



Westmorland
& Furness
Council

Capital Strategy

2024-2029



**‘Effectively using our
Capital resources to
deliver our Council Plan
vision and values’**



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Introduction

The 2017 edition of the Prudential Code for Capital Finance in Local Authorities (the Code) introduced the requirement for authorities to produce a Capital Strategy. The 2021 edition of the Code states:

“In order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes”.

The purpose of this Capital Strategy is to set out how Westmorland and Furness Council proposes to deploy its capital resources effectively to achieve its corporate and service objectives. It determines the process for retaining and maintaining properties in the asset base and how capital projects are included in the Capital Programme in a rational and objective manner to support delivery of the Council Plan vision.

The Capital Strategy is key to supporting the long term investment decisions made by the Council and enabling the delivery of the Council's ambitions. It is a key strategy document and forms part of the Council's revenue, capital, balance sheet and reserves planning. It provides:

- A long-term view of capital expenditure plans and any financial risks to which the Council is exposed;
- Ensures due regard to the long-term financing, affordability implications, potential risks and the implications for future financial sustainability.

The Capital Strategy takes into account other relevant Council strategies and policies as well as the views of partners and interested parties with whom the Council is involved. It is important that the Capital Strategy is driven by the latest thinking in relation to the range of policies, plans and strategies that the Council is developing. As a new Council there are a significant number of strategies that are being developed and approved and the Capital Strategy will respond to those.

As background, under Government proposals, local government in the County of Cumbria was reorganised and from 1 April 2023 two unitary councils – Westmorland and Furness Council and Cumberland Council replaced Cumbria County Council and incorporated the relevant District Councils. For Westmorland and Furness this included Barrow Borough Council, South Lakeland District Council and Eden District Council.

For the financial year 2023/24 the focus of the Capital Strategy was to bring together the four previous Capital Programmes and assets and work through a programme of project assurance and establish a baseline position. A separate Capital Strategy was not presented to Cabinet or Council but the Medium Term Financial Plan 2023–2028 (approved by the Shadow Council in March 2023) presented the approach to developing and delivering a 5 year fully funded Capital Programme.

This Capital Strategy for the year 2024/25 is therefore the first formal Capital Strategy for Westmorland and Furness Council. It serves as a useful point of reference when determining or reviewing the Council's Capital Five Year Spending Plan (known as the Capital Programme).

The Council has also developed a Strategic Asset Management strategy which provides an overview of the Council's land and property estate, together with the main priorities for managing and developing the estate over the next five years. This includes an asset management Vision document which sets out the overall principles that the Council will adopt to manage its land and buildings portfolio within the context of the Council Plan priorities and vision. (See Appendix 1).

The Council also has Housing Revenue Account dwellings with day to day maintenance and plans for improvement incorporated into the HRA business plan.

The Council has chosen to report the Capital Strategy separately from the Treasury Management Strategy Statement (TMSS) which was approved by full Council on the 22 February 2024. The Council will report treasury investments through the TMSS only and non-treasury investments will be reported through the Capital Strategy. This allows the core treasury investment reporting to focus on security, liquidity and yield principles, and the non-treasury investments, both service and commercial, to concentrate on capital expenditure in relation to assets.



What is Capital

Capital also includes the ongoing investment in new assets and the enhancement and maintenance of our assets that are included in the capital programme. New investment opportunities with associated business cases are also being developed for future inclusion in the capital programme. In respect of physical assets the strategy also covers the repurposing and rationalisation of the capital assets. In respect of this strategy the definition excludes financial assets and financial investments as they are covered by the Treasury Management Strategy.

To help define capital it is worth noting that all council expenditure is defined as revenue unless it is proven to be capital and that there are three defined 'routes' for qualification as capital. These are:

- Spending which meets the recognition criteria specified under 'proper accounting practices';
- Spending which meets a definition specified in regulations made under the Local Government Act 2003; and
- The Secretary of State makes a direction that the spending can be treated as capital expenditure.

The 2024-2029 Capital Programme for Westmorland and Furness Council is based upon the aggregation of the three sovereign District Councils Capital Programmes, the disaggregation of the County Council Capital Programme, and schemes that have been approved and also removed during 2023/24 by Westmorland and Furness Council. A significant amount of due diligence and quality assurance work was undertaken in 2023/24 and the updated Capital Programme approved by Council in February 2024 supports investment to meet the Council Plan priorities.

The Capital Programme is fully funded and the effect of the cost of investment on the Council's revenue budget are built into the Medium Term Financial Plan as revenue contributions, the use of earmarked reserves, and the costs of borrowing. The external grants and contributions used to finance the Capital Programme do not impact the Council's net revenue budget.

In addition the impact of the need to continue to invest and maintain our existing asset base from a safe and legal, and wind and watertight, perspective is also reflected in the resources (both revenue and capital) available in the 2024-2029 budget. For some assets specific external grants are available but for the majority it is Council funding (prudential borrowing, revenue funding, capital receipts) that needs to be agreed and prioritised to support this investment.

For 2023/24 only the Council received Exceptional Financial Support from Government in the form of a Capitalisation Directive. This was in recognition of the Local Government Reorganisation process and the financial impact that it had in respect of additional financial pressures from the disaggregation of the County Council services, ongoing service pressures and investment in Integration and improvement activities. Overall the estimated capitalisation cost is £21m. These costs will be capitalised at the year end and capital funding used to fund the costs. The revenue consequences of this have been included in the Medium Term Financial Plan.

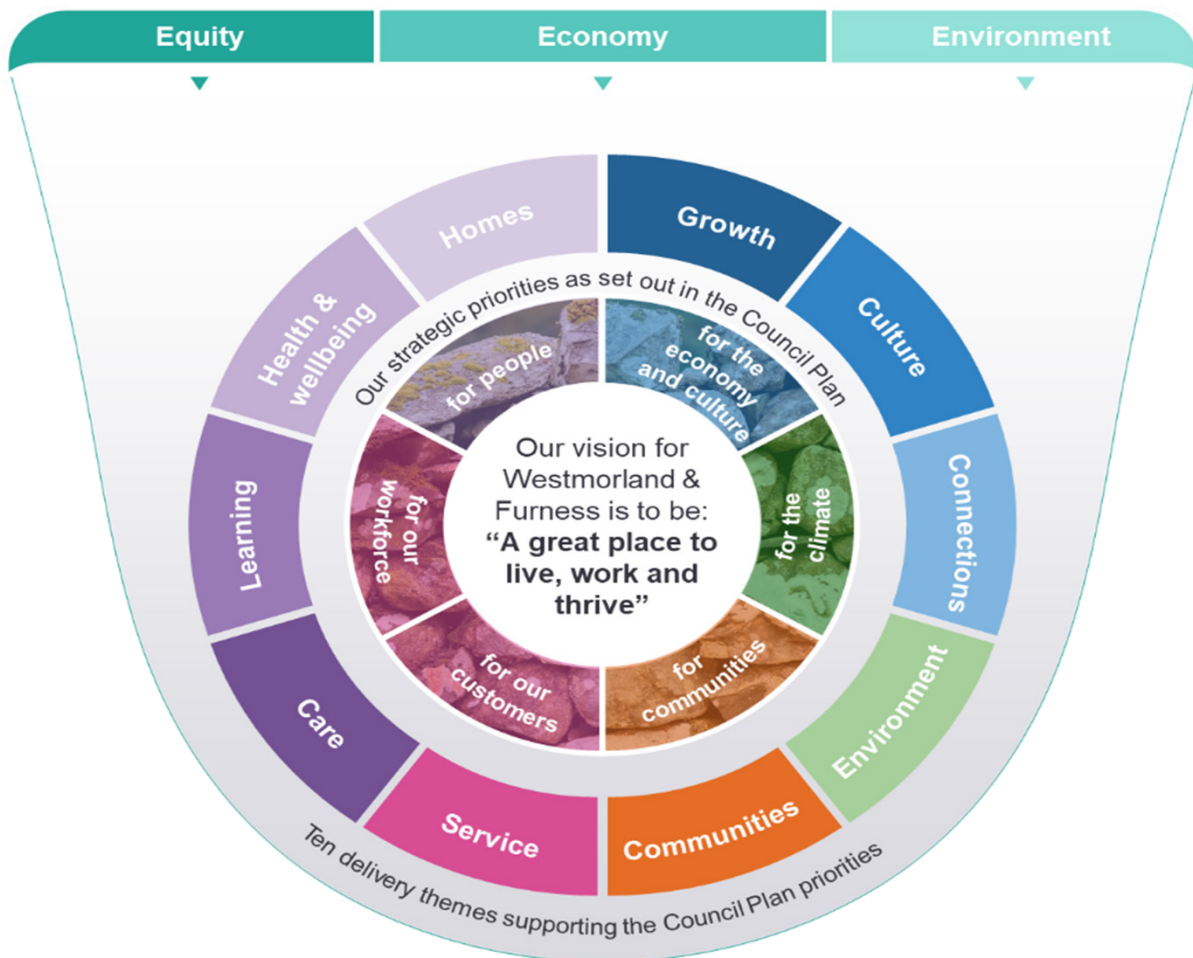
Council Vision, Priorities and Values

The Council's ambitions, objectives and priorities are shown within the Council Plan and Delivery Framework. It provides the basis for all that we do and sets out the principles, priorities and ambitions for the Council and values for the Council. It drives the Capital Strategy that supports informed decision making including establishing the need for capital investment and the required outcomes from that investment.

The Council's vision is

Our vision:

Our vision for Westmorland and Furness is to be:
“A great place to live, work and thrive.”



A great place to live

Local and community leadership enabling a voice for all

Housing for all making best use of previously used land and existing buildings

Empowered places – towns and countryside

Welcoming, proud and resilient communities

A green and biodiverse environment

Opportunities for children and young people to live healthy, happy lives;

Support for those that need it, when they need it

A great place to thrive

Opportunities for jobs, learning, skills and enterprise

A sustainable, inclusive, diverse, economy

A growing work force and high quality jobs

Support to encourage business creation

Improved infrastructure and connectivity

For communities

Opportunities for education, health, and wellbeing

Excellent walking and cycling routes

A great and diverse visitor offer in our towns and countryside

Thriving cultural economy

Support for all to start well, live well and age well

Holistic early intervention to support people in need

Our priorities:

For people

Supporting active, healthy happy lives for young and old.

Supporting people in need and reducing inequality.

For the climate

Providing leadership in the drive to become carbon net zero.

For communities

Confident, empowered, resilient communities.

For the economy and culture

Sustainable, inclusive, economic growth.

For our customers

At the heart of everything we do.

For our workforce

Confident, empowered and inclusive workforce.

The Council's Vision and Priorities should be read in conjunction with the Delivery Framework (see Annex 2). Also, the Delivery Framework Target Operating Model below:

Target Operating Model – Our framework for change

Community focus



We will focus on early intervention and prevention, working with individuals, community groups, parish and town councils, the voluntary sector and partners to reduce need for our services and improve health and wellbeing.

Easy access



Services will be user friendly, caring and accessible through multiple channels. Wherever possible services will be available and delivered digitally, reducing demand for phone and in-person interaction so those resources can be focused to those most in need.

Effective services



Services are outcome focused and maximise use of technology to drive efficiency and effectiveness. Service delivery is citizen centred and seamless between services and partner organisations.

Enabling Processes



Internal processes and functions are designed to support a seamless end-to-end experience. Improvement and change is supported by key enabling functions including HR, Legal, PMO etc working closely with service delivery teams.

Supporting Technology



'Fit for purpose' technology across the Council that supports the delivery of services, promotes digital ways of working, and enables organisational efficiency.

The first edition of the Council Plan Delivery Framework (the Framework) was adopted by Full Council in September 2023, with agreement that it be updated annually. The Framework sets the strategic direction for the organisation and explains how the Council will facilitate improved outcomes for residents, communities and businesses, identifying specific activities and deliverables each year, and setting out how the Council will use its convening powers through collaborative partnership working to facilitate the delivery of these outcomes. The Framework has been updated and the 2024/25 edition was agreed by Cabinet on the 30 April 2024.

Capital Investment

Capital investment shapes the future. It can act as a catalyst and enabler for change and it can also act as an important driver for economic growth - stimulating regeneration and construction and improving the quality of life for our residents.

The Council is committed to meeting the challenges of the climate and biodiversity crisis by reducing its own carbon footprint and through supporting the development and implementation of projects that promote climate and nature change mitigation and sustainability. The Council has approved a Carbon Management Strategy and is developing a Sustainable Buildings Strategy.

Following the recent approval of the People Plan (Workforce Strategy) and Customer Strategy there are additional considerations around the provision of digital services to customer groups and for Council staff that should reduce the reliance on operational land and property assets.

The Council has a priority to support delivery of housing to meet the needs of the local population to respond to the vision of a great place to work. Allied to the housing development is the wider regeneration of the area to make it a great place to thrive. Connectivity including highways, transport and digital infrastructure will be key.

With a challenging financial environment for the foreseeable future, it will be important to focus the Council's limited capital resources on strategic priorities and those projects which generate a return on investment. This can be both financial and non-financial benefits as the Council continues to develop its community power and social value approach to supporting service delivery.

The Capital Programme is in three parts- Maintaining and improving existing assets and statutory compliance, Enabling Council Plan outcomes (including Major Projects) and Investing to generate savings and income.

Capital Programme Design



A Capital Programme in 3 Parts

- **Part 1:** Maintaining our existing assets and statutory compliance - covers all our assets
- **Part 2:** As an enabler to achieve our Council Plan outcomes transforming our services and organisation
- **Part 3:** Investing to generate income

In respect of maintaining our assets the Council has approved additional investment into both corporate assets and school assets to ensure that these are safe, legal, and wind and watertight. The Council is developing its “whole life” cost approach with respect to its asset holdings as the understanding of the overall asset base and condition is established.

In respect of achieving the Council plan outcomes the capital programme supports the delivery of the Council Plan Delivery framework missions in specific service areas and also the Council has been successful in leveraging in funding for major projects and programmes from central government including Town Deals funding, Levelling Up Funding, UKSPF, Network North Highways funding, Borderlands and Team Barrow partnership working and LEVI funding and active travel funding. In addition the capital programme supports the net zero and nature and biodiversity ambitions for the Council and supports sustainable and inclusive green growth ambitions.

In respect of investing to generate savings and income the Council has approved a number of capital schemes that ensure that the investment is either self-financing or provides an income stream for the Council in the medium term whilst also delivering on council priorities e.g the solar farm project

The Council's capital investment plans are influenced by a number of external parties and factors including central government and its agencies, legislation requirements for capital works, partner organisations, businesses, developers and by the needs and views of other interested parties, particularly those of the residents and communities.

Wherever possible the Council will seek to work in partnership with others to deliver its capital investment programme in order to provide facilities which meet its own and partners' needs. When working with the partners, the objective will be to maximise the benefits to the Council and the community from any projects, both in terms of outputs and in relation to obtaining funding for the project.

The Government's focus on 'levelling up' across the UK has impacted on the Council's capital plans. The Council has received significant investment through the Levelling Up funded schemes and there is potentially future investment through the Network North transport funding that has been announced.

In addition the recent Team Barrow announcement of an additional £200m investment into Barrow over ten years will include capital investment. As business cases and the delivery plan for Barrow are finalised these schemes will be included, where relevant, in the Council's Capital Programme. It is expected that the Council will take on the Accountable Body role for the majority of this investment but other partners including Health may receive some of the investment directly. This will be agreed and confirmed by the still to be established Barrow Delivery Board.

All of these schemes will support delivery of the Council Plan priorities and have a positive impact on the capital investment plans for the Council.

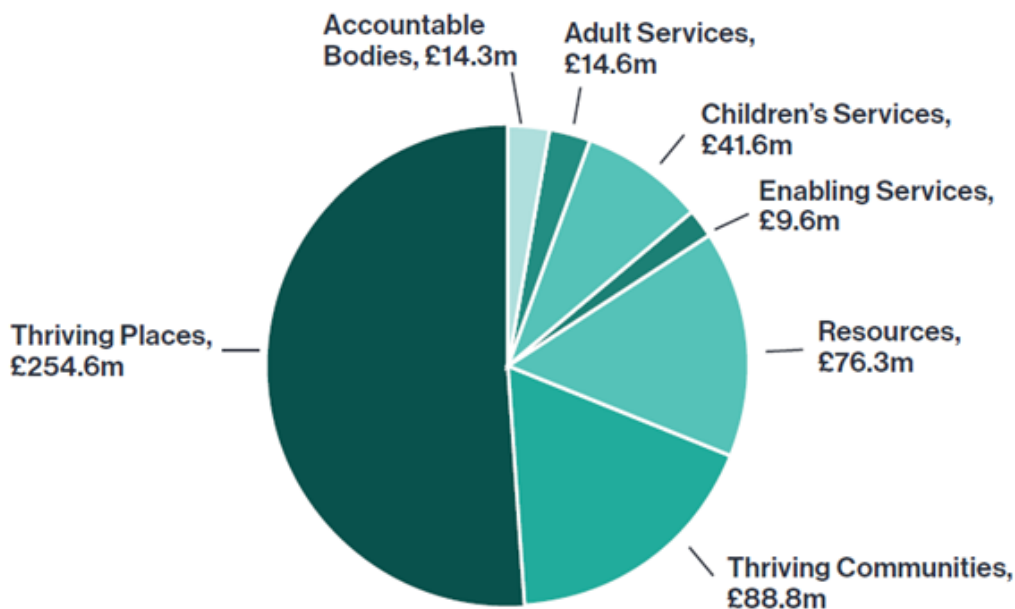
The Council has a responsibility to apply an affordable, prudent and sustainable approach to capital investment, as set out in the Prudential Code and uses a prioritisation and planning process to manage this. Effectively the relationship between the Council Plan, the TMSS, and the Capital Programme can be referred to as the strategic fit.

The Council Plan sets the vision and ambition for the area. Through the Council Plan Delivery Framework the priorities and objectives provide focused proposals for investment. Investment is then assessed through the approach determined in the Capital Strategy, and financing is considered through the financing availability determined in the TMSS. The strategic fit represents how well the Council is connected from identifying needs through to delivery, and how capabilities and resources are directed to take advantage of opportunities and maximise outcomes. An optimum strategic fit reflects not only the Council's plans, but also the local government operating environment, customer requirements, and the resilience and future direction of service delivery.

A summary of the Council's capital expenditure plans, the Council's capital expenditure plans are integral to the Capital Strategy.

Total Capital Programme 2023-2029

Directorate	Capital Programme						Total
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	
	£m	£m	£m	£m	£m	£m	£m
Adult Services	2.629	2.023	3.131	3.430	3.431	-	14.644
Childrens Services	7.598	11.183	8.932	6.413	5.735	1.781	41.642
Enabler Services	0.902	1.185	2.505	2.505	2.504	-	9.601
Resources	7.519	14.623	11.268	13.541	19.446	9.946	76.343
Thriving Communities	15.997	27.329	33.347	6.889	5.263	-	88.825
Thriving Places	38.976	42.045	60.364	38.585	37.704	36.900	254.574
Council Total	73.621	98.388	119.547	71.363	74.083	48.627	485.629
Accountable Bodies	2.032	12.119	0.166	-	-	-	14.317
Grand Total	75.653	110.507	119.713	71.363	74.083	48.627	499.946



Non-Treasury Investments

The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These are non-treasury investments and include service and commercial investments.

Non-treasury investment is expenditure made on the purchase of a capital asset and are investments for policy reasons outside normal treasury management activity. It is these non-treasury investments which are the subject of this Capital Strategy.

The Council's Capital Programme has some commercial investments that are primarily held for financial return. These are held as investment assets on the balance sheet and are reviewed annually.

The Council also has a number of investments planned on new non-treasury investments that are not primarily for financial return but do provide an income source and hence are either self-financing or deliver an income stream but that is not the primary purpose of holding that asset. For example the Council is investing in a solar farm which will provide a revenue income source but it is also enabling the achievement of the Council's net zero ambition and increasing the return from available land. The revenue income will support the Council's financial sustainability plans.

Capital expenditure in non-treasury investments can be for a service and/ or a commercial purpose.

Service investments - 'Investments for service purposes' 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.

Characteristics for service investments are:

- Service investments may or may not involve financial returns; however, obtaining those returns will not be the primary purpose of the investment.
- For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.

An example of a service investment is when the Council lends money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. In light of the wider benefits that can arise the Council is prepared to take more risk than with treasury investments. The main risk when making service loans is if the borrower is unable to repay the principal lent and/or the interest due. An example of a service investment without a financial return could be investment in a physical asset not in Council ownership (for example if this were related to housing it could bring nomination rights), or investment in a partner organisation or venture in exchange for a share of ownership to support the advancement of the Council's priorities.

It is important that the Council limits the financial risk, and assessment will be made of the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help and how these needs will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors where appropriate.

To meet service or Council obligations capital investment could be in the form of loans or equity provided to external bodies, Council subsidiaries or joint ventures.

Westmorland and Furness Council have a number of loans that they have inherited from the previous legacy Councils. The position at 31 March 2023 is shown in the table below:

Counterparty	Principal	Maturity	Interest Rate
Enterprise Answers Ltd	£250,000	31/03/2026	Variable*
Eden Housing	£108,592	02/06/2042	5.25%
Eden Housing	£150,574	31/01/2043	5.25%
Eden Housing	£262,400	29/03/2043	5.25%
Barros Trading	£687,298	28/02/2026	Soft Loan 5%
Total	£1,458,864		

*A £0.5m fund, 50% Council funded, for making loans to local businesses for growth and investment plans, where they have struggled to obtain credit from other lenders.

Westmorland and Furness Council is also a 50% shareholder of a jointly Council owned company - Cumbria County Holdings Ltd (CCHL) with Cumberland Council holding the other 50%. CCHL comprises Orian Solutions Ltd which provides soft facilities management services such as catering, cleaning, and maintenance to public and private sector businesses. The Council's investment is valued at cost at £1,591,550.

The Council is the owner of Barrow Forward Limited (BFL) which is a company limited by guarantee with no share capital. BFL operate the Park Leisure Centre in Barrow-in-Furness offering facilities and activities for physical and mental wellbeing for the entire community. The Council pays a management fee to BFL based upon an agreed business plan.

The Council also owns the Heart of Cumbria Ltd which is a company established to increase the housing supply in Penrith. The company is in the process of being dissolved.

Commercial investments – These are investments taken or held primarily for financial return and are not linked to treasury management activity nor are directly part of delivering services.

Characteristics for commercial investments are:

- Non-financial assets such as commercial property is held primarily for financial return.
- For local authorities, investments of this type will usually constitute capital expenditure.
- Commercial' in this context refers to the purpose of the investment

Commercial investments are not taken to meet treasury management cash flow needs, and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily in order to generate net financial return or profit.

The Council has inherited a range of investment property holdings which are all in the Council's area. These investments were taken prior to the revised 2021 Prudential Code and the Governments March 2020 PWLB legislation coming into being.

As part of the 2023/24 accounts closedown process these will be reviewed and where necessary reclassified.

The updated prudential borrowing guidance states that Local Authorities should focus on doing things for the socio-economic benefits for the communities they serve and not for profit / yield. Many of the investment assets do have socio-economic benefits in that they boost the economy and employment in the area and support the Council's community power agenda.

In order to retain access to borrowing from the PWLB the Council is required to certify the capitals plans do not include expenditure on new non-treasury commercial investments primarily for financial return. However, where the capital spending decision is primarily related to the function of the Council and any financial returns are incidental then access is retained.

The Council will annually evaluate whether any of the commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.

The commercial property investment portfolio is also reviewed annually against the risks to the budgeted income and the liquidity requirements of the Council.

As part of the 2023/24 financial year closedown work programme the Council's combined operational (service) and investment (commercial) land and buildings will be identified.

Capital Financing

The Council recognises that achieving its capital ambitions will require consideration of alternative delivery structures and of all forms of funding including additional prudential borrowing.

Affordability is a key determinant of the level of capital investment that is available to the Council. Capital investment funded by borrowing will be undertaken in priority areas to meet capital ambitions subject to at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by a robust capital planning process, due diligence, business cases, risk management and monitoring.

The Council has several funding streams available to support capital investment. The funding of the five-year capital investment programme is detailed below.

Capital Financing Summary

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Grants	49.616	73.131	86.404	42.717	42.765	36.900	331.533
Contributions	4.622	3.255	2.707	1.000	-	-	11.584
Revenue Contribution	5.706	5.929	3.008	2.346	2.707	-	19.696
Capital Receipts	1.148	3.908	5.673	2.007	0.400	-	13.136
Prudential Borrowing	14.531	24.284	21.921	23.293	28.169	11.727	123.925
Other	0.030	-	-	-	0.042	-	0.072
Financing	75.653	110.507	119.713	71.363	74.083	48.627	499.946

The Council policies in relation to financing capital expenditure and investment are covered in this section:



External Funding

Services should 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 bids 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.

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets prior to submitting any bid for funding and follow the governance process identified in the constitution.

Green Finance

Green Finance is a term that is increasingly being used in respect of both grant funding to deliver climate and nature interventions and schemes and investment opportunities to achievement climate and nature outcomes in respect of net zero, biodiversity net gain and wider nature ambitions.

For clarity there are two elements to external Green Finance :

- **Green funding** – which are specific grants that are available from usually Government sources but can be available from other institutions to support 'green' activities.
- **Green investment** – which are investment opportunities that will require a level of rate of return that can be used to invest in 'green' activities to drive through both efficiencies but also impact on climate and nature activities

The Council has already received a significant amount of external green funding through specific grants such as Home Upgrade Grant Phase 2 (HUG2), Borderlands funding assigned to Natural Capital , Local Electric Vehicle Infrastructure (LEVI).

Some of the external funding is revenue and that is included within the relevant directorate's gross budget position. Where the funding is capital and it is being utilised to deliver capital schemes they are already included in the overall financing summary.

The Council recognises that there continues to be significant opportunities to attract external green funding (specific grants) and green financing (investments such as loans/ private sector investors and Pension Fund investors) and that it can also add to that with its own funding sources such as capital receipts/ Prudential borrowing and revenue contributions.

To maximise these opportunities the Council will further develop and coordinate its skills and appetite to ensure robust business case development and bid applications can be produced to ensure Westmorland and Furness can deliver on its ambition to be leading edge in respect of climate net zero ambitions and nature recovery. It will also need to determine its appetite to non-treasury (commercial) investments in order to develop the appropriate mechanisms to deliver on the ambition.

Capital Receipts

A capital receipt is an amount of money received from the sale of an asset. It cannot be spent on revenue items.

A review of the Council's property for disposal is done on a regular basis against the aims and objectives of the Council Plan and Asset Management Strategy. Where an asset is declared surplus to operational requirements it is then managed through the Council's Disposal Policy.

The general policy is that any capital receipts are pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from borrowing, as permitted by the regulations.

Revenue Funding

Services may use their revenue budgets to fund capital expenditure.

The Director of Resources (S151 Officer) will take an overview and decide the most effective and appropriate way of funding capital expenditure.



Prudential 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. The borrowing costs are not supported by the Government so the Council needs to ensure they can fund the repayment costs which consist of the Minimum Revenue Provision and the cost of interest on borrowing. This borrowing may also be referred to as Prudential Borrowing. Within the individual business cases the relevant directorate/ service will determine how they will fund the revenue repayment costs and where agreed this may be funded corporately.

Capital projects that cannot be funded from any other source may be funded from Prudential Borrowing. The costs of borrowing must be affordable and the borrowing repayment and interest charges on the loan must be included in the Council revenue budget; it must also be factored into the Medium-Term Financial Plan accordingly.

The Director of Resources (S151 Officer) is required to make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing is reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code and approved by full Council each year. The Council's authorised borrowing limit and operational borrowing limit are approved as part of the Treasury Management Strategy Statement and set ahead of each financial year.

The Director of Resources (S151 Officer) will also determine whether the borrowing should be from internal resources such as reserves or whether to enter into external borrowing. The Council has external Treasury Management advisors who support the Director to take that decision.

Leasing

The Director of Resources (S151 Officer) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Director must be certain 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 Council's borrowing.

Other Long Term Liabilities – PFI

The Council may enter into PFI agreements on behalf of services. These will be considered following due diligence over the life of the asset, balancing the financial and non-financial benefits against the risks compared to the Council owning and delivering such assets and services itself. The Director of Resources (S151 Officer) must be certain that the PFI arrangement provides the best value for money method of delivering the scheme.

Under the Prudential Code PFI obligations are counted against the overall borrowing levels when looking at the prudence of the Council's borrowing.

Borrowing and the CFR

Where resources are unavailable to fund capital expenditure, borrowing will be used. This will increase what is termed the Council's Capital Financing Requirement (CFR) which is the Council's underlying need to borrow. The Council is required to make a prudent provision for the repayment of historic capital expenditure from its revenue budget in line with its agreed Minimum Revenue Provision (MRP) policy. The MRP reduces the CFR and the prudent provision set aside is used to repay debt. The calculation of the CFR summarised in the diagram below results in the amount the Council will need to borrow:

Movement

Opening CFR

+ Capital expenditure incurred in year

- Grants, contributions, reserves and receipts used for capital expenditure

- Prudent Minimum Revenue Provision and Voluntary Provision

= Closing CFR

The amount of borrowing a Council can take is determined by what the Council can afford, along with ensuring it is prudent and sustainable. In accordance with the Prudential Code, the Council will only make capital investments, which increase the CFR, for a prudent purpose where this directly and primarily relates to the functions of the Council. Affordability and prudence are assessed and controlled by the prudential indicators which are recorded in the TMSS.

Revenue Implications

The revenue costs associated with capital schemes need to be identified and included within the revenue budget and the Medium-Term Financial Plan. For example, a housing development project is likely to have revenue budget implications e.g., additional street lighting, waste disposal, schooling provision or other Council services. It is recognised that the Council cannot afford to do everything. However, where revenue resources are deemed available to increase the level of Council borrowing capital investment will be considered.

The Council's approach to affordability of its capital financing budgets in the medium term is as follows:

- General Fund – additional investment funded by borrowing over the medium term to be minimised.
- Housing Revenue Account – the capital programme includes planned maintenance for the HRA housing to ensure compliance with the Decent Homes standard.
- Strategic and major development projects – on a case-by-case basis subject to approved business cases and due diligence including the long-term capital financing costs.

Affordability Indicators

Prudential and treasury indicators are used to manage capital investments, take a longer-term view of affordability, prudence and sustainability and are included in the TMSS at the start of every financial year. Prudential Indicators are used to assess affordability, along with other treasury management specific indicators and are approved within the TMSS and monitored on a half yearly basis in the Revenue and Capital Budget Monitoring and Outturn report to Cabinet and Council.

External Borrowing

The Council is typically cash rich in the short-term as revenue income is received before it is spent, this can include both working capital and reserves held on the Balance Sheet. The TMSS uses forecast cashflow information from the Reserves Strategy and the Capital Plan to make decisions around the amount, timing and duration of any new external borrowing required by the Council.

In terms of the Reserves Strategy, the Council uses a risk-assessed General Fund Reserve and effectively manages the balances of earmarked reserves over the longer term which is used to support the forward Balance Sheet projection. This projection provides a valuable foundation for the strategic financial planning of capital financing costs for the capital investment plan.

In terms of the Borrowing Strategy, the Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future.

These objectives are often conflicting, and the Council therefore seeks to strike a balance between financing using the low-cost internal cash resources available in the short term and further long-term fixed rate loans where the future cost is known.



Risk Management and Monitoring

Risk management overview - Clear criteria for both investment decisions and the ongoing risk management of the non-treasury investment portfolios is vital not only for the risks of individual investments but also the cumulative impact of all the investments made by the Council and the interaction of individual risks.

The Financial Sustainability Board will review all commercial investments for the Council and will have oversight of the financial risks that the Council faces and the specific risks linked to non-treasury investment decisions.

All potential non-treasury investment decisions will include an appropriate risk assessments and undertake the appropriate due diligence and establish the risk appetite relevant to the Council's financial position.

Risk appetite - It is important to identify the appetite for risk by each scheme as well as for the Capital Programme as a whole.

In determining the Council's risk appetite in respect of non-treasury investments, for commercial or service purposes, including financial assets and property investments, indicators and limits can be used to establish the parameters of an acceptable level of risk of which can then be managed and monitored. This can focus on the impact of the downside risk so that the overall sustainability of the Council is considered.



Governance

Consideration, approval and monitoring of the capital programme takes place as part of the Council's strategic planning and budget setting process and regular in year monitoring reports.

The Capital programme sets out the Council's longer term capital investment plans. These plans support the Council's strategic and service objectives by maximising the assets and infrastructure necessary to support service delivery whilst minimising the impact on the revenue budget.

The five year Capital programme is approved by Council before the start of each financial year. The Council's Financial Procedure Rules empower the Cabinet and Council to modify the Capital programme during the year through the Revenue and Capital Budget Monitoring quarterly reports which are reported to Corporate Management Team, Finance Portfolio Holder, Cabinet Briefing and Pre Agenda meetings and then Cabinet and if required Council. Where urgent changes are needed or a significant change or addition to a scheme is proposed then individual Cabinet / Council reports are presented.

The capital programme includes a huge variety of schemes many of which are very complex in their delivery and require effective contract procurement and management to deliver. Monitoring of the overall capital programme is essential to ensure that the risks of delay, overspend and accelerated spend are understood and that the deliverability of the overall programme but also the annual estimated spend is constantly reviewed. Formally this is reviewed as part of the quarterly reporting to Cabinet and Council with the SRO's and capital and finance teams reviewing the progress and deliverability more frequently. It is important that it is the impact on service delivery and acting as a catalyst and enabler for change across the full Council's activities that is understood and not focused to specifically on individual schemes.

The Council's Financial Procedure Rules provide a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Programme. In addition the Capital Delivery Group reviews the appropriate business case at the various stages of development and ensures that the required authorisations for individual schemes to proceed are followed.

The CDG has set out a series of review stages which incorporate the Council's own project gateway review process, the Infrastructure and Projects Authority gate review process and the National Highways and RIBA project stages. This includes reference to business cases and dovetails well with the HMT Better Business Case approach.

The outputs of the CDG process gets reported to DMT's and CMT by exception and informs the quarterly capital monitoring reports.

In relation to individual programmes and project governance there are Senior Responsible Officers (SROs) appointed for each scheme within the Capital Programme. Their responsibilities have been clarified and they are supported by the Council's Capital Programme team to deliver the schemes.

The Council also has a Funding and Programme Assurance Group which oversees the monitoring of the external funded capital schemes to ensure that the regular Government monitoring and assurance reports are evidenced and accurate and reflect the latest position with the schemes. It also reviews the 'top 15' significant programmes/ projects that as a Council we have identified as needing additional review and monitoring. The relevant Senior Responsible Officers for those programmes attend along with the relevant statutory officers and AD for capital programme, assets and fleet. It is chaired by the Director of Resources (sct 151 officer).

Where the Council has issued financial guarantees, it will periodically reassess the probability of financial guarantees being called upon and include this in the risk management reporting with mitigating actions as appropriate.

In-year opportunities for new investment are put forward for approval into the Capital Programme in a managed way either when the Capital Programme is reviewed each quarter or they are proposed to Cabinet and Council through individual reports. The Council's Financial Procedure Rules determine that capital schemes cannot be included within the Capital Programme unless a full business case has been approved.

The Council has inherited business case approaches from all of the legacy Councils. Previously there has been a reliance on external consultants to develop business cases often using their templates and approaches. The legacy Councils have also used grant application processes as a business case. Business cases are best seen as "living documents" and a significant amount of work has been undertaken to quality assure the previous inherited business cases and update them where required.

Going forward, the Council will ensure that business cases are driven by service needs / service users to allow for further focus on the why or what. Business cases provide a decision-making framework and a way of documenting the decisions. By having a range of professions work in a collaborative manner strengthens the development of the business case.

Importantly business cases are seen as living documents. It is important to track the benefits, costs and risks across the term of the project / contract.

With respect to the development of business cases and programme and project management the Council will need to continue to build capacity and capability.



The Council is reviewing its approach against the HM Treasury Better Business Case approach which includes a five-case model covering strategic, economic, commercial, financial and management. Under this approach programme, projects, business cases, spending proposals need to be firmly grounded in the strategic context.

The HM Treasury Better Business Case approach, supported by the Green Book looks at a decision through five distinct “lenses” (cases) starting with strategic case and the link to a public body’s strategy. The options appraisal is progressed in the economic case and focuses on optimal public value (based on an assessment of socio-economic benefits, in line with the Green Book guidance). Having through the options appraisal selected the “preferred way forward” and then the “preferred options”, work is progressed on the commercial case, financial case (affordability) and the management case (deliverability) in an iterative fashion.



The Council will continue to develop and standardise where possible its approach to business case development and ensure that the five case model is adopted as an overall approach.

Skills and Training

Skills and training - All capital investment approvals are subject to robust consideration and challenge by members and officers from across the Council with extensive Local Government experience from varying professional backgrounds.

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council requires finance staff to maintain relevant professional qualifications including CIPFA and AAT. All officers attend courses on an ongoing basis to keep abreast of new developments and skills to ensure their Continuous Professional Development. Members are also offered training regularly to ensure they have up to date skills and are able to make capital and treasury decisions.

Where Council staff do not have the specialist knowledge and skills required, use is made of external advisers and consultants that are experts in their field. The Council currently employs Link Group as treasury management advisers. This approach is more cost effective than employing such staff whilst ensuring that the Council has access to knowledge and skills commensurate with its risk appetite.



Appendix 1

Our mission is to provide a land and property portfolio which....

1. Is managed corporately to support the Council's Vision (Great place to live, work, thrive)
To adopt a 'Corporate Landlord' approach in order to plan and manage property as a corporate resource
2. Ensures value for money
To manage and maintain property effectively and efficiently together with optimising financial return where appropriate
3. Demonstrates our commitment in the drive to become carbon net zero, protect and enhance the natural environment
To regularly challenge our estate to ensure our facilities are in the right place with good design, meeting current need and ready to support future service delivery
4. Provides the right property, fit for purpose, in the right place both now and in the future
To regularly challenge our estate to ensure our facilities are in the right place with good design, meeting current need and ready to support future service delivery
5. Supports inclusive and green growth
To use land and building to stimulate development and growth together with supporting green and inclusive growth encouraging new business to the area and supporting existing employers
6. Promotes community empowerment and proactive working with partners for the benefit of our area
To promote joint working with other public sector organisations, businesses and our communities in support of the councils aims and objectives



Translation Services

If you require this document in another format (e.g. CD, Braille or large type) or in another language, please telephone: **0300 373 3300**.

للوصول إلى هذه المعلومات بلغتك، يرجى الاتصال 0300 373 3300

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