

## **CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES**

### **Executive Summary**

In accordance with statutory provisions it is necessary for the Executive to approve the Council's Treasury Management Strategy and to make recommendations to the Council in respect of the Minimum Revenue Provision (MRP) Strategy and the Treasury Management Prudential Indicators as required under the Chartered Institute of Public Finance and Accountancy's Prudential Code.

New requirements for 2019/20 require the Council to also approve a Capital Strategy and Investment Strategy. These provide detail on the Council's activities, the reasons for and types of investments undertaken and the risk exposure as a result of these decisions. The intention is to provide a more comprehensive and transparent picture of the Council's position which links into the Council's overall corporate plans and objectives.

### **Recommendations**

The Executive is requested to:

#### **RESOLVE That**

- (i) the Treasury Management Strategy set out in the report be approved; and

#### **RECOMMEND TO COUNCIL That**

- (ii) the Capital and Investment Strategies for 2019/20 be approved;
- (iii) from 2018/19 the funding of Thameswey Housing Ltd to be amended from the existing combination of loan and shares with an equivalent margin of 1.5% to loan only at 1.5% margin over the Council's borrowing costs; and
- (iv) the Treasury Management Prudential Indicators set out in table 1 of Section 4 of the Treasury Management Strategy and the MRP policy set out in Appendix A be approved, subject to any changes arising from consideration of the Investment Programme, revenue budgets and Revenue Support Grant Settlement.

### **Reasons for Decision**

Reason: To determine the Council's Treasury Management Strategy for 2019/20 and to recommend to Council the Capital and Investment Strategies, Treasury Management Prudential

## Capital, Investment and Treasury Management Strategies

Indicators and MRP Strategy to be adopted.

The Executive has authority to determine recommendations (i) above; (ii) to (iv) will need to be dealt with by way of a recommendation to Council.

**Background Papers:** None.

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## **Capital, Investment and Treasury Management Strategies**

### **1.0 Introduction**

- 1.1 In December 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) published an updated Prudential code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice.
- 1.2 The Updated Prudential code included the requirement to produce a Capital Strategy. However given the timing, late in the budget cycle for 2018/19, it was recognised that it was likely that this would not be in place until 2019/20.
- 1.3 The government also consulted on new Statutory guidance on Local Government Investments in November/December 2017 and published updated guidance in February 2018. This was applicable from 1 April 2018 and requires disclosure of additional information within an annual Investment Strategy.
- 1.4 There is overlap between the new Capital and Investment Strategies, and the Council's existing Treasury Management strategy. Therefore from 2019/20 the three strategies will be presented together enabling the links to be highlighted whilst minimising duplication. A suite of appendices are included which can be referred to from any of the core strategies.
- 1.5 As the Capital Strategy and Investment Strategy are new documents, they will be developed further in future years to continue to support the understanding of the Council's capital investments and long term plans. It is intended that these strategies will continue to integrate with the Council's other long term plans and the Medium Term Financial Strategy to provide an overall picture of the Council's activity.

### **2.0 Capital Strategy**

- 2.1 The Capital Strategy has a wide scope covering the Council's overall approach to capital investment. It demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
- 2.2 The purpose of the capital strategy is to give a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It includes references to elements of the Investment Strategy, Treasury Management Strategy and the Council's Investment Programme.
- 2.3 The Capital Strategy sets out the Council's long term approach in line with the long term nature of capital and investment decisions. There is a direct link to the Council's Local Plan, place shaping activities and other long term strategies.
- 2.4 Group activities and joint ventures are also included in the Capital Strategy, including the processes for ensuring effective due diligence and defining the authority's risk appetite.
- 2.5 The guidance requires that proportionality, in respect of overall resources, is also considered.

### **3.0 Investment Strategy**

- 3.1 The Investment Strategy provides a better explanation of investment activities, explaining 'why' as well as 'what' investments are made. A range of indicators and disclosures are recommended in the guidance.
- 3.2 Investments held for treasury management purposes are covered by the Treasury Management Strategy (see below), with the focus of the Investment Strategy being other investments such as loans, shares and property.

## **Capital, Investment and Treasury Management Strategies**

- 3.3 The Council has historically set aside funds for repayment of borrowing (MRP) associated with shares over 100 years. Updated government guidance now recommends that shares should be repaid over 20 years. Whilst the Council's MRP policy retains flexibility over the repayment period, it is proposed that from 2018/19 existing approved investment in Thamesway Housing be through loan finance instead of a combination of loans and shares. The overall margin over the Council's cost of investment remains the same at 1.5%.
- 3.4 Whilst the Council has a significant and increasing property portfolio, these assets are not held solely for investment purposes. Each acquisition has a strategic purpose with a direct link to Council objectives or services. Shares and Loans are also used to support the Council's objectives. Property, loans and shares are treated as capital expenditure and financed as with other Investment Programme projects. However these items are disclosed as assets held as investments on the Council's balance sheet and so the guidance has been applied.

### **4.0 Treasury Management Strategy**

- 4.1 The Treasury Management Strategy (TMS) is in a similar format to previous years. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act requires the Council to set out its treasury strategy for borrowing and to prepare a strategy setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 4.2 Treasury Management refers to the management of cash balances through borrowing and investment. Whilst the definition of investment has been qualified in the latest version of the Treasury Management Code, to include non-financial assets held primarily for financial returns, the Treasury Management Strategy remains focussed on financial investments.

### **5.0 Future Developments**

- 5.1 CIPFA have announced that they will shortly publish further guidance on borrowing to invest in commercial properties and have reminded Councils that they must not borrow to invest purely for profit.

### **6.0 Chief Finance Officer**

- 6.1 Taking into account the factors set out in the Capital, Investment and Treasury Management Strategies the Chief Finance Officer (CFO) has confirmed that the Council's investment plans are affordable and that there are sufficient reserves in place to manage the medium term risk associated with the plans.

### **7.0 Implications**

#### Financial

- 7.1 The financial implications are set out in the three strategy reports.

#### Human Resource/Training and Development

- 7.2 Training and development are covered in each of the strategy reports. Where additional needs are identified the Council will provide specific, focussed training.

#### Community Safety

- 7.3 No community safety implications have been identified.

## Capital, Investment and Treasury Management Strategies

### Risk Management

- 7.4 Each strategy sets out the risks involved in the Council's activities. The new Investment Strategy and Capital strategies seek to improve transparency and understanding of the total exposure to risk and mitigating factors. Risk is also considered in every investment and capital decision and reported regularly through the Council's monthly reporting (Green Book), Medium Term Financial Strategy (MTFS) and annual budget reports.

### Sustainability

- 7.5 No specific sustainability implications have been identified. The Council's financial sustainability is considered as part of the annual budget process.

### Equalities

- 7.6 No equalities implications have been identified.

### Safeguarding

- 7.7 No safeguarding implications have been identified.

## **8.0 Consultations**

- 8.1 There have been no specific consultations in relation to this report.

REPORT ENDS