WYRE BOROUGH COUNCIL CAPITAL STRATEGY

2024/25

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1.0 INTRODUCTION

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) revised the Prudential Code in December 2021 with immediate effect. A soft launch approach has been taken with formal adoption and reporting required from 2023/24. This version of the Capital Strategy is still an evolving document and work is ongoing to develop it further, in line with the Council Plan.

The updated Prudential Code 2021 requires local authorities to produce a capital strategy in order to demonstrate that the council does the following:

- takes capital and investment decisions in line with service objectives;
- properly takes account of stewardship, value for money, prudence, sustainability and affordability;
- sets out the long-term context in which capital expenditure and investment decisions are made;
- gives due consideration to both risk and reward;
- gives due consideration to the impact on the achievement of priority outcomes, and;
- authorities should report on and clearly distinguish investments for treasury management, service and commercial purposes

1.2 The capital strategy forms part of the council's integrated revenue, capital and balance sheet planning.

1.3 The strategy is intended to give a high level overview of how capital expenditure, capital financing, investments and treasury management activity contribute to the delivery of the council's plans and provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.4 The capital strategy should be tailored to the council's individual circumstances but should include capital expenditure, investments and liabilities and treasury management. The capital strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability, proportionality and affordability will be secured and to meet legislative requirements on reporting.

1.5 A long-term view is taken when outlining the capital strategy and its associated context, as many schemes will span a number of years and have implications beyond the Medium Term Financial Plan (MTFP). All planned capital expenditure and investment decisions are included in the strategy including those undertaken with external partners.

1.6 CIPFA guidance indicates that the Capital Strategy should have regard to the following areas, each of which will be covered in this document:

- Capital expenditure
- Debt, borrowing, investments and treasury management
- Investments for commercial purposes
- Other long-term liabilities
- Knowledge and skills

1.7 This document should be read in conjunction with the Council's annual Treasury Management Policy Statement and Practices, Treasury Management and Annual Investment Strategy and the Minimum Revenue Provision Policy Statement. Reference may be made to specific sections of these documents as appropriate to avoid unnecessary duplication in the Capital Strategy.

The Capital Strategy is reviewed annually and presented to full Council for approval.

2.0 KEY DOCUMENTS

2.1 Aside from the Treasury Management Policy Statement and Practices, Treasury Management and Annual Investment Strategy and the Minimum Revenue Provision Policy Statement, there are several key internal documents which influence the strategic direction of the council and these are listed below.

- The Council Plan which gets refreshed annually and has four themes around People and Communities, Place, Growth and Prosperity and Innovative and Customer Focused.
- The Council's Strategic Narrative which identifies three 'big goals' including commercial and environmental awareness, a flexible and change-ready workforce and providing an integrated and community-focused service offer.
- The Commercial Strategy (see Appendix 1).
- The Asset Management Strategy and Action Plan.
- Also important are the main financial reports: the Statement of Accounts, the Medium Term Financial Plan (MTFP) and the Revenue Estimates and Capital Programme.

All of the above documents are available on the council's website (for more details please see the latest versions at www.wyre.gov.uk).

3.0 CAPITAL EXPENDITURE

3.1 This section will cover the following areas identified by CIPFA guidance where their impact is material:

- An overview of the governance process for approval and monitoring capital expenditure.

- A long-term view of capital expenditure plans, where long-term is defined by the financing strategy of and risks faced by the authority with reference to the life of the projects/assets (see Appendix 2).
- An overview of asset management planning including the cost of past borrowing, maintenance requirements and planned disposals.
- Any restrictions around borrowing or funding of ongoing capital finance.

The Definition of Capital Expenditure

3.2 The council has two types of expenditure as defined in the annual statement of accounts:

- *Revenue expenditure*: the everyday costs incurred with running the council such as employee costs, premises related expenditure and various supplies and services.

- *Capital expenditure*: the more sizeable costs, which usually relate to the acquisition of new assets or significant enhancement of existing assets to extend the economic benefit to the council.

3.3 In brief, there are three routes under which expenditure can qualify as capital and these are:

- Spending which meets the recognition criteria specified under '**proper accounting practices**' e.g. expenditure on the acquisition of, construction of or the addition of subsequent costs to non-current assets (tangible e.g. buildings and intangible e.g. software)
- Spending which meets one of the definitions specified in **regulations** made under the Local Government Act 2003 e.g. Revenue Expenditure Funded from Capital Under Statute (REFCUS).
- The Secretary of State makes a **direction** that the spending can be treated as capital expenditure.

3.4 Examples of capital expenditure include expenditure on the acquisition, reclamation or enhancement of assets (e.g. buildings, land, plant and machinery). It can include computer costs (for use over a period exceeding one year e.g. software), grants to third parties, incidental costs involved in a capital project (e.g. officers' salaries and professional fees).

3.5 Excluded from the definition of capital are training, administrative and other general overhead costs. Costs will also be ineligible to the extent that they relate to activity that takes place prior to the intention to acquire or construct a fixed asset. Examples of this include the cost of option appraisals and feasibility studies that do not contribute to the scoping of the asset ultimately acquired or constructed.

3.6 The key principle to follow is that 'everything is revenue unless you can prove it is capital'.

The Capital Programme, Governance and Approval Process

3.7 The Capital Programme is the council's schedule of capital works for future years and includes details of the funding of the schemes. Included in the schedule are projects such as sea defences and beach management, restoration of parks and open spaces, our rolling replacement of vehicles, regeneration projects and the construction of new buildings and facilities. Also included could be service and commercial investments such as new IT systems to deliver digital transformation, the purchase of land or buildings for investment purposes and design, consultancy or in-house fees for staff time in support of major schemes. The council is working with partners to assist them to meet both their objectives and the Council's objectives.

3.8 The approval process for individual capital schemes and the Capital Programme itself can be found in the Council's Constitution which is available on the council's website. In summary, the majority of capital schemes are approved via a Portfolio Holder Report submitted to the relevant Portfolio Holder. Alternatively, where a key decision is involved, a Cabinet Report on a specific scheme or project is used to update the Capital Budget. In exceptional circumstances, a report is taken to Full Council for approval, usually where there is a significant impact on the budget, not previously accounted for. Regular reports are also submitted to Cabinet throughout the year providing them with the latest current year Capital Budget position and its impact on the multi-year Capital Programme and requesting their approval for any changes. In February of each year the Cabinet formally approve the current revised and the future year's Capital Programme and this is subsequently ratified by full Council in March as part of the annual budget setting process.

3.9 Capital expenditure is prioritised based on a number of factors including the availability of external funding and any associated conditions, the availability of internal funding, Business, Service and Asset Management Plan priorities, health and safety, environmental sustainability, resources and capacity.

3.10 The council's MTFP will encompass the current year's budget plus four years and the Capital Programme will mirror this approach. Reference will also be made to years beyond the scope of the MTFP period where the expected lifespan of planned projects exceeds this timeframe.

Asset Management

3.11 The Asset Management Strategy and Action Plan provides an overview of the council's current position with regard to investment properties, surplus assets, planned maintenance and investment projects and so on. The latest detailed Asset Management Strategy and Action Plan can be found on the council's website.

3.12 In order to achieve our corporate vision, key work areas have been established for Asset Management, these are:

- Managing Investment Assets
- Managing Property Assets
- Property Maintenance
- Property Disposals
- Property Acquisitions

3.13 The Council's property portfolio largely falls under two main categories: Property Assets and Investment Property.

The breakdown of property categories is as shown below:

Category	**Number**	**Asset Value (31/03/2023)**
Property Assets	99	£45.6m
Investment Assets	51	£14.5m
Community Assets	103	£5.7m
Heritage Assets	4	£0.3m
TOTAL	**225**	**£66.1m**

Long-Term Borrowing

3.14 The council does not have any long term borrowing arrangements.

Significant Property Acquisitions and Disposals

3.15 Acquisition - During 2021/22 Cabinet approved the acquisition of new fish and food processing units in Fleetwood (Project Neptune). These were completed in August 2022. Tenants have entered lease agreements on the majority of units and all are expected to be let.

Disposal – During 2021/22 Cabinet approved the disposal of land at Bourne Hill, Thornton and the site completed in May 2022, generating a capital receipt.

4.0 DEBT, BORROWING, INVESTMENTS AND TREASURY MANAGEMENT

4.1 This section will cover the following areas identified by CIPFA guidance where their impact is material:

- A long-term projection of external debt (i.e. gross borrowing plus other long-term liabilities).
- Provision for the repayment of debt over the long-term, having regard to statutory guidance on MRP or the repayment of loans fund advances.

- Authorised limit and operational boundary for the following year.
- The authority's approach to treasury management including processes, due diligence and defining the authority's risk appetite.
- A projection of investments (where material) analysed between investments for treasury management purposes and commercial purposes (including commercial property).
- A statement of whether the authority has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest for the primary purpose of financial return.

Capital Investments vs. Treasury Management, Service and Commercial Investments

4.2 'Treasury Management Activities' are defined by CIPFA as:

> *"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

'Investments for treasury management purposes' (or treasury management investments) are those investments that arise from the organisation's cash flows or treasury risk management activity, and ultimately represent balances that need to be invested until the cash is required for use in the course of business.

'Investments for commercial purposes' (or commercial investments) are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

'Investments for service purposes' (or service investments) are taken or held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services.

4.3 Unlike capital investments, for treasury management investments the security and liquidity of funds is placed ahead of any investment return.

4.4 The council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes and investment property portfolios. The council currently has no commercial or service investments and does not borrow to invest for the primary purpose of financial return.

4.5 The council will ensure that all of its investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

4.6 Capital investments should be proportional to the level of resource available to the council and the council should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

Capital Resources and Financing Strategy

4.7 Wyre's Capital Programme has always relied heavily on external funding owing to limited internal resources and a desire not to add to existing levels of external borrowing. The council has external funding levels of 87% (estimated 2023/24 period 8 position) of the total capital programme. Much of this has been provided by the Environment Agency for large scale sea defences and beach management schemes but other externally funded works include Disabled Facilities Grants (Better Care Fund) and UK Shared Prosperity Funding.

4.8 As a result of central government funding cuts and a significant gap to bridge in our ongoing revenue estimates, there is limited scope for the council to contribute monies from general balances without additional compensating savings being identified. Likewise, the shortfall in ongoing funding means that it is not prudent to add to our external borrowing unless a compelling 'invest to save' case exists.

4.9 Several earmarked reserves exist to support capital investment and these include the Capital Investment, Leisure Management, IT Strategy, Value For Money, Vehicle Replacement/Street Cleansing Maintenance and the Property Investment Fund Reserves.

4.10 The Capital Programme assumes available funding from the following sources:

- Capital grants and contributions
- Capital receipts from the sale of assets
- Earmarked reserves
- Revenue contributions
- Internal borrowing
- External borrowing

4.11 Ordinarily, capital receipts can only be used to fund capital expenditure or be set aside to repay debt. However, as part of the multi-year 2016/17 local government finance settlement, greater flexibility to allow council's to use these receipts to generate ongoing revenue efficiencies was announced although conditions apply including the requirement for a Strategy approved by full Council.

4.12 "The Guidance recommends that the Strategy setting out details of projects to be funded through flexible use of capital receipts be prepared prior to the start of each financial year. Failure to meet this requirement does not mean that an authority cannot access the flexibility in that year. However, in this instance, the Strategy should be presented to full Council or the equivalent at the earliest possible opportunity."

4.13 At the present time, there is no intention to make use of this flexibility owing to the significant schedule of works required to maintain and invest in our assets and as such no Strategy has yet been approved by Council.

5.0 COMMERCIAL ACTIVITY

5.1 This section will cover the following areas identified by CIPFA guidance where their impact is material:

- The authority's approach to commercial activities including processes ensuring effective due diligence and defining the authority's risk appetite in respect of these, including proportionality in respect of overall resources.
- Requirements for independent and expert advice and scrutiny arrangements.

5.2 The council's Commercialisation Strategy can be found at Appendix 1 to this report. It was previously approved as part of the Capital Strategy by full Council and minor updates have been made.

5.3 As local authorities become increasingly complex and diverse it is vital that those charged with governance understand the long-term context in which investment decisions are made and all the financial risks to which the authority is exposed. The impact of commercialisation has widened the scope of local authority powers and with the introduction of arrangements such as combined authorities it is no longer sufficient to consider only the individual local authority but also the residual risks and liabilities to which it is subject.

Authorities may invest in other financial assets, including loans and property primarily for financial return, which are not part of treasury management activity.

Other investments may include:

- 'service investments' held clearly and explicitly in the course of the provision – and for the purposes – of operational services, including regeneration
- 'commercial investments' which are taken for mainly financial reasons, including investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers; or investments explicitly taken with the aim of making a financial surplus for the organisation; commercial investments also include non-financial assets which are held primarily for financial return such as investment properties.

5.4 Investigations into policy driven initiatives and investments are allowed under the Capital and Investment Strategies under the delegated authority of the S.151 Officer. The authority currently has no material commercial activity and none is forecast in the current capital programme.

5.5 Expert advice will be sought, including legal and financial, where required for any service or commercial investments. Commercial activity is not risk-free, even where no or cheap external borrowing is used.

- All decisions to incur expenditure and to borrow must be backed by effective legal powers, which might not be available. There is an additional problem in that these decisions may subsequently be invalidated by changes in statutory provisions or developments in case law.
- The authority's returns (income and capital gains) are at risk, while, once incurred, borrowing costs are unavoidable. A reduction in returns could put the authority's revenue account into deficit. There are risks in relation to the fair value of the property on the balance sheet, for example, where the commercial property fair value is less than the value of the debt liability.
- Assuming the investment is purchased at market prices, the extra margin or return must reflect additional risk.

6.0 OTHER LONG-TERM LIABILITIES

6.1 This section will cover the following areas identified by CIPFA guidance where their impact is material:

- An overview of the governance process for approval and monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.

6.2 Liabilities related to the Defined Benefit Pension Scheme are excluded from this definition related to treasury management.

6.3 The Authority, as a lessee, does not have any finance leases or operating leases of notable value. A review of forthcoming changes under IFRS16, currently expected to be implemented from 1 April 2024, is being undertaken and this may alter the position but the impact is still being evaluated.

7.0 KNOWLEDGE AND SKILLS

7.1 This section will cover the following areas identified by CIPFA guidance where their impact is material:

- A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

Officer Training

7.2 The training needs of treasury management officers are reviewed throughout the year and additionally when the responsibilities of staff members change or there is staff turnover. Training records are held centrally for audit purposes.

7.3 Staff are encouraged to view webinars and/or attend training courses, seminars and conferences held by Link Group, Treasury Solutions Limited, CIPFA and other appropriate bodies. Relevant staff are encouraged to study professional qualifications from CIPFA and other appropriate organisations.

7.4 Day-to-day treasury management staff and the S.151 Officer attend an annual strategy meeting with Link Group, Treasury Solutions Limited. Their expertise is available throughout the year and utilised by relevant staff as and when required.

Member Training

7.5 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

7.6 An annual training session is held for members of the Overview and Scrutiny Committee (O&S) in particular. This is either delivered in-house by the responsible officer at a suitable O&S meeting or provided by the council's external treasury management consultants, usually by way of an evening briefing available to all Members. Refer to the Treasury Management Policy Statement and Practices, Treasury Management and Annual Investment Strategy for more details.

Treasury Management Consultants

7.7 The council uses Link Group, Treasury Solutions Limited external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external providers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8.0 THE FUTURE AMBITION OF THE COUNCIL'S CAPITAL PROGRAMME

8.1 The Capital Strategy is a high level overview which over time will be developed to reflect the Council's emerging risk appetite, strategic influences and overall capital ambitions.

8.2 A key part of the evolution of the Capital Strategy will be the determination of the Council's capital ambition and an important element of this will relate to the adopted Local Plan (Council, 28 February 2019, Partial Review approved 26 January 2023). This document contains the following Vision Statement (further detail is available on our website at www.wyre.gov.uk):

"By 2031 Wyre will be recognised as an aspirational place with a clear focus on delivering **sustainable growth –** balancing environmental, social and economic considerations**.** It will be an attractive and successful place focused on creating opportunities for people to live, work, visit and do business. Development will have achieved **high quality urban and rural environments**, whilst respecting the diverse distinctiveness of local character across the Borough."

8.3 This vision will inform the starting point for further investigations and research into the current economic position in Wyre, including a focus on our high streets and how we can use council assets and further investment using the Property Investment Fund to promote regeneration. This reserve will be fully utilised following the delivery of Project Neptune and a review will be undertaken to reflect future strategy documents e.g. Economic Development, to determine whether a top-up is required.

8.4 Wyre has a strong track record of attracting external investment through successful funding bids and benefactor donations. Recently this has included substantial investment in new fish and food processing units in Fleetwood and decarbonisation monies for improvements at Fleetwood Market as well as significant Environment Agency investment in sea defences and beach management schemes.

8.5 During 2024/25 further work will continue, initially by Corporate Management Team, to explore the scope of a longer term vision for the borough and how the Council can help to shape and support this through capital investment. The Council has declared a Climate Emergency and the Council Plan reflects the focus on achieving net zero carbon by 2050 with a target reduction of 78% by 2035.

9.0 USEFUL LINKS

9.1 The following documents can all be found on the Wyre Council website: www.wyre.gov.uk.

9.2

- Asset Management Strategy and Action Plan
- Council Plan
- Treasury Management Policy Statement and Practices and Treasury Management and Annual Investment Strategy and Minimum Revenue Provision Policy Statement
- Medium Term Financial Plan
- Revenue Estimates and Capital Programme
- Local Plan

10.0 APPENDICES

10.1 The following appendices are included for information:

- Appendix 1a – Capital Programme – Forward Plan