

Somerset West and Taunton Council

Executive – 17 March 2021

Capital, Investment and Treasury Strategies 2021/22 to 2025/26

This matter is the responsibility of Executive Councillor Henley, Corporate Resources

Report Author: Martin Henwood, Corporate Finance Advisor

1 Executive Summary / Purpose of the Report

- 1.1 The purpose of this report is to inform members of the recommended strategy in relation to capital expenditure and financing, investments and treasury management activities (CIT Strategies).
- 1.2 Instead of providing three separate documents, this report provides a holistic view of the Council's capital, investment and borrowing requirements meeting the requirements of statutory guidance issued by government in January 2018, and taking cognisance of developments since November 2020.

2 Recommendations

- 2.1 The Executive recommends that Full Council approves the Capital, Investment and Treasury Management Strategies, and Minimum Revenue Provision policy.
- 2.2 Executive notes and supports the requirement for a limited review of the Constitution for completeness and consistency on responsibilities for all aspects of the CIT Strategies.

3 Governance

- 3.1 The approved capital and treasury governance arrangements are set out in the Council's Constitution. These include:
 - The Executive has delegated authority to approve the Treasury Management Strategy Statement each year (Financial Procedure Rules – 3.13.2); and
 - The Executive is responsible for recommending the Capital Strategy, the Commercial Investment Strategy, and MRP Policy to Full Council for approval (Financial Procedure Rules – 3.1.10, 3.1.11, 3.1.13 and 3.13.1).
- 3.2 It is proposed to review the Constitution in consultation with the Portfolio Holder in order to bring a consistent set of responsibilities for these strategies, which would then be considered through the Audit Governance and Standards Committee.

4 Background and Full Details of the Report

- 4.1 In line with regulatory guidance, the Council is required to produce a Capital Strategy, an Investment Strategy and a Treasury Management Strategy. These are intrinsically linked so, whilst in the past these have been presented to Members as separate reports, they have again been pulled together into a draft consolidated document this year.
- 4.2 It is recognised this is a large document now, but is helpful to enable a holistic review of the relevant data and information together with supporting narrative. The S151 Officer proposes to explore future iterations of this report to condense into a single, shorter strategy document in future. This will be discussed with our external auditor to ensure compliance to the relevant regulations is not compromised.
- 4.3 A capital programme for works within the Housing Revenue Account (HRA) is now sufficiently advanced to have been approved and updated by Council at its meeting on 18 February 2021. The impact of this is included within the CIT Strategies report.
- 4.4 There have been significant developments since November 2020:
- Central government announced changes in late November 2020 geared towards removing the use of PWLB (Public Works Loans Board) funding for commercial property acquisition; and
 - CIPFA issued consultation documents in February 2021 on the Prudential Code and the Treasury Management Code.
- 4.5 The key points of the government's PWLB changes are:
- a. To access PWLB funding, local authorities will be asked to submit a high-level description of their capital spending and financing plans for the following three years, including their expected use of the PWLB.
 - b. PWLB will ask the finance director of the LA to confirm that there is no intention to buy investment assets primarily for yield at any point in the next three years.
 - c. The government is committed to the prudential system and has no intention of routinely reviewing the purpose of individual loans.
- 4.6 The key points in the Prudential Code consultation are:
- a. Borrowing to fund commercial activities is (considered to be) outside the Prudential Framework.
 - b. Any commercial investment undertaken should be consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice.
 - c. Sustainability and ensuring that the capital expenditure is consistent with a local authority's corporate objectives (such as diversity and innovation) will be added to the objectives in the Prudential Code.
 - d. Introduction of new prudential indicators on affordability:
 - i. External debt to net service expenditure (NSE) ratio, and
 - ii. commercial income to net service expenditure.
 - e. The introduction of the Liability Benchmark to promote good practice and understanding of local authority's debt management in relation to capital investment.
 - f. In coming months CIPFA will publish further guidance on good practice for development of capital strategies.
- 4.7 The current intention is therefore to strengthen the Prudential Code sufficiently to deter Councils from commercial property purchases in future. However, there is a

recognition that Councils need to be able to continue to fulfil their wider responsibilities through regeneration. It is also probably recognised that Councils need to be able to roll over existing PWLB debt, as this would not necessarily release funds for commercial activities.

- 4.8 The CIT Strategies have therefore been updated for three key changes:
- To confirm agreement to the spirit of the regulatory framework in relation to commercial property. This was and is a targeted strategy to meet Council needs, not an attempt to redesign the Council as a property developer with ancillary Council activities;
 - A fourth category of investment has been added to be explicit about regeneration, plus details to support this in the Investment Strategy; and
 - To avoid risks that might arise if further changes occur that remove flexibility, the current commercial property investment strategy is scheduled for completion in 2021/22.

4.9 It has been confirmed that the Council would be able to deliver its CIT Strategies without reliance on the use of PWLB, and that this would not automatically cost more.

5 Links to Corporate Aims / Priorities

5.1 The Capital, Investment and Treasury Management strategies support the delivery of the Corporate Aims.

6 Finance / Resource Implications

6.1 Any financial / resource implications are contained within the Appendix to this covering report.

7 Legal Implications, Environmental Impact Implications, Safeguarding and/or Community Safety Implications, Equality and Diversity Implications, Social Value Implications, Partnership Implications, Health and Wellbeing Implications, Asset Management Implications, Data Protection Implications and Consultation Implications

7.1 None in respect of this report.

Democratic Path: Executive – 17 March 2021, Full Council – 30 March 2021

Reporting Frequency: Annually

List of Appendices

Appendix A	Capital, Investment and Treasury Strategies 2021/22 to 2025/26
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