstrating how the net financial benefits will be deployed to support services.

The Prudential Indicators included in the strategies enable Members to reach fully-informed judgements regarding the success of this approach and the risks associated with it and support effective decision-making. Individual reports regarding investment proposals will set out the benefits expected to arise from the investment of capital funds, including external borrowing. Each proposal must take into account two overarching criteria set out in the Commercial Strategy:

- Does the proposal include opportunities for local regeneration or enhanced services for target areas?
- Does the project generate secondary income for Worcester, such as business rates?

Successful implementation of the strategies will be measured by how far these overarching objectives are achieved as well as by how far the Council's financial stability is secured.

**Ward(s):**

**All wards**

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**Background Papers:**

**None**