

Report Number: SWT 47/20

Somerset West and Taunton Council

Full Council – 19 February 2020

Capital, Investment and Treasury Strategies 2020/21 to 2024/25

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: Paul Fitzgerald, Strategic Finance Advisor and S151 Officer

1 Executive Summary / Purpose of the Report

- 1.1 The purpose of this report is to seek approval for the Council's recommended strategies in relation to capital expenditure and financing, investments and treasury management activities.
- 1.2 The strategies were review and supported by the Audit, Governance and Standards Committee on 4 February, and recommended for approval by the Executive on 10 February.

2 Recommendations

- 2.1 Full Council notes that the Executive approved the Treasury Strategy contained within the consolidated report on 10 February 2020.
- 2.2 Full Council approves the Capital and Investment Strategies and Minimum Revenue Provision policy as set out in Appendix A.
- 2.3 Full Council notes and supports the requirement for a review of the Constitution for completeness and further clarity on responsibilities for all aspects of the strategies included within this report.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
Risk: The Council fails to maintain an adequate system of internal control.	2	4	8
Mitigation: The Council has in place suitable arrangements to develop, approve and deliver its Capital, Investment and Treasury strategies through appropriately trained staff and access to specialist treasury and commercial advice.	1	4	4

Risk Scoring Matrix

Likelihood	5	Very Likely	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Feasible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Slight	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Very Unlikely	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic

Impact		
Likelihood of risk occurring	Indicator	Chance of occurrence
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

4 Governance

- 4.1 The approved capital and treasury governance arrangements are set out in the Council's Constitution. These include:
- The Executive has delegated authority to approve the Treasury Management Strategy each year (Financial Procedure Rules – 3.13.2).
 - The Executive is responsible for recommending the Capital Strategy and MRP Policy to Full Council for approval (Financial Procedure Rules – 3.1.10, 3.13.1)
 - The Audit Governance and Standards Committee is responsible for monitoring treasury management performance through a mid-year and year-end report (Financial Procedure Rules – 3.13.5).
- 4.2 Responsibility for monitoring the Capital and Investment Strategies is not specified in the Constitution. It is proposed by the S151 Officer to report capital and investment performance to the Executive. Scrutiny Committee may also request this information as part of its work programme, however in agreement with the Scrutiny Chairman, it is requested the AGS Committee reviews all three strategies within this report for 2020/21. Responsibility for the Investment Strategy is not specified in the Constitution however the S151 Officer views this as intrinsic to the Capital Strategy and therefore follows the same approach for approval and monitoring.
- 4.3 In order to ensure capital, investment and treasury performance reporting is coherent, the S151 Officer proposes to review the reporting arrangements for 2020/21 financial year in consultation with the Corporate Resources Portfolio Holder and the committee Chairs for Scrutiny and Audit Governance and Standards. The Constitution should also be reviewed and updated to ensure it covers this fully.

5 Background

- 5.1 In line with regulatory guidance, the Council is required to produce a Capital Strategy, and Investment Strategy and a Treasury Management Strategy. These are intrinsically linked so, whilst in the past these have been presented to Members as separate reports, they have been pulled together into a consolidated document this year. It is recognised this is a large document but is helpful on this occasion to provide a holistic review of the relevant data and information together with supporting narrative. The report is also expanded to include a number of graphs and charts to hopefully make some of this information more accessible to a wider audience. The S151 Officer proposes to explore future iterations of this report to condense into a single, shorter strategy document. However, feedback during the AGS Committee supports a clear distinction between the Capital/Investment Strategy and the Treasury Management Strategy. This will be discussed with our external auditor to ensure compliance to the relevant regulations is not compromised.

- 5.2 The strategies were review and supported by the AGS Committee on 4 February. Feedback from the Committee, which was considered by the Executive on 10 February, is summarised in section 9 below.
- 5.3 The strategies reflect financing implications of the proposed budgets and capital programmes for 2020/21 and medium term forecasts, which are to be presented to the Scrutiny Committee on 5 February, Executive on 10 February and Full Council on 19 February.
- 5.4 The document aims to set out clearly the projected capital expenditure and funding requirements, and considers the treasury management implications for raising and servicing the financing of this and the prudent management of investment and borrowing.

6 Links to Corporate Aims / Priorities

- 6.1 The Capital, Investment and Treasury Management strategies support the delivery of the Corporate Aims.

7 Finance / Resource Implications

- 7.1 Any financial / resource implications are contained within the Appendix to this covering report.

8 Legal Implications, Environmental Impact Implications, Safeguarding and/or Community Safety Implications, Equality and Diversity Implications, Social Value Implications, Partnership Implications, Health and Wellbeing Implications, Asset Management Implications, Data Protection Implications and Consultation Implications

- 8.1 None in respect of this report.

9 Audit Governance and Standards Committee Comments

- 9.1 The AGS Committee reviewed the draft report on 4 February, with comments and recommendations from the Committee provided to the Executive on 10 February as summarised below.

9.2 Discussion points and comments

- Members drew attention to the differences between the early draft report deferred by the Committee on 13 January and the final report. The S151 Officer clarified the report has updated since 13 January with the latest available information (e.g. the recommended HRA Business Plan).
- Members requested the governance structure chart for commercial investment decisions was included in the final report. This is now included.

- Members requested that tables in the report should avoid wrapping over two pages if possible. The formatting in the final document has been updated.
- Members queried on the risks of borrowing when income was less predictable. The S151 Officer confirmed he is comfortable that the planned growth of the Council's capital expenditure in the medium term is based on viable plans but confirmed the risk that delivering planned income targets is important to ensure servicing that debt remains affordable.
- Members sought clarification about the recent PWLB rate raise and whether other sources of borrowing would be used. The S151 Officer clarified the advantages of PWLB and outlined alternative sources of borrowing such as other local authorities, banks, or capital markets (mainly pension/insurance funds)
- Members asked whether the Council has a dedicated team of officers that were looking at further grant opportunities such as the High St Fund. The S151 Officer confirmed that various officers across the Council pursue grant finding opportunities, albeit not structured as one single team.
- The S151 Officer confirmed a new accounting standard for leases applies from the 2020/21 accounts, with significant work required and planned to analyse the implications. An update will be provided to Members in the mid-year report.
- Members discussed concerns around investments making a profit and whether tax implications had been considered. The S151 Officer confirmed that local authorities are not exposed to capital gains tax and holding properties for rental income, and legal advice had been obtained confirming holding investment properties is within the Council's legal powers.
- Members noted that CIPFA and MHCLG are concerned about borrowing for investment purposes and that any such activity should be proportionate.
- The Committee noted the requirement for the Constitution to be reviewed for completeness and further clarity on responsibilities for all aspects of the strategies included within the report.

9.3 Recommendations from the AGS Committee to the Executive on 10 February:

- a) Recommended that the Council obtains specific tax advice as to whether all of, or some of, the investments the Council makes should be operated via a Local Authority Trading Company (LATC), and thus be subject to corporate taxes.

The Executive noted the feedback from the AGS Committee, and were assured by the S151 Officer that relevant advice had been taken in the preparation of the commercial strategy that was submitted for approval by Full Council in December 2019. In addition, if there is requirement and business case to consider managing any investment in future via an LATC then appropriate advice would be obtained to inform a business case, business plan and any recommendations to Council in this regard.

- b) Recommended that South West Audit Partnership's (SWAP) 'financial strategy team' be appointed to help review the Financial Strategy's Governance and work with the Council on an ongoing basis as required.

The S151 Officer has discussed with the SWAP Assistant Director. A review by internal audit of the approved commercial investment governance is currently underway in line with this year's Audit Plan and if any significant matters arise these will be reported to the AGS Committee; and a review of implementation and progress of the strategy and decision process will be included in the recommended Audit Plan for 2020/21.

- c) Recommended that a clear distinction is made between the Treasury Strategy and Capital Strategy for the benefit of members and the public.

These elements are distinct sections within the report already, however officers will consider how the different elements can be clear and visible in the publication of the strategies on the Council's website, and in future reporting to Members.

- d) Recommended that a clear distinction is made in future reporting between income generating investment and capital investments made to obtain service and social value.

Performance in these areas will be clearly reported so that Members can monitor and clearly distinguish performance of service related capital projects and capital investment for income generation.

Democratic Path:

- **Audit, Governance and Standards Committee – 4 February 2020**
- **Executive – 10 February 2020**
- **Full Council – 19 February 2020**

Reporting Frequency: Annually

List of Appendices

Appendix A	Capital, Investment and Treasury Strategies 2020/21 to 2024/25
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