

## Report to Corporate O&S Committee



Date of Meeting	11 <sup>th</sup> February 2020
Portfolio	Leader of the Council and Cabinet Member for Finance
Report Author	Julie Murphy
Public/Private Document	Public

### Capital Investment and Disposal Strategy for 2020/21

#### Executive Summary

- 1.1 This report seeks approval for the 2020/21 Capital Investment and Disposal Strategy ('The Strategy') set out in Appendix 1, which outlines how the Council will meet the requirements of the relevant legislation, codes of practice and guidance that form the Prudential Framework, and MHCLG Guidance on Local Authority Investments.
- 1.2 The Strategy is the Council's policy for ensuring that the following outcomes are met:
- To provide an overview of the Council's plans for capital investments/disposals, and asset management planning.
  - To set out the governance process for approval and monitoring of capital expenditure, and any related long-term liabilities.
  - To show how the Council's planned capital expenditure will be funded within the context of relevant funding limits, how any external debt will be repaid, and what the associated costs are.
  - To set out the Council's approach to commercial activities including due diligence, risk appetite and proportionality in respect of the Council's overall resources.
  - To summarise the knowledge and skills available to the Council, and whether these are considered to be commensurate with its risk appetite.
- 1.3 The Strategy is a high level overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of services. The Strategy provides an overview of how risks are managed, and what the implications are for future financial sustainability. The purpose of the Strategy is to set out 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.

#### Recommendations

- 2.1 The annual Capital Investment and Disposal Strategy for 2020/21 be recommended to Council for approval with particular reference to:
- 2.2 The objectives of the Strategy contained in section 2 and Appendix 1.
- 2.3 The approach to and governance arrangement around commercial property investment contained in section 5.
- 2.4 The Council's risk appetite and quantitative indicators set out in section 6.3, including limits on investment in terms of the proportion of debt and income relating to capital investments compared to net service expenditure.
- 2.5 Members should note the report of the Chief Finance Officer in terms of the affordability and

risks associated with the Capital Investment and Disposal Strategy, as set out in paragraph 5.2.

### **Reasons for Recommendations**

- 3.1 The report is produced to gain Cabinet Members' approval of the Capital Investment and Disposal Strategy for submission to Full Council and to ensure that Cabinet Members are informed of and ensure adherence to the requirements of the Prudential Framework and MHCLG Guidance on Local Authority Investments.

### **Key Points for Consideration**

#### **4.1 Background**

4.1.1 The Local Government Act 2003 and supporting regulations requires the Council to have regard to the Chartered Institute of Public Finance (CIPFA) Prudential Code, the CIPFA Treasury Management Code of Practice, and MHCLG Guidance on Local Authority Investments, to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

4.1.2 The Prudential Code was revised in 2017 to include a requirement for local authorities to produce a capital strategy, 'in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability'. The strategy should set out 'the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes'.

4.1.3 MHCLG Guidance on Local Authority Investments published in February 2018 widened the definition of an investment to include all the financial assets of an authority as well as other non-financial assets held primarily or partially to generate a profit. This wider definition includes investment property portfolios. The Guidance requires local authorities to produce an investment strategy, which must be approved by Full Council on an annual basis, but which can be included within a capital or treasury management strategy as appropriate.

4.1.4 The Strategy included at Appendix 1 incorporates the requirements of the revised Prudential Code and the MHCLG Guidance.

4.1.5 The Strategy focuses on the core principles underpinning the Council's three year capital programme and the links to service delivery via the Place Plan, the Townships Plan, the Medium Term Financial Strategy and the Asset Strategy. It sets out the position in terms of planned capital expenditure and resources available for funding. It also focusses on the key issues and risks associated with capital investment, and the governance framework required to ensure the Strategy is delivered.

#### **4.2 Capital Investment and Disposal Strategy**

4.2.1 The Council's Capital Investment and Disposal Strategy sets out the governance processes surrounding capital expenditure which culminates in the three year capital programme approved at Budget Council on an annual basis, detailing the pipeline process that capital schemes must adhere to in order to gain approval, including demonstrating links to the Council's Corporate Strategies. It also provides an overview of the plans in place to effectively manage the Council's assets, and thereby safeguard the Council's capital investment.

4.2.2 The proposed capital programme for 2020/21 to 2022/23 is as follows:

	2020/21 £'000	2020/21 £'000	2021/22 £'000
Total Requirement	83,475	48,480	25,232

4.2.3 The Strategy has particular focus on the Council's commercial activity with regard to capital investments, in line with the objectives of the Asset Strategy. Consideration of proportionality is included, and the extent to which the Council is dependent on the income it derives from its commercial property investments. The Strategy also sets out policies and procedures in respect of commercial activity, including the extensive opportunity appraisal and due diligence procedures the Council undertakes before entering any investment, and additional governance arrangements for such investments.

4.2.4 Treasury management is a vital component of any capital strategy; although this is covered in detail in the annually approved Treasury Management Strategy the Capital Investment and Disposal Strategy gives an overview of the governance arrangements, borrowing limits and risk management particular to the treasury management requirements of the Council's capital investments, and how any external debt incurred will be repaid.

4.2.5 The Strategy also sets out the Council's risk appetite with respect to its commercial property investment activities, in the form of a number of quantitative indicators recommended in the MHCLG Guidance. The first two of these indicators (the Debt to Net Service Expenditure (NSE) Ratio and Commercial Income to NSE Ratio) gives the Council an opportunity to set a limit on its investment activities that reflects its risk attitude in terms of proportionality and dependence on commercial activities to fund service provision. For 2020/21 onwards these limits have been set as follows:

	Actual	Estimate	Estimate	Estimate	Estimate	Limit
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	
Gross Debt	34,990	78,119	86,419	84,619	82,819	
NSE	204,700	216,223	222,460	226,045	231,639	
<b>Debt to NSE Ratio</b>	<b>17.09%</b>	<b>36.13%</b>	<b>38.85%</b>	<b>37.43%</b>	<b>35.75%</b>	<b>120%</b>

	Actual	Estimate	Estimate	Estimate	Estimate	Limit
	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	
Commercial Income	656	1,200	1,814	1,744	1,814	
NSE	204,700	216,223	222,460	226,045	231,639	
<b>Commercial Income to NSE Ratio</b>	<b>0.32%</b>	<b>0.55%</b>	<b>0.82%</b>	<b>0.77%</b>	<b>0.78%</b>	<b>1.85%</b>

4.2.6 Section 6 of the Strategy focusses on the skills and knowledge available to the Council in carrying out its capital investment activities, and the extent to which it uses external advisors in the course of those activities. Further development in terms of skills and knowledge in this area, including the skills and knowledge of Members of the Property Growth Fund Sub-Committee, is planned.

#### 4.4 Alternatives Considered

4.4.1 There are no feasible alternatives – all proposals are in accordance with the revised CIPFA Prudential Code, which has been formally adopted by the Council and with Government guidance regarding Local Authority Investments.

### Costs and Budget Summary

- 5.1 Financial implications are considered in the main body of the report. Appropriate budgets exist for all capital activity outlined, as detailed in the Capital Programme 2020/21 – 2022/23 report to Cabinet on 12 February 2020.
- 5.2 The Council's Chief Finance Officer confirms that the affordability and risk associated with the Capital Investment and Disposal Strategy are acceptable in terms of the Council's overall financial position and risk appetite.

### Risk and Policy Implications

- 6.1 In preparing the report financial risks have been considered in relation to the best methods of managing the Council's exposure to the various risks arising from its commercial property investment activities.
- 6.2 Key risks are set out in section 6.3 of the Strategy and include:
- Financial risks – e.g. the impact of investments on cash flow; market volatility
  - Macroeconomic risk – i.e. factors affecting the local, national or global economy
  - Credit and counterparty risk – e.g. where a tenant fails to meet rental payments
  - Operational risk – relating to failures of processes, systems or people
  - Strategic risk – e.g. those presented by significant investments, new ventures etc.
  - Reputational risk – i.e. adverse reputational impacts from investment activities
  - Environment and social risks – relating to the environmental or social impact of the Council's investments
  - Governance risk – i.e. where governance processes are insufficient to ensure investment outcomes

as well as specific risks associated with commercial property investment such as vacancies/void periods, reduction in capital value, a downturn in the property market, lack of diversification and poor liquidity.

- 6.3 It is believed that the strategy proposed will allow the Council to continue to effectively manage its exposure to these risks without any significant increases in overall financial risk.

### Consultation

- 7.1 Stakeholders are consulted through the development of the Strategy with the Corporate Overview and Scrutiny Committee receiving the report on 11th February.

**Background Papers: For further information about this report or access to background papers please contact Michelle Ashworth (Head of Commercial, Economy & Resources Finance) Finance Services, Floor 2, Number 1 Riverside, Smith Street, Rochdale OL16 9DJ. Tel – 01706 925409 / 924197.**

Document	Place of Inspection
CIPFA Prudential Code	Commercial, Economy & Resources Team FI2 No1 Riverside
MHCLG Guidance on Local Authority Investments	Commercial, Economy & Resources Team FI2 No1 Riverside
Capital Investment and Disposal Strategy 2019/20	Cabinet Agenda 12/2/19