Appendix 1

Capital Strategy 2021/22 – 2030/31

Contents

1 Introduction

The council's capital strategy represents its approach to future investment in achieving its agreed objectives, whilst having regard to governance and its limited financial resources available. The council has a significant capital investment programme for the period from 2021/22 to 2026/27, whilst facing a number of competing demands on finite resources. To achieve its' aims and objectives the council seeks to work with partners who share its ambitions for improved outcomes for all its residents and will introduce a capital investment programme that will facilitate its key objectives.

2 Purpose

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with long-term objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

The Capital Strategy will be a key document for the Council and will form part of the authority's integrated revenue, capital and balance sheet planning. It will provide a high-level overview of how capital expenditure; capital financing and treasury management activity contribute to the provision of services. It will also provide an overview of how associated risk is managed and the implications for future financial sustainability. It will include an overview of the governance processes for developing proposals, approval and monitoring of capital expenditure.

3 Scope

This Capital Strategy will include all capital expenditure and capital investment decisions, not only as an individual local authority but also any entered into under joint arrangements. It sets out the long-term context in which decisions are made with reference to the life of the projects/assets and will stress the need for evidence-based decision making.

4 Capital Expenditure

Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, vehicles. This contrasts with revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.

The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included would be any commercial investments.

5 Delivery and Commercial Investments

These are investments for policy reasons outside of normal treasury management activity. These may include:

5.1 Delivery investments

These are investments held clearly and explicitly in the course of the provision, and for the purposes, of operational delivery, including regeneration.

5.2 Commercial investments

These are investments taken for mainly financial reasons. These may include:

1. 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;
2. investments explicitly taken with the aim of making a financial surplus for the Council.

Commercial investments also include fixed assets which are held primarily for financial benefit, such as investment properties.

Due to the nature of the assets or for valid investment reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported.

The Section 151 Officer/Interim Head of Finance will ensure that the Council has the appropriate legal powers to undertake such investments and will also ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

6 Due Diligence

For all capital investments, it is proposed that the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered.

The process and procedures will include effective scrutiny of proposed investments that will, for example, consider:

- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;

- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary independent and expert advice will be sought.

The Section 151 Officer/Interim Head of Finance will ensure that members are adequately informed and understand the risk exposures being taken. Internal control and policy compliance will regularly be assessed by Joint Audit and Governance Committee.

7 Council Objectives

The Council has a set of corporate aims, priorities and objectives which shapes the provision of services. These are set out in the Corporate Plan. Capital investment projects if, and when undertaken, must be in line with these overall objectives and considered in the longer term.

8 The Capital Budget Setting Process

8.1 Key Criteria for Strategy

For any budget setting year, the key criteria by which proposals would be considered will be set. These may include for example:

- Maintenance of the essential infrastructure of the organisation;
- Essential Health and Safety works;
- Essential rolling programmes;
- Invest to save schemes;
- Match funded investment for regeneration projects;
- The outcome of feasibility studies.

8.2 Deciding which Schemes are to be put forward for review

When decisions on capital projects to be put forward are made it is proposed that consideration is given to the following:

Prudence:

- Recognition of the ability to prioritise and refocus following changes to the Council's Corporate Plan;
- Recognition of the capacity in the organisation to deliver such a programme;
- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;

- The approach to commercial activities including ensuring effective due diligence, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk is set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the Medium Term Financial Plan;
- The borrowing position of the Council as required, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limits and operational boundaries;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- An overview of asset management planning including maintenance requirements and planned disposals;
- A long-term view of capital expenditure plans, where long term is defined by the financing strategy of and risks faced with reference to the life of the project/assets;
- If the need to borrow is approved provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy and consideration by Joint Audit and Governance Committee of the impact on the repayment on future viability.

All proposals would be produced in line with the Corporate Delivery Framework which will ensure the above points on prudence, affordability and sustainability are considered.

Sources of funding would be considered for each of the proposed capital schemes. Each project would be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and how the asset would be funded in terms of capital expenditure. This is known as whole life budgeting.

8.3 Prioritisation of Schemes put forward

A system for prioritising capital projects will be adopted where funds allow.

8.4 Options Appraisals and Feasibility Studies

As part of the process of producing a list of potential schemes the capital programme option appraisals will be required to determine the most cost effective and best service delivery options.

Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset will be calculated.

8.5 In Year Opportunities

Schemes which arise during the year will only be considered for inclusion in the capital programme if they meet key criteria set out in section 8.1 or one or more of the following criteria:

- The location of the property to be purchased will bring added value to the estate;
- The requirement for the asset is an extraordinary service demand which could not be anticipated in the normal planning processes.

8.6 Member Approval Process

As part of the annual budget cycle.

9 Monitoring of the Capital Programme Expenditure

The Capital Budget Monitoring Report is currently produced periodically, listing provisional and approved capital schemes, giving details of the project manager, budgets, year to date spend, brought forward spend and capital financing.

The report is sent to budget managers of each department for comment and reports are returned to Finance Team for incorporating into the Capital Budget Monitoring Report that is sent to the Strategic Management Team for review to ensure schemes are on target. Summaries are presented to formal Cabinet meetings for consideration.

When the capital schemes are completed a full evaluation report will be made available.

10 Multi-Year Schemes

Payments for capital schemes often occur over many years, depending on the size and complexity of the project. Estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is known as a cash flow projection and is key to analysing funding requirements.

The length of the planning period is defined by the financing strategy and the risks faced with reference to the life of the project/assets. For example, some schemes may span two or three years whereas others may be over much longer timeframes.

This allows greater integration of the revenue budget and capital programme and matches the time requirement for scheme planning and implementation since schemes have a considerable initial development phase.

11 Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding capital expenditure and investment.

11.1 External Funding

The Council will seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government.

Prior to submitting proposals for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed.

11.2 Capital Receipts

A capital receipt is an amount of money which is received from the sale of an asset. In most cases they cannot be spent on revenue items. However, capital receipts maybe spend on certain projects as defined in the Statutory Guidance on the Flexible Use of Capital Receipts (updated) March 2016 by Department for Communities and Local Government.

11.3 Flexible Use of Capital Receipts

The Council will adopt a strategy on the flexible use of capital receipts as detailed in Annex A of this report.

11.4 Prudential/Unsupported Borrowing

Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. This borrowing may also be referred to as Prudential Borrowing.

Section 151 Officer/Interim Head of Finance will make an assessment of the overall prudence, affordability and sustainability of the total borrowing which is reviewed by the Joint Audit and Governance Committee before approval by the Council. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The view of the Section 151 Officer/Interim Head of Finance will be fed into the corporate budget process so that, should the required borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing.

Section 151 Officer/Interim Head of Finance will also determine whether the borrowing should be from internal resources, or whether to enter external borrowing.

11.5 Invest to Save Schemes

Occasionally projects arise which require set-up costs. Such projects may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis.

For 'invest to save' schemes it is expected that in the longer term these schemes will produce savings and/or additional income that will support the revenue budget.

11.6 Leasing

Section 151 Officer/Interim Head of Finance may enter into finance leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources will be made, and the Section 151 Officer/Interim Head of Finance will ascertain that leasing provides the best value for money method of funding the scheme.

Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

12 Procurement and Value for Money

Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.

The Councils' procurement team helps to ensure value for money and to identify where efficiency savings can be achieved. This also covers capital procurement.

It is essential that all procurement activities comply with procurement legislation and adhere to the relevant requirements. Guidance on this can be sought from the Procurement team. Procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations.

The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality and ensure all expenditure is appropriate.

13 Performance Management

Clear measurable outcomes will be developed for each capital scheme. After the scheme has been completed, a review can be undertaken.

Reviews will look at the effectiveness of the whole project in terms of operational delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

14 Risk Management

To manage risk effectively, the risks associated with each capital project will be identified, analysed, and monitored.

It is important to identify the appetite for risk (see below) by each scheme and for the capital programme, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

Section 151 Officer/Interim Head of Finance will explicitly identify the affordability and risk associated with the Capital Strategy. Where appropriate they will consider specialised advice to assist in decision making.

An assessment of risk will therefore be built into every capital project and major risks recorded in a Risk Register, before consideration by Council.

Annex A

Strategy for Flexible use of Capital Receipts

Purpose

1. This report reviews the statutory guidance on the flexible use of Capital Receipts and its application within this Council.

Background

2. Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure but the use of capital receipts to support revenue expenditure is not permitted by these regulations.

3. The Secretary of State is empowered to issue Directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under these Regulations.

4. The Secretary of State for Communities and Local Government has issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts can be used to finance expenditure. This Direction allows for the following expenditure to be treated as capital,

"expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners."

5. In order to comply with this Direction, the Council must consider the Statutory Guidance issued by the Secretary of State. This Guidance requires authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy with the initial strategy being effective from 1st April 2016 with future Strategies included within future Annual Budget documents.

6. There is no prescribed format for the Strategy, the underlying principle is to support local authorities to deliver more efficient and sustainable services by extending the use of capital receipts to support the revenue costs of reform projects.

7. The Statutory Guidance for the Flexible Use of Capital Receipts Strategy states that the Strategy should include a list of each project which plans to make use of the capital receipts flexibility. The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators.

Flexible Use of Capital Receipts Strategy

8. Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is:

"Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility."

9. The Council's intends to use the following use of capital receipts to fund the following transformation projects:

Project Description	**2020/21 £000**	**2021/22 £000**
Costs of transformation activity as outlined in the budget setting report for 2020/21	250	250
Total	**250**	**250**

11. The Council will revisit the use of capital receipts to fund projects during the financial year if further opportunities arise for consideration.

Impact on Prudential Indicators

12. The guidance requires that the impact on the Council's Prudential Indicators should be considered when preparing a Flexible Use of Capital Receipts Strategy.

13. The key indicator that is impacted by this strategy is the "Estimates of Capital Expenditure Indicator", which will increase by £500,000 over the two financial years.