

Report to: Policy and Resources Committee, 19th March 2024

Report of: Corporate Director - Finance and Resources

Subject: CAPITAL AND INVESTMENT STRATEGIES 2024/25 – 2026/27

1. Recommendation

1.1 That the Committee recommends to Council that the Capital Strategy and Investment Strategy for 2024/25 be adopted.

2. Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has statutory responsibility for publishing guidance on local authority finance and accountancy. As part of the revised Prudential Code on Capital Accounting 2017 (published February 2018) CIPFA requires local authorities to publish a Capital Strategy which sets out the proposed approach to managing for capital expenditure in the next financial year and as part of medium-term financial planning.
- 2.2 The Capital Strategy must be reviewed annually and approved by Full Council before the start of the financial year. Its purpose is to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Council's services along with an overview of how associated risk is managed and the implications for future financial sustainability. Its purpose is to ensure that Members are fully informed of the plans and proposals with regard to capital spending, capital investments and the decisions taken in respect of them.
- 2.3 The then Ministry for Communities and Local Government (MHCLG) has published guidance relating to capital investment strategies being followed by local authorities. This was prompted by concerns within central government regarding the extent to which local authorities were engaging in commercial investments, using low-cost PWLB financing to generate a commercial return and relying in such income to support services.
- 2.4 The guidance was issued under section 15(1)(a) of the Local Government Act 2003 and is effective for financial years commencing on or after 1 April 2018. It requires local authorities to publish an Investment Strategy alongside, or as part of, the Capital Strategy as soon as possible within the financial year 2018/19 and to review these annually.
- 2.5 It should be noted, in particular, that the capital spend and income plans and the associated Prudential Indicators are based on known commitments. Proposals which may arise in the future as there are new proposals sufficiently developed to form part of the strategic approach.

Separate reports relating to future proposals will be presented to Committee and, where necessary, Full Council, in due course, and the relevant reports will provide updates of the Prudential Indicators so that the impact of decisions can be assessed in the light of the Capital Strategy before they are taken.

- 2.6 Proposals that are currently under consideration will potentially need to be included in the capital programme as current and planned capital expenditure and may therefore be funded in part or whole from borrowing. In line with the Commercial Strategy, these investments will be for the purposes of supporting development within the City boundary or improving the well-being of Worcester’s communities, while providing a return sufficient to cover financing costs.
- 2.7 Under the Prudential Code, the Council is required to set an affordable borrowing limit (also termed the ‘authorised limit’ for external debt). In line with statutory guidance, a lower ‘operational boundary’ is also set as a warning level should debt approach the limit. To provide sufficient headroom for the proposals outlined above, the Capital Strategy indicates that the Operational Boundary and Upper Limit for borrowing needs to be revised for 2024/25.
- 2.8 The Council last significantly revised the Operational Boundary and Authorised Limit in February 2019 as part of the establishment of an investment approach for acquisition of ‘commercial assets.’ However, the limits must be reviewed annually as part of the prudential regime. The proposed limits set out in the table below include sufficient capacity to borrow to allow for current capital proposals and any proposals that may arise along with other capital spend which may need to be funded from borrowing.

	2023/24 limit £m	2024/25 limit £m	2025/26 limit £m	2026/27 limit £m
Authorised limit	38.5	44.8	52.4	53.5
Operational boundary	28.9	33.6	39.3	40.1

3. Preferred Option

- 3.1 To approve the Capital Strategy for 2024/25 – 2026/27 (**Appendix 1**) and Investment Strategy for 2024/25 – 2026/27 (**Appendix 2**) and the Operational Boundary and Authorised Limit for external debt.

4. Alternative Options Considered

- 4.1 The Capital Strategy and Investment Strategy are documents required under statutory guidance published by CIPFA and DLUHC. Alternative approaches to defined policies included in the strategies, such as the level of capital expenditure to be incurred are considered as part of the individual reports for the relevant schemes.

5. Implications

5.1 Financial and Budgetary Implications

There are no direct financial implications arising from the strategies themselves, which set out the principles governing proposed capital expenditure and capital investment, other than those set out in this covering report. Any proposals for capital spending or investments in third parties, will be subject to separate reports.

Such reports will meet the criteria for clarity of purpose, risk assessment and formal financial evaluation as stated in the strategies.

5.2 Legal and Governance Implications

The Capital Strategy meets the Council's statutory obligations arising from the CIPFA Prudential Code on Capital Accounting 2017 and is subject to Full Council approval. The Investment Strategy meets the statutory guidance issued under section 15(1)(a) of the Local Government Act 2003.

5.3 Risk Implications

The Corporate Risk Register includes two relevant risks relating to the Council's overall finances:

- CRK-002 City Plan Priorities – Resources
- CRK-005 Local Government Funding.

The Commercial Strategy has highlighted the fact that the funding position for the Council is shifting from one based on central government funding to one based on income generated through local taxation and through fees and charges for services and investments. Relying on income from local sources is inherently riskier than relying on income from pre-determined government grants. The Capital and Investment Strategies are designed to ensure that these risks are fully considered and Full Council has full sight of those considerations.

Since the Commercial Strategy was produced, there has been a further development in local authority financing towards the deployment of large scale capital fund that local authorities can access through a bidding process. The Council has already benefited from this in respect of the Arches Worcester, the Future High Streets Fund and Towns Fund is continuing to bid against other potential funding sources. This increases risk around Council finances as future plans are dependent upon the success of attracting this funding and requires flexible management of the capital programme to respond to schemes as they develop. The Capital and Investment Strategies set out the means by which financing will be achieved to address any gaps between the overall cost of each scheme and the Government grant funding secured.

5.4 Corporate/Policy Implications

The Capital Strategy draws together the objectives and policy proposals set out in the Commercial Strategy, the Capital and Asset Management Framework and the Income Generation Strategy which were all initially published during 2018 and subsequently revised. These support the Council's objectives, set out in the budget report of October 2016, to increase income to mitigate the loss of central government funding through the revenue Support Grant. The Investment Strategy, similarly, is designed to work within the framework set out in these documents and under the strategic aims of the Capital Strategy.

The capital funding required to support the aims of the Future High Streets Fund and the Towns Fund programmes is identified in the proposals published as part of the bidding process for those schemes. Those proposals have been previously approved by the Committee.

5.5 Equality Implications

There are no direct equalities implications arising from the strategies. Any implications arising from specific proposals will be addressed in the relevant reports.

5.6 Human Resources Implications

There are no direct equalities implications arising from the strategies. Any implications arising from specific proposals will be addressed in the relevant reports.

5.7 Health and Safety Implications

There are no direct equalities implications arising from the strategies. Any implications arising from specific proposals will be addressed in the relevant reports.

5.8 Social, Environmental and Economic Implications

Capital investment provides opportunities for the Council to provide assets, improve infrastructure and facilities and support the development of services for the benefit of local residents, local businesses and local service users, including tourists. The Development Fund report makes clear that such investments must balance both the need to generate income with the opportunity to improve wellbeing for local people or enhance the local area. The Capital Strategy and Investment Strategy seek to implement this approach by demonstrating how the net financial benefits will be deployed to support services. The Future High Streets Fund proposal and the Town Improvement Plan set out a range of ways in which local communities and the City as a whole will benefit from the proposed investment.

The Prudential Indicators included in the strategies enable Members to reach fully-informed judgements regarding the success of this approach and the risks associated with it and support effective decision-making. Individual reports regarding investment proposals will set out the benefits expected to arise from the investment of capital funds, including external borrowing.

Ward(s):

All wards

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Background Papers:

None