

## Investment Strategy 2023-24

- Summary:** This report sets out the Council's Investment Strategy for the year 2023-24. It sets out how the Council's strategy meets the requirements of statutory guidance issued by the government in January 2018 and how the strategy contributes in meeting the Council's overall aims and objectives while providing the strategic framework for the effective management and monitoring of the Council's investments.
- Options Considered:** This report must be prepared to ensure the Council complies with the CIPFA Treasury Management and Prudential Codes.
- Conclusions:** The Council is required to approve an Investment Strategy to demonstrate compliance with the statutory guidance and Codes and establishes the strategic framework for the management of the Council's investments.
- Recommendations:** That Full Council approve the Investment Strategy for 2023/24.
- Reasons for Recommendation:** Approval by Council demonstrates compliance with the statutory guidance and Codes and provides a framework within which to consider investment decisions.

### LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW

*(Papers relied on to write the report, which do not contain exempt information, and which are not published elsewhere)*

|      |
|------|
| None |
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|----------------------------|---|
| Cabinet Member(s)          | Ward(s) affected: All   |
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## **1 Introduction**

- 1.1 The CIPFA *Prudential Code for Capital Finance in Local Authorities 2017* and *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition* require Local Authorities to publish a Capital Strategy each year. Under the provisions of the Local Government Act 2003, Local Authorities are required to operate within the guidance of the Prudential Code (the Code) with regard to capital investment decisions.
- 1.2 This Capital Strategy sets out the Council's approach and process to the deployment of capital resources in meeting the Council's overall aims and objectives. It also provides a strategic framework for the effective management and monitoring of the capital programme, within which the Council will work in formulating the strategies for individual services. It is a primary document for all capital decision making, together with the Corporate Plan and other strategies.

## **2 Capital Expenditure**

- 2.1 The Corporate Plan sets out what the Council intends to do between 2019 and 2023. It focuses on six priorities which will influence how we move forward:
  - Local Homes for Local Need
  - Boosting Business Sustainability and Growth
  - Customer Focus
  - Climate, Coast and the Environment
  - Financial Sustainability and Growth
  - Quality of Life

The Council's capital works can be used to help deliver these priorities.

- 2.2 All capital projects are considered and prioritised as part of the Council's overall budget process, with affordability in relation to the Medium-Term Financial Strategy (MTFS) being a key consideration. The revenue implications and funding of any approved bids are included within the Council's revenue budget forecasts to identify the resultant effects on future Council Tax levels.
- 2.3 The business case and options appraisal methodology are applied to all significant projects (those with a capital cost of over £50,000). The options appraisal should be undertaken by the relevant manager (project leader) initially.
- 2.4 The business case considers the full options appraisal as evidence to support the recommended option as required. The options analysis will cover elements such as risk, sensitivity and cost benefit analysis and will seek to identify the option that delivers maximum benefit at the lowest or most appropriate cost.

- 2.5 Projects that generate future income streams for the Council, for example industrial estates and other Commercialisation projects are also viewed positively within the evaluation process. The Asset Management Plan framework helps to identify these assets in order to ensure the revenue implications are again fully accounted for in the decision-making process for the disposal of assets.
- 2.6 The Current approved Capital Programme can be found as part of the Council's Outturn Report 2021/22 to Cabinet 6 September 2022 (Appendices D & E).

### **3 Medium- and Long-Term Funding Strategy**

- 3.1 There are a number of sources of funding available to the Council for capital schemes (capital grants/contributions, capital receipts, borrowing etc). Revenue funding is also available via a Revenue Contribution to Capital Outlay (RCCO); however it should be noted that the scope for using revenue resources for capital purposes is limited.
- 3.2 Funding from capital receipts is forecast for the next three years to ensure a level of internal resources is maintained and can support future projects. It should however be noted that these are only forecasts at the present time and anticipated balances at the end of the period are based on the current approved capital budget.
- 3.3 The current Capital Programme is funded from grants and contributions, capital receipts from the disposal of assets and from the Council's own reserves, internal and external borrowing. Whilst capital funding is available to invest in new assets or in improving existing assets, the impact on the revenue account due to the loss of investment income is always a key consideration.
- 3.4 The Council has access to short or long-term borrowing if required to finance capital expenditure. Although business cases for new capital projects are modelled on the assumption that borrowing will be required (to reflect a 'worst case scenario' in terms of cost), the decision to borrow externally is ultimately a treasury one and is made closer to the time when expenditure is actually incurred, taking into account available cash balances, the opportunity cost of investments, and the exposure to interest rate and credit risks.
- 3.5 It is a requirement of the new CIPFA code that the Council considers alternative means of financing if required. The Council is aware of the opportunities that may be realisable through a Private Finance Initiative (PFI). The Procurement Strategy includes guidance on appraising Private Public Partnerships in the context of service delivery and emphasises that obtaining 'value for money' means choosing the optimum combination of whole life costs and benefits to meet the customer's requirements. This is not necessarily the lowest initial price option and requires an assessment of the ongoing revenue/resource implications as well as initial capital investment.
- 3.6 The Council recognises the importance of attracting 'new money' into the district and wherever possible supports match funding requests. When identifying and

planning new schemes, the Council will try to maximise all external sources of finance without reducing the effectiveness of the scheme.

#### **4 Asset Management and Commercial Activities**

- 4.1 The Council has a diverse range of land and property held to meet its Corporate Objectives and values as outlined in the Council's Corporate Plan. Land and property assets can play a key role in reducing Council budget deficits and generating both capital and revenue income. The Council can use its assets more effectively to meet tough financial targets both through reducing costs and generating income.
- 4.2 In the main the Council will adopt a "buy and hold" strategy for property investments. This is where the Council purchases an asset and lets it to generate revenue income, whilst retaining it for the long term. A long-term investment is considered to be of 10 years and over. Whilst it cannot be guaranteed, in the long term a good overall rate of return is anticipated allowing for a cyclical property market.
- 4.3 In terms of development opportunities, the Council may seek to "buy and hold" assets for the medium term where it sees a strategic advantage of doing so, for example land assembly for town center regeneration or acquiring land to develop in a phased approach to minimise risk of oversupply and for cash flow purposes.
- 4.4 The Council may also seek to "buy and sell on" an asset in the short to medium term of between 1 – 5 years. For example, where there is opportunity to secure good terms or a low price enabling a surplus to be made from a sale or redevelopment.
- 4.5 Further information can be found in the Council's Land and Property Acquisition Policy.
- 4.6 The Council seeks to achieve a spread of risk across a greater number of assets and by acquiring properties across the range of commercial property types, including: retail, leisure/tourism, office and industrial assets.
- 4.7 The Council has a small portfolio of commercial assets to rent within the district. These are identified within the Asset Management Plan as being held by the Council primarily for the purpose of generating income to support the Councils, revenue and capital budgets. Whilst generating income, returns and financial independence to support the delivery of services, there are a number of benefits to the Council, the community, tourist and business sector from the Council commercial portfolio including promoting strategic regeneration, increasing business rate and council tax income and supporting tourism.
- 4.8 Where assets are identified as being surplus to requirements and not achieving required financial or service delivery performance targets, they can be considered for disposal to provide useable capital receipts, which can then be redirected to achieve the Council's objectives. Further information can be found in the Council's Disposal Policy.



4.9 The Council's Property Services Team has historically managed the Council property portfolio with support of the Finance team, Eastlaw and Economic Development. Different types of commercial property require different levels of resource to manage effectively. Business Centers with easy in and out terms, tend to be more management intensive due to the relatively high turnover of tenants, in comparison to the longer leases of industrial units, where typically tenants have responsibility for full maintenance/repairs and insuring.

4.10 Asset management undertaken includes:

- Rent collection and rent arrears management
- Service charge reviews and collection
- Building and grounds maintenance, testing of appliances and monitoring
- Tenant liaison
- Marketing and re-letting empty units
- Negotiating terms of rent reviews and new leases
- Expiry of leases, lease renewals and terminations
- Dilapidations

An increase to the portfolio will require additional resource to manage effectively which could be achieved by additional staff for internal management or appointing experienced commercial agents for external management. Assets held outside of the district would require external resource to manage the assets effectively. In the coming months, the Council will be undertaking surveys across its asset portfolio in order to identify areas for investment in terms of repairs and ongoing maintenance. This will inform future year's Revenue budgets and ensure the ongoing viability of the asset portfolio.

4.11 Successful delivery of the Council's vision for Capital investment relies on the skills and culture of the organisation being appropriate. Members, Statutory Officers, and those with decision making powers keep their relevant knowledge up to date through CPD schemes, workshops with treasury advisers and other relevant bodies and networking with other authorities to share best practice. Information is disseminated between parties within the organisation when appropriate.

## **5 Debt Management and MRP Statement**

5.1 Where a local authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP). There has been no statutory minimum amount to be applied since 2008, although the Local Government Act 2003 does require authorities to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision 2012, which is currently undergoing a revision, subject to consultation.

5.2 The Guidance requires that the Council approve an Annual MRP Statement in advance of each financial year and identifies a number of options for calculation

of a prudent provision for MRP. Whilst there are four alternative methods available for this calculation, only two apply to new borrowing under the Prudential system for which no Government support is being given, i.e. borrowing which is intended to be self-financed.

- 5.3 All Council decisions made in relation to capital expenditure will be reviewed on their own merits and the most equitable treatment will be introduced in respect of the financing of these schemes. For the purposes of existing schemes and those proposed for the coming financial years where borrowing has been assumed, the Council will be applying the Asset Life Basis (Option 3 under the DLUHC Guidance). This allows MRP to be charged to the revenue account across the estimated life of the assets that are being funded, in accordance with the regulations.

## 5 Prudential Indicators

- 5.1 Under the Prudential Code the Council is required to set and approve a range of performance indicators each year in line with the budget and Treasury Management Strategy, and to monitor them during the year. Under these arrangements local authorities are allowed to enter into borrowing to support capital spending as long as they are able to demonstrate that they can afford to do so.

### 5.2 *Authorised Limit for External Debt*

The Council has an integrated Treasury Management Strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council, and not just those arising from capital spending reflected in the CFR. The Council is required to set for the coming year and the following two financial years an authorised limit for its total gross external debt, separately identifying borrowing from other long-term liabilities. The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Council. It is measured against all external debt items (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). The indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved Treasury Management policy statement and practices. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

|  | 2022/23<br>£m | 2023/24<br>£m | 2024/25<br>£m | 2025/26<br>£m |
|--|---------------|---------------|---------------|---------------|
| Authorised limit for borrowing                   | 28.400        | 28.400        | 28.400        | 28.400        |
| Authorised limit for other long-term liabilities | 3.000         | 3.000         | 3.000         | 3.000         |
| <b>Authorised limit for external debt</b>        | <b>31.400</b> | <b>31.400</b> | <b>31.400</b> | <b>31.400</b> |

### 5.3 Operational Boundary for External Debt

The Council is required to set for the forthcoming financial year and the following two financial years an operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities. The Operational Boundary is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario, and without the additional headroom included within the Authorised Limit for unusual cash movements.

|  | <b>2022/23<br/>£m</b> | <b>2023/24<br/>£m</b> | <b>2024/25<br/>£m</b> | <b>2025/26<br/>£m</b> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Operational boundary for borrowing                   | 23.530                | 23.530                | 23.530                | 23.530                |
| Operational boundary for other long-term liabilities | 2.000                 | 2.000                 | 2.000                 | 2.000                 |
| <b>Operational boundary for external debt</b>        | <b>25.530</b>         | <b>25.530</b>         | <b>25.530</b>         | <b>25.530</b>         |

### 5.4 Capital Expenditure

Local Authorities are required by the Prudential Code to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. The Council is required to make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming year and at least the following two financial years.

|                            | <b>21/22<br/>Actual<br/>£m</b> | <b>22/23<br/>Forecast<br/>£m</b> | <b>23/24<br/>Budget<br/>£m</b> | <b>24/25<br/>Budget<br/>£m</b> | <b>25/26<br/>Budget<br/>£m</b> |
|----------------------------|--------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Capital Expenditure</b> | 9.183                          | 13.985                           | 11.948                         | 1.9800                         | 0.880                          |

### 5.5 Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing. The Council is required to make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years as shown in the table below. The total CFR indicated in the table relates in part to vehicles and equipment used on the Council's refuse and car park management contracts. These are recognised under IFRS accounting regulations which require equipment on an embedded finance lease to be recognized on the balance sheet. The CFR takes into consideration the Cabinet decision to provide loan advances to Registered Providers under the Local Investment Strategy. Although initially this will increase the CFR, the capital receipts generated by the annual repayments on the loans will be applied to reduce the CFR across subsequent years. This is a key indicator for prudence. In order to ensure that over the medium-term debt will only be used for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus

the estimates of any additional capital financing requirement for the current and next two financial years.

|                                      | <b>21/22<br/>Actual<br/>£m</b> | <b>22/23<br/>Forecast<br/>£m</b> | <b>23/24<br/>Budget<br/>£m</b> | <b>24/25<br/>Budget<br/>£m</b> | <b>25/26<br/>Budget<br/>£m</b> |
|--------------------------------------|--------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>Capital Financing Requirement</b> | 16.003                         | 15.677                           | 16.930                         | 16.563                         | 16.762                         |
| <b>Minimum Revenue Provision</b>     | 0.219                          | 0.326                            | 0.331                          | 0.349                          | 0.349                          |

| <b>Financing of Capital Expenditure</b> | <b>21/22<br/>Actual<br/>£m</b> | <b>22/23<br/>Forecast<br/>£m</b> | <b>23/24<br/>Budget<br/>£m</b> | <b>24/25<br/>Budget<br/>£m</b> | <b>25/26<br/>Budget<br/>£m</b> |
|---|--------------------------------|----------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Capital Receipts                        | 1.211                          | 6.035                            | 2.143                          | 0.680                          | 0.032                          |
| Grants and Other Contributions          | 2.343                          | 4.657                            | 7.261                          | 1.300                          | 0.300                          |
| Revenue Contributions                   | 1.319                          | 3.293                            | 0.960                          | 0.000                          | 0.000                          |
| Borrowing                               | 4.310                          | 0.000                            | 1.584                          | 0.000                          | 0.548                          |
| <b>TOTAL</b>                            | <b>9.183</b>                   | <b>13.985</b>                    | <b>11.948</b>                  | <b>1.980</b>                   | <b>0.880</b>                   |

#### 5.6 *Proportion of Financing Costs to Net Revenue Stream*

The Council is required to estimate for the following financial year and the following two years the proportion of financing costs to net revenue stream. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code and is based on the costs net of investment income.

|                      | <b>21/22</b>   | <b>22/23<br/>£m</b> | <b>23/24<br/>£m</b> | <b>24/25<br/>£m</b> | <b>25/26<br/>£m</b> |
|----------------------|----------------|---------------------|---------------------|---------------------|---------------------|
| Financing cost (net) | (1.046)        | (1.008)             | (1.530)             | (1.380)             | (1.226)             |
| Net Revenue Stream   | 18.904         | 18.489              | 16.748              | 18.319              | 18.721              |
| <b>Ratio</b>         | <b>(5.54%)</b> | <b>(5.45%)</b>      | <b>(9.14%)</b>      | <b>(7.53%)</b>      | <b>(6.55%)</b>      |

## 6 **Links to other Strategies and Plans**

- 6.1 The Council has fully integrated its Capital Strategy as part of its strategic financial planning process and this policy influences both the production of the MTFS and the capital and revenue budget planning process. The Strategy is also linked to the other main asset related policies, namely the Asset Management Plan, the Land and Property Acquisition Policy, the Commercial Property Strategy, the Land and Property Disposals Policy.

- 6.2 The Treasury Management Strategy details the Council's treasury management arrangements to manage the Council's cash flow, including the anticipated use of reserves, so as to maximise income from investments and minimise interest payments on borrowing, whilst minimising the risk to the Council's assets. This Strategy can influence the potential receipts available for funding capital and will also directly inform any borrowing decisions for capital purposes.
- 6.3 The Procurement Strategy seeks to ensure that Value for Money is achieved in all of the Council's procurement decision-making activities and systems. The guidance should be applied by all Officers in conjunction with the requirements incorporated within the Council's Contract Standing Orders and Financial Regulations and has great relevance to preparing capital bids.
- 6.4 The Capital Strategy is also aligned with the Risk Management Strategy, and managers are required to consider risk when completing the standard business case pro-forma.
- 7 Financial Implications and Risks** - The financial implications and risks of any capital investment will be included as part of the budget process and business case preparation in relation to individual schemes and proposals coming forward.
- 8 Sustainability** – None as a direct consequence of this report.
- 9 Equality and Diversity** - None as a direct consequence of this report.
- 10 Section 17 Crime and Disorder considerations** - None as a direct consequence of this report.