

WOKINGHAM BOROUGH COUNCIL



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Treasury Management Capital Strategy Report 2019/20

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1. Introduction

The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare a capital strategy report, which will provide the following:

- A high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

1.1 Purpose of the Capital Strategy

The purposes of the capital strategy are:

- To drive the authority's capital investment ambition
- Ensure appropriate capital expenditure, Capital financing and treasury management in the context of the sustainable, long term delivery of services
- Comparison of different capital schemes through:
 - Measuring financial and non-financial impacts
 - Identifying the optimum level of investment, set against the authority ambition
 - Benchmarking to assess future performance

This report will provide a strong basis for decision making and accountability.

2. Governance Framework & Core Principles

The 10 year capital vision and any new capital scheme bids is periodically reviewed. The Council seeks to allocate scarce capital resources in line with the Council's vision, priorities and objectives. Capital schemes are evaluated under the governance of the Capital Prioritisation Group.

The group consists of senior officers from each directorate with support from the financial specialist team.

The objective of the group is to create a balanced, achievable capital programme with clear objectives and outcomes (value and delivery) which are aligned with the Council's strategic objectives. To enable the group to do this the following tasks will need to be carried out:

- To produce a balanced capital programme
- To review and approve bids for capital funding
- To make recommendations on the use of contingency
- To make recommendations on budget carry forwards
- To review and approve in year changes to project budgets
- To ensure alignment with Council Plan objectives
- To monitor the delivery and expenditure of the current capital programme
- To ensure profiling of project spend is accurate

The scoring was against the Council key priorities which are as follows:

- Economic Prosperity
- Community Safety
- Sustainable Towns and Parishes
- Affordable Housing
- Tackling Congestion
- Impact of Development
- Clean, Green and Enjoyable Spaces
- Promoting Quality of Life for Vulnerable Adults
- Ensuring Opportunity for all Children
- Ensuring Physical and Mental Wellbeing

The bids are also scored on three additional criteria:

- Value for Money
- Availability of Ring-fenced Funding
- Risk / Legislation Impact

Based on these evaluations, the capital programme has been prepared. Members are presented with the proposed capital budget submission 2019/22 for recommendation to Council (Appendix B).

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

- The Council approves the Council vision and priorities
- The Council is ultimately responsible for approving the Capital Strategy, Treasury Management Strategy and Capital programme
- The Executive receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the capital programme
- Portfolio holders are assigned projects in line with their responsibilities
- Scrutiny committees can call in Cabinet reports, receive and scrutinise reports
- All projects progressing to the capital programme follow the constitution, and financial regulations
- The capital programme is subject to internal and external audit.

3. Capital Vision Planning

Wokingham Borough Council maintains an approved capital vision that covers a ten year period. This is broken down to a 1-3 year balanced capital programme and 4-10 year capital vision. These are reviewed and updated on annual basis.

4. Asset Management

The overriding objective of asset management within the Council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The Council's property portfolio consists of operational property, investment property and property held for

specific community or regeneration purposes. The Council has specific reasons for owning and retaining property:

- Operational Purposes - assets that support core business and service delivery e.g. schools, office buildings.
- Investment Properties - held to provide a financial return to the Council that supports service provision.
- Parks, playgrounds and open spaces.
- Regeneration - enabling strategic place shaping and economic growth.

Asset management is an important part of the Council's business management arrangements and is crucial to the delivery of efficient and effective services, the ongoing management and maintenance of capital assets will be considered as part of the strategy. The asset management planning includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets. The Council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

5. Commercial Activity and Investment Property

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

In the context of the Capital Strategy, the Council is using resources to purchase property to provide a positive financial return. The Council may fund the purchase of the property by borrowing money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant should exceed the cost of repaying the borrowed money each year. The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.

The reasons for buying and owning property assets are primarily;

- Financial returns to help fund services to residents
- Market and economic opportunity
- Economic development and regeneration activity in the Borough (all investment property is currently located within Wokingham)

Historically, property has provided strong investment returns in terms of capital growth generation of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

6. Loans

The Council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure. In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, must therefore ensure they are prudent and has fully considered the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent. The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks.. All loans will be subject to close, regular monitoring.

7. Capital Expenditure 2019-2022

The following table shows a breakdown of expenditure over the next three years broken down by Executive member.

Table 1 Capital expenditure 2019-2022

Lead member	Responsibility	Year 1	Year 2	Year 3
		2019/20	2020/21	2021/22
		£	£	£
Parry Bath (PB)	Health and Wellbeing, Adult Social Care & Housing	23,671	24,475	13,830
Anthony Pollock (AP)	Finance, HR and Corporate Resources	18,796	14,646	17,376
Pauline Jorgensen (PJ)	Highways and Transport	11,995	20,530	19,912
John Halsall (JH)	Environment, Leisure and Libraries	18,637	18,531	8,806
Pauline Helliard-Symons (PHS)	Children's Services	22,118	7,667	3,323
Stuart Munro (SM)	Business, Economic Development & Strategic Planning	99,619	53,111	31,538
Philip Mirfin (PM)	Regeneration	42,361	11,482	3,951
Total		237,197	150,442	98,736

8. Capital funding

The capital resources available to fund the capital programme over the next three years are broken down below:

Table 2 Capital funding

	Year 1	Year 2	Year 3
	2019/20	2020/21	2021/22
Capital Receipts	(9,150)	(6,150)	(150)
Capital Grant Income	(14,456)	(23,824)	(23,929)
Developer Contributions (S106 / CIL)	(53,909)	(40,049)	(23,691)
Revenue Contributions to Capital	(1,697)	(1,221)	(1,220)
Right to Buy Receipts / HRA receipts	(4,290)	(2,054)	(2,054)
Borrowing	(147,795)	(74,004)	(44,552)
Major Repairs Reserve	(5,900)	(3,140)	(3,140)
Total	(237,197)	(150,442)	(98,736)

8.1 Financing Need (Borrowing)

In approving the inclusion of schemes and projects within the capital programme the Council ensures all of the capital and investment plans are affordable, prudent and sustainable. In doing so the Council will take into account the arrangements for the repayment of debt, through a prudent Minimum Revenue Provision (MRP) policy in line with guidance produced by the Ministry of Housing, Communities and Local Government. The capital financing charges and any additional running costs arising from capital investment decisions are incorporated within the annual budget and medium term financial plans. This enables members to consider the consequences of capital investment alongside other competing priorities for revenue funding.

Existing Council debt is therefore the consequence of historical capital expenditure. The Council can temporarily utilise other resources in lieu of external borrowing to fund capital expenditure. This is referred to as internal borrowing.

A summary of our external and internal debt over the medium term financial plan time period, can be found in the Treasury management strategy approved by Council on the 21ST February 2019 .

9. Long Term Revenue Implications of Capital Investment Decisions

Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the Council must have explicit regard to consider all reasonable options available.

10. Risk Appetite

This section considers the Council's risk appetite with regard to its capital investments and commercial activities, i.e. the amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time. It is important to note that risk will always exist in some measure and cannot be removed in its entirety. A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the Council's low risk appetite. Subject to careful due diligence, the Council may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the Council's revenues or the ability to deliver its statutory duties more effectively and efficiently.

11. Knowledge and Skills

The Council has professionally qualified staff across a range of disciplines including finance, legal and property and follow continuing professional development (CPD) requirements attending courses on an ongoing basis to keep up to date with new developments and skills.

External professional advice is taken where required.

11.1 Training

Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge the capital and treasury decisions taken.

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