WYCHAVON DISTRICT COUNCIL

CAPITAL STRATEGY 2019/20

1. Purpose and Objectives of the Strategy

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires councils to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy is a key document for the Council and forms part of the Council's integrated financial planning processes which includes the setting of the capital and revenue budgets, business plan and council tax for the year ahead, consideration of the medium term financial plans (money plans) and production of a Treasury Management Strategy. All of these underpin the Council's corporate objectives and priorities. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services as well as an overview of how associated risks are managed and the implications for future financial sustainability. A summary of the governance processes for approval and monitoring of capital expenditure is also included.

2. Capital Expenditure

Capital Expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets (also called non-current assets) are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year e.g land, buildings, vehicles, computer software. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. Further detail on how the Council determines that expenditure on fixed assets should be capitalised is given in the Accounting Policies section of the Council's accounts each year.

The Capital Programme and Money Plan is the Council's plan of capital expenditure for future years and includes details of the proposed funding of the schemes. This Programme may include service or commercial investments.

All proposals for projects to be included in the capital programme are considered by the Council's Executive Board and any increases in budget requirement as a result of these proposals are recommended to full Council for approval. Prior to consideration of proposals for capital expenditure it is a requirement that all financial, legal and risk management implications are identified which includes affordability and sustainability.

Monitoring of the Council's capital expenditure against budget is carried out quarterly as part of the Council's budget monitoring processes and any likely overspends are addressed at that point. It should however be noted that, as capital budgets are prepared using the principle of prudence and budget managers are required to manage schemes within budget, overspends do not very often occur. Any variance in expenditure in any year, e.g. through scheme delay, is managed through review and reset of a rolling multi-year Capital Programme.

The Council's principles when determining the Council's long term capital expenditure plans, whether they be for creation of or enhancement of assets or for service or commercial investments are that:

- The investment is carried out within the Wychavon District Council area;
- The investment contributes to the Council's social or economic objectives;
- The investment provides Value for Money and is only entered into when due diligence checks demonstrate that the investment is viable;
- Wherever possible, expenditure will provide a return, for the benefit of council tax payers, over the life of the asset;
- Any borrowing required is affordable.

It is important that the Council continues to invest in its existing assets, including maintenance and repair, or disposes of assets that it no longer requires and these issues are regularly considered by the Council's Land and Property Management Group and issues are then reported to and approval sought from Portfolio Holders, Executive Board and Full Council as appropriate.

Planned capital expenditure for the next 5 years can be found in the Council's Capital Programme and Money Plan 2019/20 to 2023/24. At this stage, no significant changes are anticipated to the annual level of capital expenditure beyond 2023/24.

3. Capital Resources Availability

Resources to fund capital expenditure can be obtained through different sources, some of which are outlined below:

- Use of the Council's Capital Receipts (generated from sales of assets);
- External Funding (e.g. Sports Council grants, Section 106 receipts);
- Revenue / Earmarked Reserves (i.e. funds already held by the Council);
- Internal Borrowing (i.e. using cash resources held by the Council);
- Prudential Borrowing (e.g. from Public Works Loans Board (PWLB)).

The Council balances its use of Capital Receipts with external funding or funding held in Earmarked Reserves e.g. New Homes Bonus. Prudential Borrowing and Internal Borrowing will only be used when required (as determined by the Deputy Managing Director) and will be subject to the Council being able to afford to repay both principal and interest over the life of the loan. Internal Borrowing has already been used to fund the Evesham Town Centre Redevelopment to the value of £9m.

Planned use of Capital Receipts and the level of Capital Receipts anticipated for the next 5 years can be found in the Council's Capital Programme and Money Plan 2019/20 to 2023/24. It is not anticipated, at this stage, that levels of capital expenditure will exceed resources available and therefore there should be no need to borrow externally.

4. Debt, Borrowing and Treasury Management

The Council's Capital Programme and Money Plan is the delivery plan for the Capital Strategy and is underpinned by the Treasury Management Strategy for investment and borrowing, including Prudential Indicators.

Currently the Council is not expecting to use external debt (Prudential Borrowing) to fund capital expenditure and has used internal borrowing, as outlined above, to fund the Evesham Town Centre Redevelopment project. A previously established Earmarked Reserve is being used to fund the principal repayments over the estimated life of the asset created.

The Capital Financing Requirement (CFR) is calculated from the Council's Balance Sheet and is the underlying need to borrow for capital purposes, in effect the debt liability. This has been estimated for the next 5 years and is disclosed as one of the Council's Prudential Indicators.

Treasury Management Investment Activity covers those investments which arise from the Council's cash flows and debt management activity and ultimately represent balances which can be invested until the cash is required for use in the course of business. For Treasury Management investments, the security and liquidity of funds is placed ahead of investment return. Each year the Council approves a Treasury Management Strategy, which includes an investment strategy, for the year ahead. This reflects and outlines the Council's risk appetite for these investments. The Council's Audit Committee, which is responsible for review of Treasury Management, considers regular reports on Treasury Management investment activity and risk as well as a mid year update and an annual report shortly after the year end. The Mid Year update and annual report are also considered by the Executive Board. All members receive monthly updates on treasury management activity.

The CIPFA Treasury Management Code of Practice recognises that councils may make investments for policy reasons outside of normal treasury management activity. The strategy for service or commercial investments is set out in paragraph 5 below.

However, the policy and practices for both non financial and financial investments are covered by the Council's Treasury Management Strategy.

5. Commercial Activity (Service or Commercial Investments)

The Council has invested in commercial property for financial gain and social and economic objectives as outlined in 2. above. Total commercial investments are currently valued at £28m providing a net return of £1.4m (5%).

The Council accepts higher risk on commercial investment than with treasury investments but will also expect a higher return. The principal risk exposures and how they are managed are outlined in 8) below. In order that these exposures remain proportionate to the size of the Council these are subject to an overall future maximum investment limit of £50m and contingency plans are in place should investment yields not materialise.

Decisions on commercial investments are made by the Council, following recommendations made by the Executive Board. Property and Commercial investments are also capital expenditure and purchases will therefore also be approved and monitored as part of the Capital Programme

6. Other long term liabilities

The Council currently has no requirement for external borrowing.

However, Wychavon District Council participates in the Local Government Pension Scheme administered by Worcestershire County Council Pension Fund. The net Pension Fund liability disclosed in the Council's accounts at 31st March 2018 is £39m. Statutory provisions mean that this deficit is matched on the Councils Balance Sheet by a Pensions Reserve. Contributions to the Pension Fund are calculated by the Pension Fund Actuary with a view to reducing the deficit / amount held in a Pensions Reserve over time.

The Council has no other material long term liabilities.

7. Knowledge and Skills

The Council recognises that it needs to resource its capital investment strategy adequately and ensure that knowledge and skills are commensurate with the Council's current risk appetite and this is taken into account in workforce planning. Member training has been provided on Treasury Management and the Capital Strategy in the past year. The Deputy Managing Director and other senior staff are qualified and appropriately trained for making capital expenditure, borrowing and investment decisions and Treasury Management Practices for both financial investments and non-financial investments were last approved by members in February 2018. The Council's Financial Regulations and Contract Procedure Rules are also regularly reviewed and updated to reflect changing environments. If necessary external advisors are appointed, subject to any necessary approvals.

8. Risk, Affordability, Prudence and Sustainability

Each year, as part of the Treasury Management Strategy, the Council agrees Prudential Indicators, which also cover affordability and sustainability of capital and treasury management investments.

The latest version of the CIPFA Prudential Code and MHCLG Investment Guidance requires that the Deputy Managing Director (Section 151 Officer) reports explicitly on the risks associated with the Capital Strategy. Further guidance may also be issued by CIPFA to add clarity around commercial investments in due course.

The following risks have been identified in connection with local authority capital strategies:

1) External challenge that proposals do not satisfy MHCLG Investment Guidance / Other Statutory requirements;

2) Market / economic conditions deteriorate from initial risk assessment and the council is tied into long term borrowing costs that cannot be covered by future income;

3) Lack of internal capacity, commercial skills, both officers and members;

4) Bad debts as a result of failure of third parties to make loan repayments or tenant rental default;

5) Change in Government Policy.

Having reviewed the above potential risks, the Deputy Managing Director has confirmed that the risks associated with the Council's Capital Strategy are low. This is particularly so given the principles outlined at 2. Thus, it is considered, at this time, that there is no need for any additional mitigation measures to be put in place.