

<i>REPORT OF:</i>	HEAD OF FINANCE & ASSETS
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<i>TO:</i>	OVERVIEW & SCRUTINY EXECUTIVE COUNCIL
<i>DATE:</i>	12 SEPTEMBER 2019 19 SEPTEMBER 2019 26 SEPTEMBER 2019
<i>EXECUTIVE MEMBER:</i>	COUNCILLOR T. SCHOFIELD

<i>KEY DECISION REQUIRED:</i>	YES
<i>WARD (S) AFFECTED:</i>	ALL

<b>SUBJECT:</b>	<b>CAPITAL INVESTMENT STRATEGY 2019/20</b>
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### **RECOMMENDATIONS:**

Overview & Scrutiny:

That the Capital Investment Strategy 2019/20 be noted and, where appropriate, provide feedback for consideration by Executive.

Executive:

That the Capital Investment Strategy 2019/20 be recommended to Council for approval

Council

That the Capital Investment Strategy 2019/20 be approved

### **REASONS FOR RECOMMENDATIONS:**

To support the adoption of a Capital Investment Strategy for the 2019/20 financial period.

### **EXECUTIVE SUMMARY:**

This Strategy sets out our approach to capital investment. It forms a key part of the Council's governance arrangements and provides a mechanism by which investment and financing plans can be prioritised, ensuring that capital decisions take account of stewardship, value for money, prudence, sustainability and affordability.

Going forward the Strategy is intended to be an integral part of the Council's Policy Framework and integral to service and financial planning and should be read in conjunction with the Corporate Plan and supporting strategies, the Commercial Investment Strategy, Capital Programme, Medium-Term Financial Plan, Treasury Management Strategy Statement and Asset Management Plan.

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**Council has authority to approve the above recommendation.**

## **STATUTORY POWERS**

1. The Council operates its capital investment activity as an integral part of its statutory obligation to effectively manage the Council's finances under the *Local Government Act 2003* and associated regulations.
2. Investments are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities, and the Government's Investment Regulations.

## **ISSUES**

### **Background**

3. An Outline Capital Investment Strategy 2019/20 was approved by Executive in March 2019 and Council in April. It was a new report in line with updated guidance, providing a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. This updated Capital Investment Strategy (the 'Strategy') reflects the outcome of further work to develop our approach in this area over recent months.
4. The purpose of the Strategy is to:

- Demonstrate how the Council's capital expenditure plans contribute to the achievement of corporate priorities
- Confirm how we will ensure that the Capital Programme is affordable and sustainable
- Describe the framework for decision-making and prioritisation relating to capital expenditure
- Set out the approach to evaluating and monitoring asset utilisation

It is intended to be read in combination with the Treasury Management Strategy (reported to Council in April).

5. The Strategy covers:

- How the Council's capital investment plans will support delivery of corporate priorities and key strategies – including (in due course) the new Corporate Plan and Housing Strategy
- How capital investment options are evaluated – to demonstrate effective governance, robust decision-making and compliance with new regulations and guidance
- How the Council plans to achieve a balance between capital investment to

support service delivery and investments that deliver a financial return to support the budget

- How the capital programme will be funded and how the Council will ensure it is affordable over the medium term
- How capital investment risks are managed
- How the Council plans to extend capital investment planning timescales from short/medium-term to longer-term (10+ years)

6. Following approval of the Outline Strategy in April, the priority areas for further work to develop the final Strategy have included:

- Refreshing the Council's 5-year Medium Term Financial Plan in order to confirm scale of the future financial challenge and investment ambitions.

This was approved by Executive in July.

- Evaluating the performance and risk profile of existing and planned capital investments – covering investment in operational assets, commercial properties, company loans and other treasury investments.

This work is now in progress overseen by the new Commercial Ventures officer Board and Executive sub-committee.

- Further development of the supporting Governance and decision-making frameworks. The new Commercial Governance Framework has been adopted and is being used and matrices are being developed for evaluation of investment opportunities.

This has been progressed through establishment of the Executive sub-committee and a new Executive portfolio with responsibility for Investment and Companies.

The intention going forward is to update the Strategy on an annual basis as part of service and financial planning. The outcome is attached at Annex 1.

7. The Strategy is expected to develop further as priorities in the new Corporate Plan and Housing Strategy are finalised.

8. Further work will continue during service and financial planning for 2020/21 onwards where the following will be confirmed:

Other Council Plans and Strategies

- How Corporate Plan and Housing Strategy investment priorities will be approached and prioritised

Medium Term Financial Plan and forecast Budget Gap

- The extent to which new commercial income streams will be relied upon to help address the Budget Gap

Service & Financial Planning Budget

- Confirmation of ongoing capital investment

and Capital Programme Proposals for 2020/21 onwards

commitments and how they will be funded

- The cost of borrowing to fund investment in new capital schemes

Commercial Investments

- Confirmation of the scope of commercial activities and investment plans through development of a Commercial Investment Strategy.

9. At this stage Executive is being asked to note the progress made in developing the updated Strategy and recommend this updated version for adoption by Council. Overview & Scrutiny Committee are asked to review the Strategy and provide any feedback for consideration by Executive.

## Matters for Consideration

### Guidance

10. The requirement to prepare a Capital Investment Strategy has been introduced as a consequence of recent revisions of MHCLG Investment Guidance, MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.
11. These changes are intended to reflect the increasingly complex business models being adopted by Local Authorities in response to reductions in other funding streams.
12. The objective is to demonstrate a longer-term focus within local authority capital plans. There are also enhanced reporting requirements surrounding commercial activity undertaken under the Localism Act 2011.

### OPTIONS

13. There are 3 options:

#### **Option 1 – Approve the recommendations within this report**

This will provide the best opportunity to ensure compliance with the new reporting standards as well as establishing a framework for future investment decisions.

This is the recommended option.

#### **Option 2 - To defer the report and ask Officers to provide more information and/or clarification on any specific points**

The updated Prudential Code stipulates that the authority's Capital Investment Strategy must be approved prior to the financial year to which it relates.

Any delay in approving the Strategy could leave the Council open to the same risks identified in option 3 below.

**Option 3 - To not support the contents of this report**

This would mean that the Council fails to meet the new reporting standards and also lacks the required frameworks for undertaking future investment decisions.

## **LEGAL IMPLICATIONS**

14. There **are no direct legal implications arising from this report.**

## **FINANCIAL IMPLICATIONS**

15. The financial impacts of the Capital Investment Strategy have already been reflected within the Council's 2019/20 Budget proposals. There are no additional direct financial implications that arise from this report or from the changes to the CIPFA Prudential Code.
16. The Chief Finance Officer confirmed in the 2019/20 budget report that they were satisfied that the proposed Capital Programme is prudent, affordable and sustainable due to the robust assessment process and the close links between the Medium-Term Financial Plan, the Capital Programme and revenue budget and the Treasury Management Strategy Statement.
17. The current capital programme includes an allocation of £25 million for investment in corporate priorities along with an Earmarked Reserve of £250k to fund feasibility studies. The Commercial Ventures Executive Sub-Committee has delegated authority to approve investment of these funds.

## **EQUALITIES IMPLICATIONS**

18. There are no equality implications arising directly from this report. An equalities impact assessment will be prepared as part of the Service and Financial Planning report to Executive in November when the full implications of all budget proposals, including any arising from the Capital Investment Strategy and Capital Programme, can be assessed.

## **COMMUNICATION IMPLICATIONS**

19. There are no communication implications arising from this report. A copy of the Strategy will be published on the Council's website.

## **RISK MANAGEMENT CONSIDERATIONS**

20. These are detailed in Annex 1

## **OTHER IMPLICATIONS**

21. There are no other implications arising from this report

## **CONSULTATION**

22. The proposals in this report will be considered at an informal meeting with members of the Commercial Ventures Executive Sub Committee on 5 September 2019.

## **POLICY FRAMEWORK**

23. The Strategy is part of the Council's Policy Framework as set out in Article 4 of the Constitution.

## **Background Papers:**

24. None