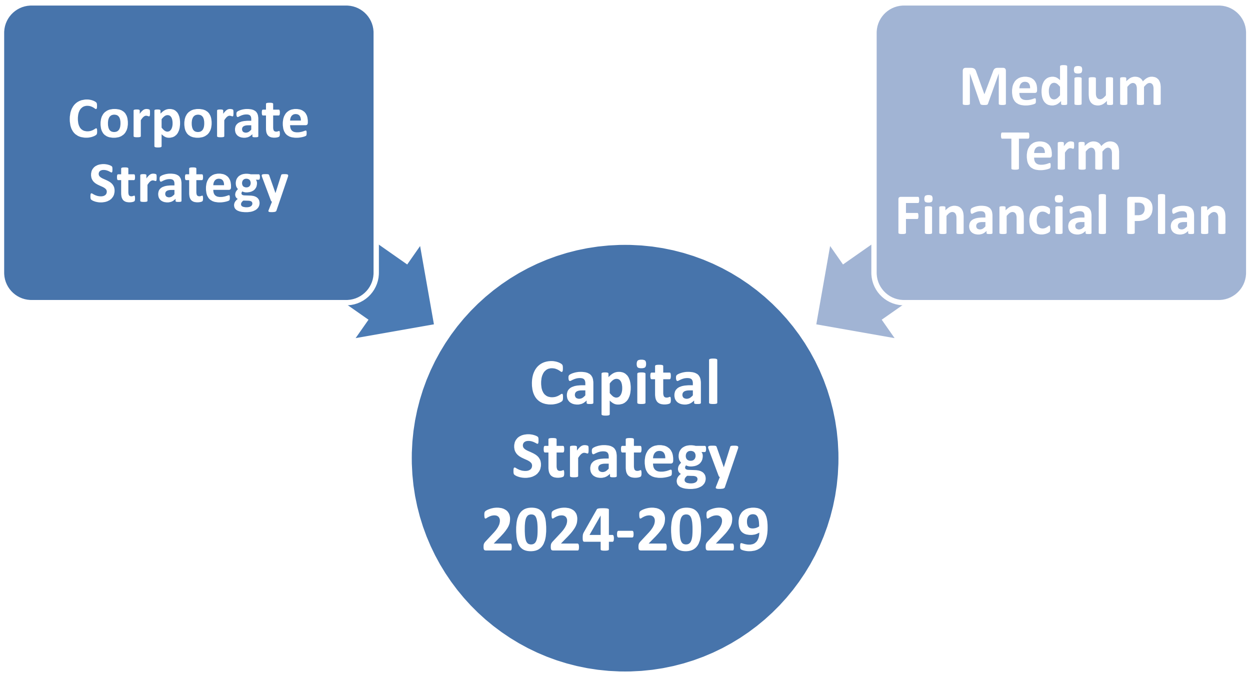


Owned by:	*Candice Keet*
Version:	*6.0*
Executive/Council Approval date:	*February 2024*
Date for review:	*February 2025*

Contents

1 Description

1.1 Capital is defined as all expenditure not directly included in the annual revenue budget (General Fund and Housing Revenue Account) and generally results in a new or enhanced asset or investment held on the Council's balance sheet.

1.2 All capital expenditure must comply with the Capital Strategy (the Strategy). The Strategy brings together detailed policies, procedures and plans relating to existing (and potential investments) in land and building related assets and treasury management transactions and applies to the General Fund, Housing Revenue Account, the Trusts (for which the Council is Trustee) and those entered into by the Council under group or partnership arrangements.

1.3 The Strategy forms an essential part of the Council's integrated revenue, capital, and balance sheet planning. It aligns to the Financial Strategy, the Medium-Term Financial Plan (MTFP), Housing Revenue Account Business Plan and the Annual Revenue Budget. This is shown diagrammatically in Annexe 1 to this Capital Strategy.

1.4 The Strategy also provides a framework by which capital expenditure decisions are made as required by the CIPFA Prudential Code for Capital Finance in Local Authorities to provide good governance.

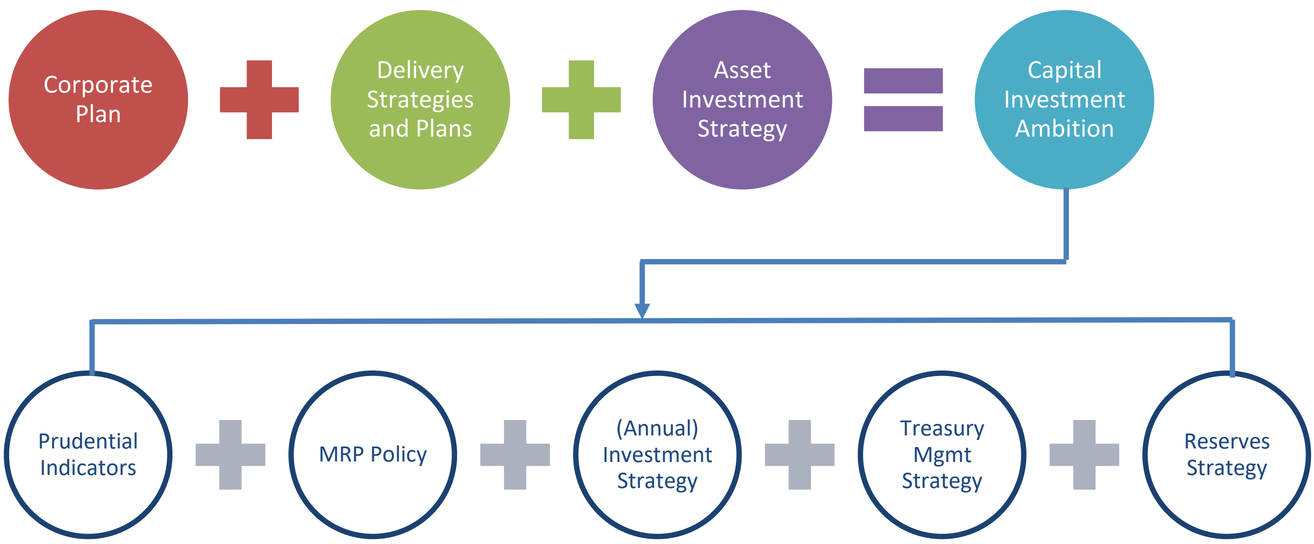
1.5 It should also be noted that whilst this is a capital strategy it also applies to all expenditure of a revenue nature relating to land and buildings, such as asset maintenance and planned asset development programmes where significant revenue expenditure is incurred in the revenue budgets.

2 Capital Investment Ambition

2.1 The Council's ambition with regard to capital investment is to:

- prioritise and deploy capital resources (as described in section 4) in advancement of the Corporate Objectives
- support Service Plans
- invest in assets that reflect the corporate priorities
- manage the Council's, treasury management investments, land and buildings and related assets effectively and efficiently including exit strategies for those no longer required

2.2 The diagram below shows the building blocks for the development of the Council's capital investment ambition. The bottom half of the diagram shows how the Council will meet this through financial planning.



2.3 The capital investment ambition is mapped against the Corporate Objectives in the Asset Management Strategy and Capital Ambition at annexe 2 to this Capital Strategy.

2.4 The Reserves Strategy is considered as part of the Budget report and will be developed following the completion of the 2021/22 financial year including the HRA reserves.

3 Themes of the Capital Strategy

As required by the CIPFA Prudential Code the Council's Capital Strategy covers several themes:

3.1 **Capital Expenditure**

- Governance process for approving and monitoring capital expenditure
- Long term capital spend plans
- Asset management planning
- Capital Finance

3.2 **Debt, Borrowing and Treasury Management**

- External debt and internal borrowing
- Treasury Management transactions

3.3 **Asset Investments and Commercial Activity**

- Approach to commercial activities, effective due diligence, and alignment to risk appetite in respect of such activity
- Housing

3.4 **Other Long-term liabilities**

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

3.5 **Knowledge and Skills**

- Knowledge and skills available to the Council commensurate with the Council's risk appetite

4 Capital Expenditure

Governance Process

4.1 This section gives an overview on the governance process for approval and monitoring of capital expenditure, it documents:

- Project initiation
- Prioritisation of capital projects
- Monitoring and evaluating projects
- Framework for the management and monitoring of the Asset Management Programme

Project Initiation

4.2 Capital projects will be subject to a robust justification process which brings together a clear business case with sufficiently detailed costings to ensure that the rationale for the decision can be easily understood. This ensures the Council's overall capital strategy; governance procedures and risk appetite are fully understood by all members.

4.3 Proposals must be subject to management oversight and review in terms of validation arrangements, estimated figures and project milestones.

4.4 Business cases must be prepared in accordance with the Council's Project Management toolkit. The business case must state where responsibility for a project's delivery sits, and which officers are responsible for each task in the project.

4.5 Viability assessments will be required before bids are made for capital funding. This includes undertaking all preparatory work to fully understand the requirements of a project before capital funding is sought.

4.6 An assessment of resource capacity requirements and availability must be included in proposals to ensure that both delivery of projects and day-to-day work is covered. That assessment must include a time-based resource plan to highlight significant pressure on resources.

4.7 A formal process for supervision and review of the capital project at regular and defined intervals must be annexed to the business case to ensure that the project will be subject to thorough oversight for its duration.

Prioritisation of capital projects

4.8 Proposed capital projects will be prioritised in line with the project scoring process:

Priority scoring

Score 1-5, cumulative higher scores are priority

Criteria	Score 1	Score 2	Score 3	Score 4	Score 5
Corporate Priority	Does not contribute to a strategic theme	Contributes indirectly to a strategic theme	Contributes directly to 1 strategic theme	Contributes directly to >1 strategic theme	Very significant strategic impact
Public/Political interest	No interest from Ward members	Some interest from Ward members	A lot of interest – Executive member interest	Significant interest – cross party in the Executive	Very significant across the whole Council
External Funding	No external funding	0-30%	30-60%	60-90%	90-100%
Return on investment	No return	£0-£25k	£25-£50k	£50k-£100k	£100k +
Climate Change impact	Increase in carbon emissions	No impact	Carbon reductions - unmeasurable carbon impact	Carbon reductions – Small Measurable carbon impact	Carbon reductions – Large Measurable carbon impact
Officer time	Will require significant resourcing (dedicated team)	Will require some resourcing (1 dedicated person)	Contained within part of a one role	Small part of a number of roles	Achievable in current service plan
Risk	>£500k negative impact	£100k-£500k negative impact	£0-£100k negative impact	Costs controlled within approved budget	No financial risk

Equality & Diversity	High negative impact	Low negative impact	No impact	Low positive impact	High positive impact

Monitoring and evaluating projects

4.9 In assessing potential capital projects, the Council will have regard to:

- Governance arrangements
- How each scheme will be reviewed
- The formal approval processes

Governance process for approval and monitoring of capital expenditure

4.10 For all capital investment the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of risk being considered in accordance with the Council's Risk Appetite Statement.

4.11 Due diligence process and procedures will include:

- Scrutiny of the projects by the Policy Overview & Scrutiny Committee
- Identification of the risk to both the capital investment and the anticipated revenue impact
- Understanding the potential impact on the financial sustainability of the Council if the risks are realised
- Seeking independent and expert advice where necessary

4.12 The Strategic Director (Section 151 Officer) is responsible for ensuring that Members are adequately informed and understand the risks of capital investment decisions.

How each scheme will be reviewed

4.13 The business case put forward for a capital project will be must align to corporate priorities and takes account of stewardship, value for money, prudence, sustainability, and affordability.

4.14 Investment decisions must consider risk and reward.

4.15 The phasing of projects over more than one financial year must be assessed to ensure timetabling of plans and budgeting is realistic and the capital expenditure is fully funded before commitment.

4.16 Contingency budgets must be identified and considered as part of the viability assessment and business case review process to ensure the key risks are mitigated and avoid under-budgeting of funds.

The formal approval process

4.17 All proposals to invest in the acquisition new or existing land and buildings must comply with the Asset Investment Strategy (AIS – Item 5 – Asset Investment Strategy, Annexe 4 to the Capital Strategy) . All other capital projects that require budget allocation and/or have revenue implications must be approved through the committee process based upon the governance described in this strategy.

Framework for the management and monitoring of the Capital Programme

4.18 Project management must be undertaken on every project irrespective of funding source using the Council's project management toolkit. The toolkit consists of a standardised set of project documentation which allows a thorough and transparent overview of projects and the assessment of project progress against initial plans and milestones.

Long-term Capital Expenditure Plans

4.19 The long-term plans must be aligned to the Corporate Priorities as set out in the Corporate Strategy and as documented in the Asset Management Strategy and Capital Ambition at Annexe 2 to this Capital Strategy.

Asset Management Planning

4.20 Asset Management Plans must be drawn up for all land and building asset in line with the characteristics of the type of asset. The plan will specify the timeframe over which performance will be assessed and the short, medium, and long-term objectives of holding the asset.

4.21 The Council's arrangements for the corporate review of existing assets are contained in the Asset Investment Strategy, Strategic Asset Management Plans, and the Housing Revenue Account Asset Management Strategy. These provide frameworks for the operational work of asset management.

4.22 As part of service planning asset reviews must be undertaken to consider the use of existing land and building against the asset management plans and whether it is still appropriate and value for money in achieving corporate priorities. The use of assets must be considered against corporate priorities, customers' needs and expectations.

4.23 Asset management also includes disposal of assets in line with the exit strategy (section 11) of the AIS.

Capital Finance

4.24 Proposals for capital projects shall identify the capital financing, supported where appropriate by a viability assessment before commitment to the project.

4.25 Capital financing must be appropriate for the project. Possible sources are:

- Reserves
- Capital receipts – from the sale of assets or finance lease receipts
- Government grants – such as disabled facilities grant funding
- Third party grants and contributions
- Community infrastructure Levy
- Revenue contributions

- Other developer contributions
- External (prudential) borrowing
- Internal borrowing

4.26 If grant funding is being sought as part of the financing, the project appraisal process must include bidding timeframes and the likely success of being awarded a grant.

4.27 Any funding restrictions or conditions on financing a project must be identified and assessed, such as HRA capital receipts and Community Infrastructure Levy.

4.28 Any external borrowing will be undertaken with regard to the guidance issues by HM Treasury for the access to PWLB borrowing as documented in the AIS.

Flexible use of capital receipts until 2021/22

4.29 Up to 2021/2022 Local authorities were permitted to use capital receipts to help fund the revenue costs of transformation projects and release savings. If the Government extend this direction the Council will consider this flexibility.

5 Debt, Borrowing and Treasury Management

External debt and internal borrowing

5.1 The Council's Borrowing Strategy is set out in section 2 of the Treasury Management Strategy. Project appraisal must identify and evaluate a projects suitability for debt financing (borrowing) in compliance with the Borrowing Strategy.

5.2 The Council may consider internal and/or external borrowing as part of optimising a projects overall financing package to minimise finance costs and risk.

5.3 Minimum revenue provision (MRP) – local authorities are required to set aside a 'prudent' amount of their revenues each year as a provision for the repayment of debt'. Prudent provision should ensure that debt is repaid over a period that is reasonably like the period over which the capital expenditure is expected to provide benefit. The Council's full MRP policy is contained in section 2 of the Treasury Management Strategy.

Revenue Implications and cost of borrowing

5.4 The revenue implications of capital investment must always be considered in prioritising projects and making investment decisions. Revenue implications include increases and decreases in both income and costs.

5.5 Items with negative revenue implications include:

- cost of borrowing (including MRP)
- loss of treasury management investment income if internal borrowing is used
- running costs associated with an acquired asset such as:
  - salaries of employees or management fees or other outsourcing costs
  - heat and light etc

- administrative support costs
- future maintenance

Items with positive revenue implications include:

- additional income
- any positive impact of investment and economic growth on the Council's council tax base and business rates income
- direct revenue savings
- savings from efficiencies
- cost avoidance – for example paying down MRP

Treasury Management

5.6 The Council's approach to treasury management is documented in the Treasury Management Strategy at Annexe 3 to the Capital Strategy.

Investment

5.7 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments:

- Financial investments – these are held for treasury management purposes and comprise those made as part of the management of the Council's cash and are covered by the Treasury Management Strategy.
- Non-financial investments – this constitutes capital spend and include investments for service purposes (i.e., maintenance programmes) and for strategic purposes. These investments are covered by the AIS.

6 Asset Investment and Commercial Activity

Approach to commercial activities, effective due diligence, and alignment to risk

6.1 Asset investment is detailed in the Asset Investment Strategy at Annexe 4 to this Capital Strategy. All investments involving land and property must have the principal aim of supporting corporate priorities through asset investment and management. Assets must compete against other forms of investment if held predominantly for commercial purposes to ensure competitive rates of return.

6.2 Asset investment must follow the AIS. Effectively, the council cannot invest purely to profit from yield, but commercial activities can form part of an existing or potential development mixed-use scheme having regard to proportionality as set out in the AIS.

6.3 Asset Investment must include effective risk management to identify mitigation against negative impact on the council's finances and specifically address risks arising from any element of commercial activity.

Housing

6.4 The Council recognises its role in addressing the demand for all types of housing.

6.5 In addressing this need it will consider a range of options:

- Private developments
- Build new homes
- Buy S106 homes from developers
- Seek alternative approaches for financing and supporting house building such as establishing council-owned housing companies and developing new relationships with delivery partners such as housing associations and private developers.
- The acquisition and appropriation of land and the transfer of assets between the HRA and General Fund

6.6 Investment in housing must comply with the AIS.

7 Knowledge and Skills

Knowledge and skills available to the Council

7.1 The Council will maximise use of internal skills and expertise. Internal expertise will be kept up to date through training and seeking advice as necessary. This will be supplemented by external support as appropriate depending on the size and nature of the project and in line with the Council's appetite for risk.

8 Other Considerations

8.1 All capital schemes must comply with the Council's policies and legislation such as the Financial Regulations and Contract Procurement Rules.

8.2 Reference should also be made to other strategies and plans, namely:

- Corporate Strategy
- Asset Investment Strategy
- The Local Plan
- Treasury Management Framework
- Housing Revenue Account Asset Management Strategy
- Financial Regulations
- Contract Procurement Rules
- Risk Appetite Statement
- Medium Term Financial Plan
- HRA 30 Year business plan

9 Glossary

AIEWG: Asset Investment Executive Working Group or AI EWG or its successor as determined by the Executive.

AIS: Asset Investment Strategy

CIPFA: Chartered Institute of Public Finance and Accountancy

DLUHC: Department for Levelling Up, Housing and Communities (formally Ministry of Housing, Communities and Local Government MHCLG)

GF: General Fund

HRA: Housing Revenue Account

HDB: Housing Delivery Board

L&B: Land and Buildings

MRP: Minimum Revenue Provision

MTPF: Medium Term Financial Plan

Prudential Code: is a statutory professional code of practice that aims to ensure local authorities' financial plans are affordable, prudent, and sustainable.

PWLB: Public Works Loans Board