

WYRE BOROUGH COUNCIL

CAPITAL STRATEGY

2020/21

CONTENTS

1.	INTRODUCTION	2
2.	KEY DOCUMENTS	3
3.	CAPITAL EXPENDITURE	3
4.	DEBT AND BORROWING AND TREASURY MANAGEMENT	6
5.	COMMERCIAL ACTIVITY	8
6.	OTHER LONG-TERM LIABILITIES	9
7.	KNOWLEDGE AND SKILLS	9
8.	NEXT STEPS	10
9.	USEFUL LINKS	10
10.	APPENDICES	10

1.0 INTRODUCTION

<p>1.1</p>	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 requires local authorities to produce a capital strategy in order to demonstrate that the council does the following:</p> <ul style="list-style-type: none"> • 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, and; • gives due consideration to the impact on the achievement of priority outcomes.
<p>1.2</p>	<p>The capital strategy forms part of the council's integrated revenue, capital and balance sheet planning.</p>
<p>1.3</p>	<p>The strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.</p>
<p>1.4</p>	<p>The purpose of this document is to ensure that Members have sufficient detail to allow them to fully understand the overall capital strategy, its governance procedures and risk appetite.</p>
<p>1.5</p>	<p>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.</p>
<p>1.6</p>	<p>CIPFA guidance indicates that the Capital Strategy should have regard to the following areas, each of which will be covered in this document:</p> <ul style="list-style-type: none"> • Capital expenditure • Debt and borrowing and treasury management • Commercial activity • Other long-term liabilities • Knowledge and skills
<p>1.7</p>	<p>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</p>

	duplication in the Capital Strategy.
2.0	KEY DOCUMENTS
2.1	<p>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.</p> <ul style="list-style-type: none"> • The Business Plan which gets refreshed annually and has three themes around People, Place and Economy. • The Council’s Strategic Narrative which identifies three ‘big goals’ around financial discipline and commercialism, 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. <p>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).</p>
3.0	CAPITAL EXPENDITURE
3.1	<p>This section will cover the following areas identified by CIPFA guidance where their impact is material:</p> <ul style="list-style-type: none"> • 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	<p>The council has two types of expenditure as defined in the annual statement of accounts:</p> <ul style="list-style-type: none"> • <i>Revenue expenditure</i>: the everyday costs incurred with running the council such as employee costs, premises related expenditure and various supplies and services. • <i>Capital expenditure</i>: 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	<p>In brief, there are three routes under which expenditure can qualify as capital and these are:</p> <ul style="list-style-type: none"> • 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 licences), 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, restoration of parks and open spaces, our rolling replacement of vehicles 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.
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. 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

	<p>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.</p>																					
3.9	<p>From 2018/19 onwards, 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.</p>																					
	<p>Asset Management</p>																					
3.10	<p>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, etc. The latest detailed Asset Management Strategy and Action Plan can be found on the council's website.</p>																					
3.11	<p>In order to achieve our corporate vision, key work areas have been established for Asset Management, these are:</p> <ul style="list-style-type: none"> • Managing Investment Assets • Managing Property Assets • Property Maintenance • Property Disposals • Property Acquisitions 																					
3.12	<p>The Council's property portfolio largely falls under two main categories: Property Assets and Investment Property.</p> <p>The breakdown of property categories is as shown below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Category</th> <th style="text-align: center;">Number</th> <th style="text-align: center;">Asset Value (31/03/2019)</th> </tr> </thead> <tbody> <tr> <td>Property Assets</td> <td style="text-align: center;">69</td> <td style="text-align: right;">£43.874m</td> </tr> <tr> <td>Investment Assets</td> <td style="text-align: center;">51</td> <td style="text-align: right;">£6.858m</td> </tr> <tr> <td>Community Assets</td> <td style="text-align: center;">103</td> <td style="text-align: right;">£3.935m</td> </tr> <tr> <td>Heritage Assets</td> <td style="text-align: center;">3</td> <td style="text-align: right;">£0.331m</td> </tr> <tr> <td>Assets Held for Sale</td> <td style="text-align: center;">0</td> <td style="text-align: right;">£0m</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: center;">226</td> <td style="text-align: right;">£54.997m</td> </tr> </tbody> </table>	Category	Number	Asset Value (31/03/2019)	Property Assets	69	£43.874m	Investment Assets	51	£6.858m	Community Assets	103	£3.935m	Heritage Assets	3	£0.331m	Assets Held for Sale	0	£0m	TOTAL	226	£54.997m
Category	Number	Asset Value (31/03/2019)																				
Property Assets	69	£43.874m																				
Investment Assets	51	£6.858m																				
Community Assets	103	£3.935m																				
Heritage Assets	3	£0.331m																				
Assets Held for Sale	0	£0m																				
TOTAL	226	£54.997m																				
	<p>Long-Term Borrowing</p>																					
3.13	<p>In an effort to reduce the council's reliance on borrowing and following concerns about the sustainability of continuing to borrow in the current economic climate, a Capital Investment Reserve was created as part of the 2009/10 closure of accounts. The council has the</p>																					

following outstanding long term borrowing:

Date	Loan ref.	Value (£)	Period (Years)	Rate (%)	Maturing
05/03/2008	494404	552,000	30	4.48	September 2037
05/03/2008	494405	1,000,000	50	4.41	September 2057
Total		1,552,000			

4.0 DEBT AND BORROWING AND TREASURY MANAGEMENT

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

- A projection of external debt and use of internal borrowing to support capital expenditure (internal borrowing refers to the use of cash balances to finance capital expenditure in place of borrowing money from external sources).
- Provision for the repayment of debt over the life of the underlying debt.
- 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.

Capital Investments vs. Treasury Management 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.”

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 recognizes 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.

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	<p>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. In recent years the council has typically achieved external funding levels in excess of 90% of the total capital programme. Much of this has been provided by the Environment Agency for large scale sea defences but other externally funded works include Disabled Facilities Grants (Better Care Fund), Coastal Communities Funding for Fleetwood Market improvements and Digital Signage, and works to restore our parks (Heritage Lottery Funding).</p>
4.8	<p>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.</p>
4.9	<p>Several earmarked reserves exist to support capital investment and these include the Capital Investment, Leisure Management, IT, Value For Money and the Vehicle Replacement/Street Cleansing Maintenance Reserves.</p> <p>Added to these, on 16 January 2019, Cabinet approved the creation of a Property Investment Board and associated Fund. This report has given the Corporate Director Communities delegated authority to make investment decisions up to £1,000,000 in consultation with the Resources Portfolio Holder.</p> <p>The Board consists of the Corporate Director Communities, Corporate Director Resources (S.151 Officer) and Senior Solicitor (Deputy Monitoring Officer). The Board will meet as and when a commercial opportunity arises that requires a timely decision. A report to the Board from the Head of Built Environment will set out the proposal, its associated risks and the financial and legal implications. Any business case for a commercial opportunity would therefore require the approval of the S.151 Officer and the Senior Solicitor. The remainder of Corporate Management Team, not represented on the Board, would also be consulted on any investment opportunities and all could deputise for the Corporate Director Communities in their absence.</p> <p>The Investment Board will take into account the Medium Term Financial Plan, the Capital Programme, the emerging Capital Strategy and any relevant Treasury Management Policies and Procedures. All decisions must be in line with the aforementioned documents.</p>
4.10	<p>Currently, the primary contribution to the Capital Investment Reserve comes from asset disposals with a commitment that the reserve will benefit from any sale of land or property. Surplus assets have been identified but there are a limited number available and owing to resource pressures, as and when approved, these must be phased over a number of years. In 2019/20 a capital receipt of £15,000 from the sale of land at Siding Road was achieved. Some smaller disposals are expected in the medium term as per the current</p>

	Schedule of Executive Decisions and the Asset Management Strategy and Action Plan 2018 – 2023.
4.11	<p>The Capital Programme assumes available funding from the following sources:</p> <ul style="list-style-type: none"> • Capital grants and contributions • Capital receipts from the sale of assets • Earmarked reserves • Revenue contributions • Internal borrowing • External borrowing
4.12	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.
4.13	“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.”
4.14	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	<p>This section will cover the following areas identified by CIPFA guidance where their impact is material:</p> <ul style="list-style-type: none"> • 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 2018 – 2023 was first reported to Cabinet as part of the decision to create a Property Investment Board in January 2019. This document provides an opportunity to incorporate it into the Capital Strategy for approval by full Council, as first done in 2019.
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

	<p>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.</p> <p>Authorities may invest in other financial assets, including loans and property primarily for financial return, which are not part of treasury management activity.</p> <p>Other investments may include:</p> <ul style="list-style-type: none"> • ‘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.
<p>5.4</p>	<p>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.</p>
<p>5.5</p>	<p>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.</p> <ul style="list-style-type: none"> • 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.
<p>5.6</p>	<p>The Commercialisation Strategy can be found at Appendix 1.</p>
<p>6.0</p>	<p>OTHER LONG-TERM LIABILITIES</p>
<p>6.1</p>	<p>This section will cover the following areas identified by CIPFA guidance where their impact is material:</p> <ul style="list-style-type: none"> • 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 does not have any finance leases or operating leases. A review of forthcoming changes under IFRS16 is being undertaken and this may alter the position but it is not expected to have a material impact.
7.0	KNOWLEDGE AND SKILLS
7.1	<p>This section will cover the following areas identified by CIPFA guidance where their impact is material:</p> <ul style="list-style-type: none"> 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 Asset Services, 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 Asset Services. 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 a pre-council 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 Asset Services, Treasury Solutions as its external treasury

	<p>management advisors.</p> <p>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.</p> <p>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.</p>
<p>8.0</p>	<p>NEXT STEPS</p>
<p>8.1</p>	<p>The Capital Strategy is a new document and as such it is currently a high level overview which over time will be developed to reflect the Council’s emerging risk appetite, strategic influences and overall capital ambitions.</p>
<p>8.2</p>	<p>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). This document contains the following Vision Statement (further detail is available on our website at www.wyre.gov.uk):</p> <p style="padding-left: 40px;">“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.”</p>
<p>8.3</p>	<p>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.</p>
<p>8.4</p>	<p>Wyre has a strong track record of attracting external investment through successful funding bids and benefactor donations. In the recent Coastal Communities Funding (Five) round the focus has been on joining up our coastline and beginning the journey to establish Fleetwood Market as a key anchor point in Fleetwood’s town centre. This has yielded nearly £800,000 in external funding for the creation of the new Market House Studios, Outdoor Units and Digital Signage. Bids for Heritage Action Zone funding and Future High Street Funding are also in progress and the outcomes are expected in 2020.</p>
<p>8.5</p>	<p>During 2020/21 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</p>

	shape and support this through capital investment.
9.0	USEFUL LINKS
9.1	The following documents can all be found on the Wyre Council website: www.wyre.gov.uk .
9.2	<ul style="list-style-type: none"> • Asset Management Strategy and Action Plan • Business 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	<p>The following appendices are included for information:</p> <ul style="list-style-type: none"> • Appendix 1 – Commercialisation Strategy • Appendix 2a and 2b – Capital Strategy - Long Term Forecast