

To:
All members of the
Corporate Policy and Resources
Committee

Please reply to:
Contact: Gary Lelliott
Service: Committee Services
Direct line: 01784 446337
E-mail: g.elliott@spelthorne.gov.uk
Date: 11 January 2022

Supplementary Agenda

Corporate Policy and Resources Committee - Wednesday, 19 January 2022

Dear Councillor

I enclose the following items which were marked 'to follow' on the agenda for the Corporate Policy and Resources Committee meeting to be held on Wednesday, 19 January 2022:

- | | | |
|------------|--|------------------|
| 9. | Capital Bids 2022/23 (part of annual budget process) | 3 - 6 |
| | To review capital bids for the committee's areas of responsibility. | |
| 10. | Revenue Growth and Savings Bids 2022/23 (part of annual budget process) | 7 - 12 |
| | To review revenue growth bids and proposed savings for the committee's areas of responsibility. | |
| 12. | Capital Strategy 2022 to 2027 - draft for discussion | 13 - 142 |
| | To review the draft Capital Strategy 2022 to 2027 before considering a final version at the meeting being held on 7 February 2022. | |
| 13. | Capital and Revenue Reserves Strategy - draft for discussion | 143 - 160 |
| | To review the draft Capital and Revenue Reserves Strategy before considering a final version at the meeting being held on 7 February 2022. | |
| 14. | 2021-22 additional pay uplift | 161 - 164 |
| | To make a recommendation to Council on the 2021/22 supplementary | |

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

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pay award.

17. Update on proposed Transactional Financial Service Partnership

To review the progress made by Spelthorne Borough Council and Mole Valley District Council.

This item has been withdrawn from the agenda.

Yours sincerely

Gary Lelliott
Corporate Governance

To the members of the Corporate Policy and Resources Committee

Councillors:

L. E. Nichols (Chairman)	A. Brar	V.J. Leighton
J.R. Sexton (Vice-Chairman)	S. Buttar	S.C. Mooney
C.F. Barnard	S.M. Doran	R.J. Noble
I.J. Beardsmore	S.A. Dunn	O. Rybinski
J.R. Boughtflower	N. Islam	V. Siva

Substitute Members: Councillors: C. Bateson, J.T.F. Doran, T. Fidler, H. Harvey,
D. Saliagopoulos, R.A. Smith-Ainsley and J. Vinson

Lelliott, Gary

From: Committee Services
Sent: 06 January 2022 17:51
To: Barnard, Colin (Councillor); Beardsmore, Ian (Councillor); Boughtflower, John (Councillor); Brar, Amarjit (Councillor); Buttar, Satvinder (Councillor); Dunn, Sandra (Councillor); Islam, Naz (Councillor); Leighton, Vivienne (Councillor); Nichols, Lawrence (Councillor); Noble, Robert (Councillor); Rybinski, Olivia (Councillor); Sexton, Joanne (Councillor); Siva, Veena (Councillor); Mooney, Sinead (Councillor); Doran, Susan (Councillor)
Cc: Committee Services; Taylor, Paul; Collier, Terry
Subject: 2022/23 capital bids - CP&R Committee
Attachments: Summary of Capital Growths Bids 2223 v5a for CP&R Committee 060122.pdf
Categories: Gary

Dear Chair, Vice Chair and members of Corporate Policy & Resources committee,

It is now time to deal with the capital bids received for each cost of service for your Committee.

Would you please review the bids received for your Committee (see attached) and apply a RAG (Red, Amber Green) rating, noting that our capital projects can be completed within a matter of months, i.e., the purchase of a vehicle or span a number of years, i.e., our Leisure Centre, so please can you apply the RAG rating as follows:

- Red – the committee does not support this project.
- Amber - could go ahead this year or be deferred until next year
- Green – must go ahead this year and will commence in 2022/23.

For some of the smaller projects, there will be an expectation that once Council approve the budget and associated bids, that these projects are completed before 31 March 2023. If the committee is unable to agree that this project should start before 31 March 2023, please give it Red Rating and let's deal with it next year.

Officers are available to answer any questions you might have before the meeting.

The decisions should be recorded in the meeting minutes.

Once you have categorised the capital growth bids for your Committee, we will amalgamate them with the other committees and pass the bids back to your committee in aggregate for the second part of your work, namely discussion and agreement of the final deliberations for Council to approve at their February meeting, noting that you may collectively reject the proposals put forward by a committee or request additional input from a committee.

Should you have any questions please contact me.

Kind regards

Sent on behalf of
Paul Taylor
Chief Accountant

Spelthorne Borough Council
Council Offices, Knowle Green, Staines-upon-Thames, TW18 1XB
T: 01784 444262
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2022/23 Capital growth bids as at 14-1-22						
Amount £	Committee	Project	Requested By	Explanation	Associated Revenue Costs	Associated Savings
384,400	CP&R	Implementation of Centros system	Paul Taylor	Having purchased Centros last year, we are looking to implement the new financial accounting and purchasing software solution over the next 2 years.	0	0
25,000	CP&R	Elmsleigh Centre	Nick Cummings	New changing rooms/accessible toilet		
3,500,000	CP&R	Ashford Community Centre	Nick Cummings	New community centre and affordable housing		
250,000	CP&R	Cedars Rec Toilet block	Nick Cummings	Demolition & rebuild of Café facility		
1,200,000	CP&R	Greeno Rec	Nick Cummings	Demolition and new build for Shepperton Pre-School		
750,000	CP&R	Manor Park Pavilion	Nick Cummings	Café and toilet facilities		
20,000,000	CP&R	Project A	Nick Cummings	Acquisition of Project A - regeneartion purposes commercial let / AH		
400,000	CP&R	Revelstoke	Nick Cummings	Public car parking and children’s play area equipment		
150,000	CP&R	Development Manager	Nick Cummings	Due to the increased workflow referred above and in addition Staines high street, Tothill car park, Oast House, Thameside House and other projects that may arise, it is intended to recruit a further Development Manager on an interim consultancy basis to deliver these projects to practical completion. In addition to both the upstream xxxxxxx and downstream (xxxx replacement) Development Managers		

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Lelliott, Gary

From: Committee Services
Sent: 06 January 2022 18:18
To: Nichols, Lawrence (Councillor); Sexton, Joanne (Councillor); Barnard, Colin (Councillor); Leighton, Vivienne (Councillor); Boughtflower, John (Councillor); Noble, Robert (Councillor); Mooney, Sinead (Councillor); Buttar, Satvinder (Councillor); Islam, Naz (Councillor); Dunn, Sandra (Councillor); Brar, Amarjit (Councillor); Rybinski, Olivia (Councillor); Doran, Susan (Councillor); Beardsmore, Ian (Councillor); Siva, Veena (Councillor)
Cc: Committee Services; Taylor, Paul; Collier, Terry
Subject: 2022/23 growth and savings bids - CP&R committee
Attachments: Summary Growth 22-23 v14a used for CP&R committee 060122.pdf; Summary Savings 22-23 v14a used for CP&R committees 060122.pdf

Categories: Gary

Dear Chair, Vice Chair and members of the Corporate Policy & Resources Committee

The growth and savings bids are a crucial element in the budget setting process for 2022/23 and attached to this email are the following documents for your committee:

1. A list of growth bids – as per attached
2. A list of savings bids – as per attached

Noting that in the majority of cases, your Group Head or Service Manager has rated each bid, for each bid as a guide for you to consider. Further, you may see a number of items showing 'xxxxxxx' this is where we have removed reference to an existing employee to protect their privacy, officers will be able to advise you who this relates to, if required, but not during the public meeting, this will avoid us having to go into part 2 of a meeting and exclude the public from our meeting..

The aggregate growth bids received amount to over £1.6m and the savings bids received just under £400k, which means that if the committees agree to all the growth and savings bids we will have a £1.2m shortfall to fund, either by cutting current service levels or increasing further our proposed fees and charges.

As mentioned, Council must by law produce a balanced budget and your Committee is asked to categorise all your growth and savings bids using the RAG (Red, Amber Green) system, which stands as follows:

- Red - Can be withdrawn from 2022/23
- Amber - Could be deferred to 2023/24
- Green – must go ahead in 2022/23

Officers will be available to answer any questions you might have.

The decisions should be recorded in the meeting minutes.

Once you have categorised the growth and savings bids for your Committee, these will be passed to the CP&R Committee for collation into the budget process as part of their final deliberations for Council to approve at their February meeting.

Should you have any questions please contact me.

Kind regards

Sent on behalf of

Paul Taylor

Chief Accountant

Spelthorne Borough Council

Council Offices, Knowle Green, Staines-upon-Thames, TW18 1XB

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Details of Growth Bid	FTE	Reason for Growth Bid	RAG Rating	Committee	Service Area	Budget Priority	Cost Centre	Cost Centre	Amount	Full/ Part	Ongoing or one off	Potential Funding	General Fund Net	General Fund Net	General Fund Net	General Fund Net	Requested By	ADDITIONAL COMMENTS
Recruit a Quality Assurance Manager - M2 SCP35 36 hours post with car allowance	1.00	This role will span all activities in the Assets team and will include matters relating to Health & Safety as well as Quality Assurance Processes. For example it would be good practise to regularly inspect Investment Portfolio from a landlords respective not withstanding C&W's retaining for this matter. Other examples would include working with the estates management team to ensure risk assessments are properly carried out and to assist at design and completion phases of developments on specification and snagging matters. Management of the KGE Risk Register, Building Control & Fee trackers. Manage the residential portfolio and bring best practice from one portfolio to another portfolio.	Green	CP&R	Asset Management Administration	essential	Asset management	301321001	53,970	Full year	Ongoing	50% KGE, 25% Developments 25% Investment portfolio	53,970	53,970	53,970	53,970	Nick Cummings	
Additional Licenses	0.00	Bluebox Licenses – Additional licences required for the increase of the residential team – 2 extra licenses required.	Green	CP&R	Asset Management Administration	essential	Asset management	301324552	11,000	Full year	Ongoing	30% Recharge to KGE	11,000	11,000	11,000	11,000	Nick Cummings	
Recruit a Tenancy Sustainment Officer - S6 SCP28 , 36 hours - Car allowance	1.00	As a result of change in strategy from predominantly PRS to predominately affordable housing a need has been identified for a Tenancy Sustainability Officer. The change in tenant mix means that additional resource is required to ensure that the appropriate level of support is provided to the tenants, this includes support and advise relating to any benefit entitlement needs including Universal Credit	Green	CP&R	Asset Management Administration	essential	Asset management	301321001	43,350	Full year	Ongoing	100% recharge to KGE	43,350	43,350	43,350	43,350	Nick Cummings	
Recruit a Residential Manager SM2 SCP 48 36hours with car allowance	1.00	Due to increasing numbers of units to be delivered (Benwell Phase 2 Ashford VP, West Wing) and the potential acquisition of street properties, the demand on the residential management team will only increase. It is intended for this residential Manager to be responsible for the team as whole (this would be in addition to the retention of XXXX as the Residential Management Strategy Advisor).	Green	CP&R	Asset Management Administration	essential	Asset management	301321001	75,900	Full year	Ongoing	100% recharge to KGE	18,975	75,900	75,900	75,900	Nick Cummings	Post to be recruited to in Jan 2023
Retain Residential Management Strategy Advisor SM2 SCP 47 @0.58 FTE (21hrs) - doesn't include car allowance as post gets casual user car allowance (milegae)	0.58	Permanent position – Residential specialist who ensures policies and procedures in respect of all matters relating to residential lettings are up to date and adhered to, ensures budgetary control and oversights and supports the newly emerging residential function.	Green	CP&R	Asset Management Administration	essential	Asset management	301321001	42,600	Full year	Ongoing	100% recharge to KGE	42,600	42,600	42,600	42,600	Nick Cummings	
New residential property Database		Both Bluebox and Dwellant IT systems are being used for the management of the Residential Portfolio currently. It has been identified that both systems, currently, do not have provision for the following: •Holding Tenant's Personal Data, other than lead tenant's name, contact phone number and email address. •Holding notes and details of conversations with Tenants regarding their rent accounts & other confidential tenancy related matters; that can then easily be viewed, monitored and reported on. •Clearly identifying rent account balances that allow for the delayed receipt of Universal Credit &/or Housing Benefit payments & thereby easily enabling us to identify and view only those accounts with "true" rent arrears.	Amber	CP&R	Asset Management Administration	partially essential	Asset management	301324552	18,000	Full year	Ongoing	100% recharge to KGE	18,000	8,000	8,000	8,000	Nick Cummings	
NNDR Thameside House	0.00	NNDR budget for rates payable with rates mitigation tactics. Have marked as a one off as hopefully by 2023-24 work may have started here.	Green	CP&R	Development Properties Revenue		Thameside House Revenue	211292404	152,800	Full year	one off		152,800	0			Nick Cummings	Marked as green due to cost of rates that will happen. This is including rates mitigation.
NNDR Hannover House	0.00	NNDR budget for rates payable. Have marked as a one off as hopefully by 2023-24 work may have started here.	Green	CP&R	Development Properties Revenue		Hannover House Revenue	211252404	126,000	Full year	one off	65% discount	44,100				Nick Cummings	Marked as green due to cost of rates that will happen. This is including rates mitigation.
Animal Welfare Licensing - Staff training	0.00	Animal welfare licensing inspections (statutory requirement) - only officers specifically trained can carry out these statutory regulatory inspections. Priority is medium/low – officers will need to be trained in this because only those who are trained can carry out the work	Green	CP&R	Chief Executive	Community, Environment & Service Delivery	Chief executive	301011703	3,000				3,000	3,000			Tracey Willmott-French	
Upgrade to Capita Revs and Bens	0.00	Capita have announced today that they are ending support for Windows Server 2012 next year. They will need to migrate the platform onto the latest version. (They have not announced which version they will support.	Green	CP&R	Customer Services		Customer Services	307044552	40,000	Full year	one off		40,000				Alistair Corkish	
To appoint an additional surveyor for Building Services Team - M1 SCP 30 36 hours with car allowance	1.00	The Building Services Team (BST) have only been an in-house resource since April 2021. The repairs and maintenance programme was previously delivered through a contract with Runnymede Borough Council (RBC). In addition to providing the planned and responsive maintenance service, the BST also delivered a number of building projects outside of their contracted services. Extensions were built at the Greeno and Fordbridge Day Centres in order to accommodate additional numbers of visitors to the Centres. Building projects were also undertaken on behalf of Neighbourhood Services. Under the contractual agreement with RBC, a 3% levy of the total project costs was paid to RBC for managing works/projects outside of the planned and responsive maintenance programme. The annual fees paid for delivering these projects exceeded £40K in previous years. With the Building Services Team now an in-house resource, a 3% levy is not being added to projects delivered outside of the planned and responsive maintenance programme. This is a substantial saving that is being achieved. In addition to the additional project work being delivered, the BST are also taking on the responsibility for the planned and responsive maintenance of the KGE residential portfolio. The residential properties will increasingly require significant resources to manage as properties/developments come out of the defects/warranty period. The residential portfolio is an additional area of work for the BST outside of the services it previously delivered. An additional resource will be required in order for the BST to function efficiently and deliver the services required of it. As detailed above, significant savings and efficiencies have been achieved bringing the service in-house. However, if the current level of service is to be continued, an additional resource will need to be recruited.	Green	CP&R	Planned Maintenance Programme	essential	Runnymede estates	115991001	47,000	Full year	Ongoing	25% KGE charge	47,000	45,785	45,785	45,785	Nick Cummings	
EPC's		On the back of the Stock Condition survey further work survey is required to establish outline specifications to improve energy performance in the municipal portfolio buildings	Green	CP&R	Planned Maintenance Programme	essential/statutory	Runnymede estates	115994404	50,000	Full year	one off		50,000	0	0	0	Nick Cummings	
Leisure Centres	0.00	During 2021 renovation works were carried out to Sunbury Leisure Pool this was funded from the Planned and Responsive Maintenance Budget	Amber	CP&R	Planned Maintenance Programme		Runnymede estates	115992002	343,500	Full year	one off		0				Nick Cummings	Actual spend in 21-22 looking like it will be underspent so requesting this seems a bit odd
Project Officer (Assets)	1.00	Service Delivery The assets section is very busy delivering projects but there is a need to streamline reporting on progress and bring the projects into a programme format. In discussion with the Group Head Regeneration and Growth it was considered that this post would best sit in the project team. This would ensure a consistent approach to project/programme management across the organisation. It would also help drive the transformation projects across the organisation if extra resource was available. Due to salary savings the post could be recruited into asap and as mentioned in the savings form the money currently allocated to the River Thames Scheme could pay for most of the post	Green	CP&R	Project Management		Projects	315041001	33,300	Full year	Ongoing		33,300	41,300	42,700	44,900	Sandy Muirhead	
Revenue costs for annual system costs for GDPR	0.00	Service Delivery Requested a capital bid to purchase a case management system. Several are on offer and a procurement process would be undertaken for the capital purchase but there are ongoing revenue licence costs (estimated to be up to £7k/year	Red	CP&R	Project Management		Projects	315044552	7,000	Full year	Ongoing		7,000	7,000	7,000	7,000	Sandy Muirhead	

Details of Growth Bid	FTE	Reason for Growth Bid	RAG Rating	Committee	Service Area	Budget Priority	Cost Centre	Cost Centre	Amount	Full / Part	Ongoing or one off	Potential Funding	General Fund Net	General Fund Net	General Fund Net	General Fund Net	Requested By	ADDITIONAL COMMENTS
Climate Change Officer's post	1.00	Climate Change Officer post is currently a two year post but need funding beyond 21/22 (£10k available for 22/23). Climate Change is high on the Council's agenda and therefore need the post to deliver net zero for the Council as soon as possible. This resource is needed to achieve this goal	Green	CP&R	Project Management		Projects	315041001	29,900	Full year	Ongoing		29,900	41,300	42,700	44,700	Sandy Muirhead	
Case management system for Data Protection	0.00	Service Delivery - the current FOI management system based on "Eden" is both coming to end of life and is no longer fit for purpose. To improve efficiency it is proposed to purchase a case management system. This will enable better tracking/action on of FOIs, SARs, internal reviews etc.	Red	CP&R	Project Management								12,000				Sandy Muirhead	

Details of Savings Offered	Explanation of proposed saving	Committee	Service Area	Cost Centre	Cost Centre code details	Amount	Full / Part Year	Ongoing or one off	Full year cost if different	Service impact Assessment of saving	Offered By
Centros upgrade	Charging 100% of Systems Accountant basic salary to the capital project for the 24 months to May 2024 and charging 70% of basic salary from 2024/25.	CP&R	Accountancy	Accountancy	301267143	51,000		Ongoing		None	Paul Taylor
£15k saving on NNDR for KG	The NNDR team supplied calculations for NNDR for SBC assets. A saving of £15k can be made which relates to the WestWing not being part of the rateable value.	CP&R	Facilities Manage. (Knowle Green & Print Unit)	Knowle Green Offices	307032404	15,000	Full year	Ongoing		None	John Hesbrook

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Corporate Policy & Resources Committee



19 January 2022

Title	Draft - Capital Strategy 2021/22 to 2025/26 and summaries the position up to 2070/71
Purpose of the report	To make recommendations to Council
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	<p>Committee is asked to: (added for completeness at this stage)</p> <ol style="list-style-type: none"> 1. recommend to Council that it approve the Capital Strategy as set out in this report 2. approve that all development and investment projects, along with all significant projects follow the previously approved business case governance process as set out in section 8 of this report 3. approve that no financing sources, unless stipulated in regulations or necessary agreements, are ring fenced 4. approve the council plans to continue its use of capital receipts to fund the revenue costs of eligible proposals (subject to full business cases for each project). 5. approve the financing of the capital programme and revenue implications as set out in section 13 of this report. 6. approve the financing of the capital programme being delegated to the Corporate Policy & Resources Committee to provide sufficient flexibility to allow for the most effective use of Council resources
Reason for Recommendation	<p>The Council is required by law to approve before start of each financial year a Capital Strategy setting out its approach to identifying needs for capital expenditure. managing capital expenditure, financing it, and managing risks associated with delivering capital objectives.</p> <p>.</p>

	<p>When long term investment decisions are undertaken, decision makers can rely on clear and informed information. This would include:</p> <ul style="list-style-type: none"> • A long-term view of capital expenditure plans and any financial risks to which the Council is exposed. • Ensuring due regard to the long-term financing, affordability implications and potential risks. • A clear overview of the Council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications. <p>The Capital Strategy will continue to help support informed decision making in the delivery of Spelthorne Borough council's long-term plans and ambitions.</p>
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1. About this report

- 1.1 This is a draft report for development and feedback from Councillors, prior to the final report being submitted to the Corporate Policy & Resources Committee in February.
- 1.2 Officers have reviewed over 30 different Council's Capital Strategy Reports and as Chartered Institute of Public Finance & Accounting (CIPFA) state there is no one size fits all. The standards were variable.
- 1.3 Were we have yet to populate charts, particularly those that show the results for 2070/71, we have use £xxxx or xxxx to indicate figures or information to follow.
- 1.4 Further you will see a few sentences in blue ink, which is an aide memoire to me to add more information.
- 1.5 One of the key aims is to introduce a clear 50-year planning horizon and provide Councillors with indicative figures of what the Council's finances might look like, based on the current decision making. Particularly, as we have a 50-year plan for our investment properties and for Knowle Green Estates Ltd.
- 1.6 Therefore, would you please review the report and identify the areas that you feel should be in the report, areas that you think should come out, areas that require further development and areas that we should consider including in the report.

2. Introduction

- 2.1 The Capital Strategy is an important document which is important to get right. It is important to provide Councillors to have an opportunity to input and refine the Strategy, so what is set out in this report is very much a first draft with it anticipated that a refined version will be brought back to the Committee in February
- 2.2 If you think of Capital Strategy as a requirement only, you have already missed the point. The development of a capital strategy is a best practice approach to longer-term strategic planning to assist council how their approach to capital expenditure can address evolving service needs. When it is done well, it adds significant value, not only to the successful management

of a local government organisation, but more importantly to the future success and wellbeing of the population, stakeholders, and area that it serves.

A capital strategy is not simply a document: it is a whole organisation approach to effective, long-term planning and investment, with outputs and outcomes that lead to healthy, vibrant, green, and resilient communities, businesses, organisations, and geographic areas. If we are not fully embracing the spirit of the requirement for a capital strategy, we, and the population that we serve – will not be benefiting from this important aspect of strategic planning. CIPFA produced updated Capital Strategy Guidance in 2021. (See Appendix A)

- 2.3 Since 2019, all Councils have been required to prepare an annual updated Capital Strategy document, however, one size does not fit all and therefore Councils have over the last two years prepared a range of documents to suit their needs and planning horizons, which in the case of Spelthorne Borough Council, must cover a 50-year period to match with its long-term investment property strategy.
- 2.4 A 50-year planning horizon is required to ensure that Council gives due consideration to the impact of its decision making today, on the future capital and financing for the success and wellbeing of the population and stakeholders within the Borough tomorrow.
- 2.5 After extensive consultation, CIPFA acknowledged that each Council is different and therefore, they should develop a Capital Strategy Framework that meets their own needs and circumstances.
- 2.6 This first draft of the report is a starting point for development and input from Councillors and officers before submitting the final report to the February meeting of Corporate Policy & Resources Committee, prior to the Council meeting on 24 February, when all the figures for the 2022/23 capital programme will be known.
- 2.7 This process will be an annual evolutionary process and will take a few years to refine.

3. Executive Summary

- 3.1 The report sets out the Council's Capital Strategy from 2020/21 to 2024/25 and summarises the position up to 2070/71.
- 3.2 The proposed capital programme as detailed in Appendix x, proposes a gross budget of £xxxxxm and a net budget of £xxxxm (including capital receipts).
- 3.3 The Council's long term capital investment is underpinned by the objectives of xxxxxxxx of the Corporate Plan. Capital proposals are considered within the Council's overall medium to long-term priorities, and the preparation of the Capital Programme is an integral part of the financial planning process. This includes taking full account of the revenue implications of the projects as part of the revenue budget setting process. Based on the proposed programme at the end of 2070/71 the Council would have to set aside a revenue budget of £xxxxm to cover the financing costs of the programme.
- 3.4 In addition to the capital budgets and revenue implications, the report sets out the following:
 - (a) Policy and contextual background

- (b) The Council's asset base
- (c) Delivery Strategies
- (d) Budget setting and prioritisation
- (e) Governance
- (f) Key projects and programmes
- (g) Capital funding
- (h) Risk management

4. Policy and Contextual background

- 4.1 Spelthorne Borough Council's vision 20xx/20xx.....provides the starting point for this document, dealing with xxxx, xxxx, xxxx, [\(expand on this, refer to the 2021/2023 Corporate plan may be a little short term?\)](#)
- 4.2 The Capital Strategy is a major part of these plans.
- 4.3 In 2016, the Council embarked on an ambitious capital programme with a plan to invest over £1bn in investment properties, to generate sufficient funds to:
- (a) Support Council services
 - (b) Support the regeneration and transformation of the Borough
 - (c) Deliver much needed affordable housing for our younger residents and families in the Borough.

As part of investing for the future success and wellbeing of the population, and all its stakeholders in Spelthorne.

- 4.4 As at the 31 March 2021 the draft unaudited accounts show that the Council had total assets with a net book value as shown in the table below:

Asset type	£000
Land & Buildings - Municipal	72,879
Vehicles Plant & Equipment	1,781
Community Assets	158
Assets under Construction	74,205
Heritage Assets	222
Investment Property	939,747
Intangibles	254
Total	1,089,246

- 4.5 The current approved capital programme for 2021/22 is £xxxxm and this excludes items included in Assets Under Construction in the table above.
- 4.6 In the current 2022/23 Capital Programme budget setting process, the committees are currently evaluating over £65m of bids.

- 4.7 Based on the Council's current level of assets, the Capital Strategy as outlined in this report could significantly increase the Council's asset base over the next 50 years.
- 4.8 Most of the capital expenditure is planned to be spent on land and buildings to provide affordable housing through Knowle Green Estates Ltd. (KGE) the Council's wholly owned subsidiary and temporary accommodation through the Council.
- 4.9 All the land and building acquisition costs together with all design and construction expenditure incurred prior to completion of the final premises are included in the above table and will move into the appropriate category once the project is completed.
- 4.10 The Council does have a planned maintenance budget for these properties.
- 4.11 [Comment about valuations here](#)

5. Key projects

- 5.1 There are several key projects and programmes that require future capital investments for the Council to achieve its strategic goals and these are shown below:
- (a) Several large-scale developments to deliver 650 apartments as part of our Housing Strategy and commitment to the residents of the Borough, particularly young families.
 - (b) A new leisure centre in Staines-upon-Thames the first of its kind being built in the UK to Passivhaus standards, which has involved a £40m investment in a greener building, to protect the wellbeing of our residents over the coming years and making the building carbon neutral.
 - (c) Continued investment in municipal infrastructure, such as local parks.
 - (d) An ongoing investment in digital transformation, where we aim to utilise technology to continue to deliver efficient, good quality services.
- 5.2 Our Capital Programme's delivery objectives continue to take place against a background of financial challenges. The potential impact of the Fair Funding Review could have a significant negative impact on the Council and some difficult decisions lay ahead, as the Council looks to balance the projected deficits for 2023/24 and beyond.
- 5.3 It is therefore vital that the Council's Capital Strategy delivers a return on investment that is financial, such as capital receipts or new revenue streams, or delivers key strategic priorities
- 5.4 The Capital Strategy is intended to evolve each year, it is a dynamic plan that will respond to threats, opportunities and will change over time.
- 5.5 The strategy is set over 50 years but is updated annually and includes short-, medium- and long-term investment revenue streams, or delivers key strategic priorities.

6. Our delivery strategies

- 6.1 The Council's capital programme is categorised into four key areas:
- (a) Strategic Investment Acquisitions £xxxm
 - (b) Affordable Housing £xxxm

- (c) Efficiency £xxxm
- (d) Operational £xxm, including decarbonising the Council's service delivery.

Strategic Investment Acquisition <ul style="list-style-type: none"> • Support Council services • Invest in regeneration projects • Provide for the future 	Affordable Housing <ul style="list-style-type: none"> • Regeneration of key strategic sites • Provide affordable housing for the residents of SBC
Efficiency <ul style="list-style-type: none"> • Produce ongoing revenue savings and additional income • Digital transformation enabling residents to have better access services 	Operational <ul style="list-style-type: none"> • Reduce running costs • Greener outcomes • Rationalise property portfolio

7. Strategic Investment Acquisition

- 7.1 Strategic investment acquisitions are where the Council acquires properties to enable the development of key strategic sites for regeneration opportunities, to
- (a) Support Council services
 - (b) Support the regeneration and transformation of the Borough
 - (c) Deliver much needed affordable housing for our residents and families in the Borough.

8. Property Investment Strategy

- 8.1 [Details to be inserted or refer to appendix/link to document on the website](#)

9. Affordable Housing developments

- 9.1 SBC has a Housing Strategy to deliver xxxx units by xxxx (provide link to the document on the website or appendix).
- 9.2 The Council is intending to develop the following properties and deliver 650 apartments based on the Cabinet meetings in February to April 2021 as shown below:
- (a) Oast House – 216 affordable rental apartments
 - (b) West Wing – 25 affordable rental apartments (Delivered)
 - (c) Ashford – 48 affordable rental apartments
 - (d) Victory – 127 key worker and affordable apartments
 - (e) Benwell Phase 1 – 55 private rentals. Apartments (Delivered)
 - (f) Benwell Phase 2 – 39 affordable rental apartments
 - (g) Thameside – 140 private rental and affordable apartments
 - (h) Total - 650 apartments

- 9.3 Upon completion these properties will be transferred, at cost to Knowle Green Estates Ltd (KGE) who administer the buildings and tenants.
- 9.4 Should the number of apartments delivered change this will result in lost contribution from KGE to SBC towards supporting our revenue budgets and the frontline delivery of services.
- 9.5 Going forward, it is Council strategy to continue to build new affordable homes across the Borough, where suitable, affordable premises can be found, this could also include existing houses that are suitable for multiple occupancy.
- 9.6 Each case will be evaluated on its own merits and consider how it assists the Council to achieve its Housing Strategy for residents, in the Borough.

10. Knowle Green Estates Ltd (KGE)

- 10.1 KGE is a wholly owned subsidiary of Spelthorne Borough Council and following a restructure of its property portfolio in the year end 31 March 2020, has effectively started from scratch.
- 10.2 The Company has been established to manage each property as mentioned in 8.2 above and is looking at a 50-year time horizon for its properties (see appendix x).
- 10.3 The model approved by the KGE Board is based on the meetings with Cabinet between February and March 2021 and provides most of its apartments for affordable housing.
- 10.4 Affordable Housing tenants will include:
 - (a) Key workers, nurses, police, and teachers
 - (b) Younger residents
 - (c) The elderly and vulnerable
- 10.5 There will be a small element of private rental tenants.
- 10.6 The Council is introducing a new Componentisation Policy, in accordance with the CIPFA accounting code, to use different rates of depreciation for each component of the building, e.g., land at 0% and roof 4%, which reflects the different useful economic lives of each component part of the building.
- 10.7 The 50-year projections indicate that are that KGE will be able to provide substantial revenue contributions to SBC over the period and given the profiling of our tenants, will be operating on a small cash surplus based on the properties being delivered to time and to the number of apartments specified.
- 10.8 Unfortunately, there were significant delays to Benwell Phase 1 and West Wing, and although the number of apartments expected have been delivered, rental income has been delayed.
- 10.9 Further, there have been considerable delays in obtaining planning permission for the Oast House, Thameside and Benwell phase II and these additional delays are impacting on the business plans of KGE, resulting in the need for additional financial support from SBC, over the next three financial years, until all the buildings have been handed over to KGE.
- 10.10 The issues causing the delay in obtaining planning permission indicate that there will be fewer apartments being built, nothing has been finalised at the

time of writing this report, but a loss of more than 30 apartments would require a review of the strategy and financial projections and how the annual contribution to SBC from KGE will be dealt with. Will it be via dividends, interest rate arbitrage or management charges.

- 10.11 KGE will need to be mindful of incurring additional Corporation Tax and compliance with HMRC guidance on the use of interest rate margins to move contributions from a subsidiary to a holding company.

11. Efficiency

- 11.1 [Digital Transformation, Partnership etc.](#)

- 11.2 [Detail the pros and cons of each option available and which one is being proposed. Include the risk assessment](#)

12. Operational

- 12.1 The Council's operational capital strategy is centred on capital improvement works to the Council's operational asset portfolio. This falls into two main categories:

- (a) Land and Buildings
- (b) Infrastructure

- 12.2 The main objectives of the operational element of the Capital Strategy are to ensure assets meet health and safety standards, are fit for purpose in terms of statutory guidance and legislation, as well as helping the Council to reduce costs and reduce its environmental footprint.

- 12.3 Another key objective of the operational element is to ensure that the Council continues to invest in its current buildings and long-term assets to avoid incurring significant future costs, essentially spending now to save money in the future. As well as our municipal buildings, we have other operational assets, including vehicles, plant and equipment.

- 12.4 The Council has a scheduled programme of condition surveys which ensures the Council's operational estate is fit for purpose. As part of the forward planning of the operational estate, the following areas will be developed in line with the objectives of the Council:

- (a) Xxx
- (b) Xxx
- (c) Xxx

- 12.5 Operational schemes in the Capital Programme have a total expenditure of £xxm and include the future years spend, capital contingency and landlords' responsibilities in Finance & Resources.

- 12.6 Every 5 years on a rolling basis, the Council will review its municipal and land and buildings to identify sites, were there are development opportunities for both the Council and others, such a small strip or parcels of land, as well as, looking to pass over the running of community assets, such as village halls, to the community.

13. Governance

- 13.1 The main forum for reviewing all financial aspects of the capital programme is the.....[enter details from Sandy about the process. Development Subcommittee, KGE and risk management](#)

14. Capital Funding

- 14.1 The Council is required to have a funded capital programme that is affordable, i.e., all capital expenditure should have a source of funding and if that funding source is borrowing, the cost of the borrowing should be built into a balanced revenue budget without adversely impacting on the delivery of services.

- 14.2 The key sources of funding for the Council are:

- (a) Grants
- (b) Contributions
- (c) S106/Community Infrastructure Levy
- (d) Capital Receipts
- (e) Direct Revenue Funding
- (f) Borrowing

14.3 Grants

- 14.4 These are predominantly government grants and are usually provided to the Council for the specific use of funding either revenue or capital expenditure for certain schemes and programmes, including Disabled Facilities Grant (DFG) can also include Homes England grants. In the future we will want to explore potential for grant funding to support carbon reduction programme.

14.5 Capital Contributions

- 14.6 In comparison to grants, capital contributions are specific contributions received for projects and are normally provided by the government, external agencies, or private companies, who have a specific output or outcome they would like achieved through the capital works the Council is providing. Quite often, the scope of these projects is dependent on this external funding, without which the Council may decide to reduce the objectives and scope of a scheme.

14.7 Community Infrastructure Levy/ Section 106 Receipts.

- 14.8 Community Infrastructure Levy (CIL) is a planning charge introduced by the Planning Act 2008. The Council started charging CIL in May 2016. Developers must pay a levy linked to planning applications - this is based on a Council approved policy and charging schedule. The income from this levy is held corporately and the Council decides how to allocate these funds via a Council.

- 14.9 The majority of CIL funding is used to fund strategic infrastructure projects with Surrey County Council. Where practical Council should utilise this resource to fund the capital programme.

- 14.10 S106 differs from CIL, as it is essentially a contract between a developer and the Council and like capital contributions they must be used for specific projects and outcomes rather than a more general objective.

14.11 Capital Receipts

- 14.12 Capital receipts are generated from the sale of non-current assets (i.e., strips of land), and apart from special circumstances, can only be used to fund the capital programme.
- 14.13 The Council holds all capital receipts corporately, which ensures they can be used to fund the overall programme; therefore, individual services are not reliant on their ability to generate capital receipts.
- 14.14 As Spelthorne Borough Council is not planning to sell any assets in the short to medium term, unless the offer price is correct, only a small amount of funding in the capital programme will be available from capital receipts.
- 14.15 **Direct Revenue Financing**
- 14.16 The Council, can, if it chose to fund capital expenditure via its revenue budget. This can be through in year underspends or via general or earmarked revenue reserves. Any funding of the capital programme via revenue resources would have to be considered considering the Council's overall revenue budget and the Medium-Term Financial Plan. [\(Re word of the paragraph or remove\)](#)
- 14.17 **Borrowing**
- 14.18 Borrowing can take the form of internal or external borrowing.
- 14.19 **Internal borrowing** is a temporary position where the Council uses its cash balances instead of externally borrowing at that point in time. If not used for internal borrowing, these cash balances would be invested on a medium to long term basis providing the Council with a return on investment. As such there is an opportunity cost associated with internal borrowing that is built into the revenue implications of the capital programme.
- 14.20 The Council's main objective when borrowing externally is to achieve an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required, particularly when dealing with assets under construction, which are funded via the short-term money market, as interest rates are currently cheaper.
- 14.21 **External borrowing** occurs when the Council borrows money from the open market, via financial institutions and investors or the government, via the Public Works Loan Board (PWLb). [\(Insert current PWLB rate\)](#)
- 14.22 In September 2021, the PWLB implemented new lending criteria so that councils focus on housing delivery, regeneration, and service delivery projects rather than invest for a return to support services.
- 14.23 This now means that SBC must regularly assess how to finance its external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing.
- 14.24 The Council have built this into the interest cost as part of the revenue implications of the programme.
- 14.25 Although the Capital Programme may identify a need to borrow to fund capital expenditure, the timing and type of borrowing (internal/external) is dependent on cashflow modelling in line with the Council's Treasury Management Strategy. [\(Page link to report\)](#).
- 14.26 As a general principle, SBC will borrow from the short-term money market as the loan interest rates are cheaper than borrowing from PWLB. Although it

must be noted that the short-term money market is geared to the bank of England base rate which can be volatile and quick to react to market changes. Whereas the PWLB interest rate is dependent on the more stable Gilts Rate.

- 14.27 The Council's total borrowing requirement based on capital expenditure incurred historically but to be financed is represented by the Capital Financing Requirement (CFR). This is published in the statement of accounts, and as at 31 March 2021 was £xxx.xm.
- 14.28 The forecast trend in our CFR over the next 50 years is shown in the chart below
- 14.29 [Insert chart](#)
- 14.30 All capital financing costs, i.e., interest costs and minimum revenue provision must be treated as a revenue cost and built into the Council's MTFP. In essence, the more the Council borrows, the greater the call on the revenue budget which then requires further service savings to be identified to fund this in the longer term.
- 14.31 **Therefore, the formulation of an SBC strategy for repatriating funds from KGE is so critical and needs to be expediated within the next 6 months.**

15. Capital Programme Funding: 2020/21 to 2024/25

- 15.1 The table below summarises the Council's funding of the proposed Capital Programme as outlined in this report:
- 15.2 [Insert table Funding of the Capital Programme](#)
- 15.3 In total £xxxm (xx%) of the programme is to be funded via external or internal sources of funding, with the remainder via borrowing (both internal and external).
- 15.4 The tables below outline the main streams of external funding
- 15.5 [Insert table of funding sources](#)

16. Revenue implications of the programme

- 16.1 [Insert table of the Revenue Implications of the Capital Programme to 2070/71](#)
- 16.2 The Council aims to maximise its balance sheet assets and as such can utilise cash balances derived from working capital (such items as the appeals provision, reserves, etc.) before it borrows externally to finance the net cost of the capital programme.
- 16.3 Over the 50-year capital programme it is currently estimated that the Council will incur net financial costs, through its revenue budget of £xxxxm. This is made up of £xxxxxm of financing costs (including MRP), offset by £xxxxxm of commercial income.
- 16.4 The revenue costs of the capital programme are not uniform across the 50 years of the capital programme and are subject to significant fluctuations in line with the profiling of capital expenditure and funding (particularly capital receipts). To manage these fluctuations, the Council is operating a sinking fund which ensures the revenue budget increases are consistent with surplus balances at the start of the programme being transfer to a capital financing reserve, which will then be drawn down in later years. Based on current

estimates and assumptions at the end of 2070/71 the capital financing budget will be approximately £xxxm,

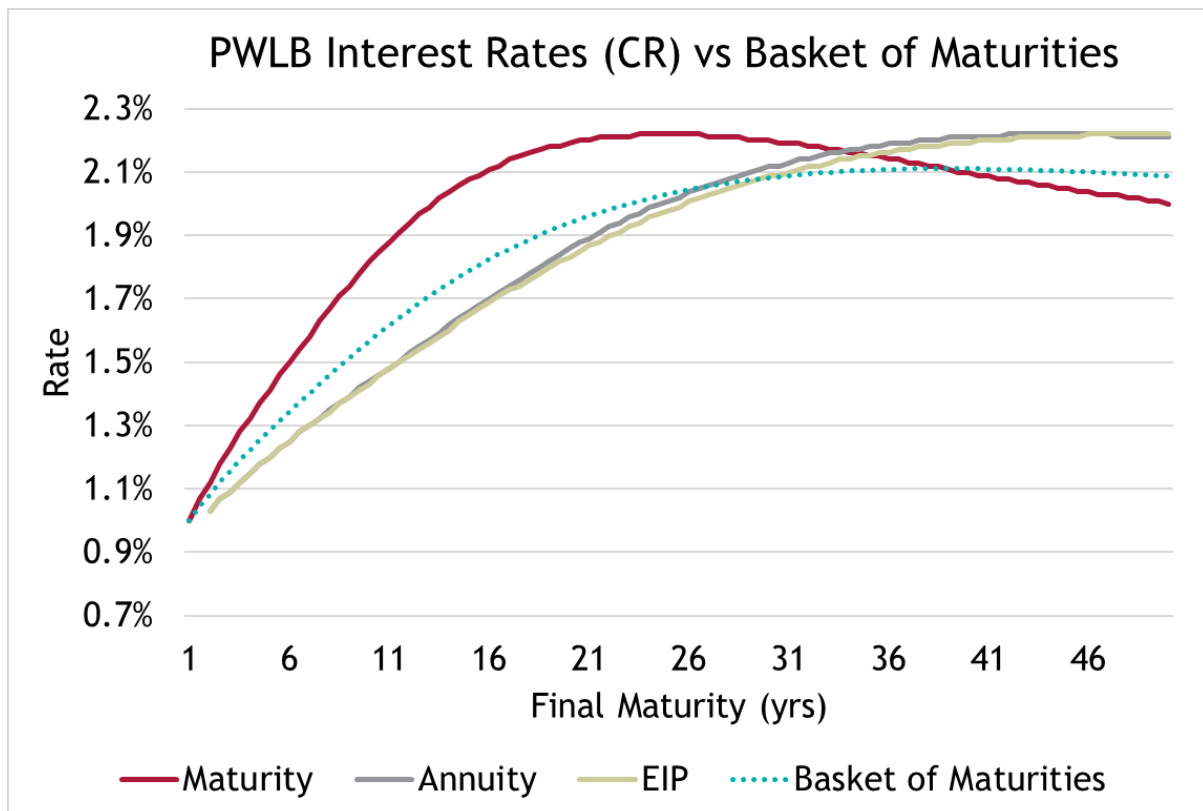
- 16.5 This represents an increase/decrease of about £xxxm compared to the current base budgets for capital financing This is an annual budget that would have to be put aside as part of the Council's revenue budget.

17. Minimum Revenue Provision (MRP)

- 17.1 MRP is applied where the Council must set aside a revenue allocation for provision of debt repayments (borrowing in the capital programme). MRP replaces other capital charges (e.g., depreciation) in the statement of accounts and has an impact on the council's bottom line.
- 17.2 MRP will increase and decrease throughout the programme and is sensitive to both expenditure and funding changes.
- 17.3 The Council will continue to balance the use of capital receipts, internal borrowing, and external borrowing to ensure the most efficient use of resources, including the need to fund MRP.

18. Risk Management

- 18.1 Major capital projects require careful management to mitigate the potential risks that can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy.
- 18.2 **General Risks**
- 18.3 General risks are those that are faced because of the nature of the major projects being undertaken. Most of these risks are outside of the Council's control, but mitigations have been developed as part of the business planning and governance process.
- 18.4 These risks are set out below along with key mitigations:
- 18.5 **COVID-19**
- 18.6 **BREXIT**
- 18.7 **Interest Rate Risk**
- 18.8 The Council is planning to externally borrow £xxxxm as set out in this Capital Strategy over the next five years. Interest rates are variable, and a rise could increase the cost of servicing debt to a level that is not affordable. To mitigate this, the Council reviews the financial markets and will obtain a basket of loans that minimise the cash outflows over the term of the loan, noting that in some cases it is more advantageous to take out loans over a shorter term.



18.9 [Explain the chart](#)

18.10 Inflation Risk

18.11 Construction inflation over and above that budgeted by the council's professionals and advisors, and built into project budgets, could impact on the affordability of the capital programme. A 1% rise in the cost of the programme would increase the cost of the programme by approximately £xxxm.

18.12 This is mitigated through the provision of contingencies, updating estimates regularly as they change and monitoring the impact through governance processes. This is also mitigated post the signing of contracts with construction companies and developers through fixed price contracts.

18.13 Legislative Risks

18.14 Change in Law Risk – Capital schemes need to comply with the latest law and regulations, changes in which can impact construction costs and may be retrospective in their nature. This risk is mitigated by awareness of pipeline legislative changes and provision of contingencies.

18.15 Market Health/Commercial Risks

18.16 The Council's capital programme relies on commercial activity as a key supporting strategy. This involves generation of income from property letting, sales receipts and other revenue/capital financial flows such as land deals with developers. In some cases, the Council commits to large projects, based on assumptions about future asset values. Should market movements mean that these assumptions are inaccurate, then the Council may suffer financially.

18.17 To mitigate this risk, the Council relies on expert advice on future asset values in making its decisions.

- 18.18 **Supplier Financial Stability**, construction companies and developers contracting with the Council that experience financial instability pose a significant risk. They may not be able to raise funding to finance operations, and their potential insolvency could lead to a costly process of changing suppliers without any guarantee of remaining within the overall budget. The Council could suffer direct financial loss, and any defects or other issues may not be resolvable as anticipated.
- 18.19 To mitigate this risk, the Council carefully considers the financial robustness of any contractor and requests appropriate financial standing assurance and support wherever possible.
- 18.20 **Transfer Risk**
- 18.21 When the Council plans and delivers projects, it is important to consider the risks associated with the project and whether the Council (or its subsidiaries such as KGE) is the best placed to take on that risk.
- 18.22 A key consideration for major capital schemes is whether these will be developer led or whether the Council will self-develop. For a developer led scheme the developer will take on a significant proportion of the risks associated with the project. However, the developer will price this risk in, so it will come at a cost.
- 18.23 Considerations can include whether there is resource capacity and expertise to take on specific risks in the context of the overall capital programme. The housing subsidiaries are newly incorporated and there may be an initial set-up risk as the company gains experience and embeds its delivery plan.
- 18.24 **Hybrid working** – a key issue with projects and overspending is the lack of communication between colleagues in the same office, with the onset of Hybrid Working, those small conversation had as you pass a colleague in the corridor or whilst having a cup of tea are going to be lost and the likelihood of missing a key element of the project are enhanced.
- 18.25 **Project Risks**, relates to the delivery of capital projects, which in many cases can be controlled, influenced, or directly mitigated in ways other than making contingencies available. These risks would mostly relate to unforeseen project delays and cost increases which could arise from a range of circumstances.
- 18.26 The effective management of these risks is mostly linked to the following strategies:
- 18.27 **Project Risks**
- 18.28 Projects are required to maintain a risk register, to ensure effective monitoring.
- 18.29 **Highlight reporting** - development projects, as an example, create monthly highlight reports to ensure stakeholders are aware of progress and risks of projects on an on-going basis.
- 18.30 **Appointment of professional teams** - the Development team has recruited and retained the services of experts to provide robust planning and review to advise on financial feasibility and to ensure timely delivery of projects.
- 18.31 Experts also cover key surveying and financial planning roles to give assurance on quality of work and assumptions.

- 18.32 **Risk of Revenue Write Off** – the Council commits to feasibility studies on many of its significant capital schemes at the point where spend is revenue in nature or when capital spend may be written off, should the scheme in question not progress.
- 18.33 This is managed through careful consideration and approval of all expenditure potentially at risk of revenue write-off. There is a further risk that any projects funded may not yield the required ongoing revenue savings and therefore may need to be written off to revenue.
- 18.34 The Council has an on-going capital programme and will continue to invest in capital projects beyond 2024/25 and will therefore need to ensure that funds are set aside for the future cost of borrowing.
- 19. Financial implications**
- 19.1 Financial implications are set out in the main body of this report.
- 20. Legal considerations**
- 20.1 The legal implications for each individual scheme within the capital programme will be considered when approval is sought for that scheme. Each scheme within the capital programme will be approved in accordance with the council's constitution.
- 21. Equality and Diversity**
- 21.1 [To be entered](#)
- 22. Sustainability/Climate Change Implications**
- 22.1 Each project will be required to provide details of its impact on the sustainability for the Borough and climate.
- 23. Timetable for implementation**
- 23.1 Set out a timetable, if required, showing when the proposal in the report will be implemented.

Background papers: [List the reports highlight/referred to above](#)

Appendices:

List as Appendix list based on report above.

Appendix A – CIPFA – Capital Strategy Guidance 2021

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Capital strategy guidance 2021

a whole organisation approach

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Introduction: Guidance aimed at leaders

This capital strategy guidance from CIPFA is aimed at the strategic leadership of your organisation, both political and corporate. CIPFA is the leading voice on public finance matters but, in this guidance, we have focused on a whole organisation approach to prudent, sustainable and resilient local government investment.

We have researched good practice examples from most local government organisation models. Based on this research, we can see that the development of capital strategies has been challenging and difficult to implement fully. It is clear from the examples we examined that there is still room for improvement for all local government organisations.

We recognise that this challenging position is set against a backdrop of long-running austerity measures, Brexit and continuing fiscal and funding uncertainty. This is alongside distressing and complex situations including unplanned migration, climate change, violent extremism and cybercrime, and now a global pandemic.

We have brought this guidance to life by including extracts from capital strategies reported in 2020, although we recognise that most were published prior to the more serious impacts of COVID-19. These extracts are based on what we determine as good practice when considering the aims and requirements for a capital strategy as set out in our codes and guidance and other relevant supporting guidance, which we have listed in Chapter 13.

Capital strategy – a one-page story

If you think of capital strategy as a requirement only, you have already missed the point. The development of a capital strategy is a best practice approach to longer-term strategic planning. When it is done well, it adds significant value, not only to the successful management of a local government organisation, but more importantly to the future success and wellbeing of the population, stakeholders and area that it serves.

A capital strategy is not simply a document: it is a whole organisation approach to effective, long-term planning and investment, with outputs and outcomes that lead to healthy, vibrant, green and resilient communities, businesses, organisations and geographic areas. If you are not fully embracing the spirit of the requirement for a capital strategy, you – and the population that you serve – will not be benefiting from this important aspect of strategic planning.

Before starting to develop the next iteration of your capital strategy, we recommend that you set out a one-page story of your longer-term view of the investment needs for your area. We expect this story to be set in the context of investment needs such as:

- your organisation's current and future position in local government and its relationship with both public and private sector partners
- your engagement and consultation with residents, communities and community organisations, based on an active listening approach
- your longer-term view of placemaking needs, based on strong spatial and local planning evidence, with an emphasis on quality zero-energy homes, clean economic growth and the health and wellbeing of your local population
- your longer-term aspirations for rural and wild landscapes, in terms of a sustainable economy and a contribution to net zero carbon emissions in line with the locally determined timescale
- your area's current and expected future urban design, with an eye to changes in working patterns, usage across all types of property and need for green space
- your view of current and changing connectivity and access needs, considering all forms of travel and expected changes in user behaviour
- your medium- to longer-term view of service requirements, with a focus on education, prevention and enablement, particularly for vulnerable children and adults
- your organisation's asset base, in terms of location, current use and future opportunities and potential
- your organisation's progress with the application of 21st century technology and digital solutions
- your organisation's commercial strategy and portfolio, particularly in terms of risk and future resilience

- your view of current and potential future risks beyond the control of your organisation, such as geopolitical risks; criminal acts, including violent extremism and cybercrime; health crises; and environmental risks, including extreme climate risks
- your organisation's available resources, funding opportunities and investment leverage potential
- your organisation's available non-financial resources, processes and capacity to deliver.

Imagine the leadership of your organisation sitting in a room – virtual or actual – with the metrics, demographics, needs statistics, geography, spatial vision, data and available resources in front of you, informing this one-page story. Each gap identified as part of this exercise will start to shape your action plan for improvement, including:

- **Strategic gap** – indicating where expected influential external strategies and plans have been delayed and where internal strategies and plans are yet to be refreshed or produced
- **Evidence gap** – where national and local sources of demographic, area and needs data are lagging significantly behind the strategic planning period
- **Resource gap** – current view of available revenue resources and concerns about a worsening position
- **Funding gap** – current headline view of your capital funding gap, particularly in terms of opportunities for external and partnership contributions
- **Affordability gap** – current view of revenue constraints on your capital financing, particularly related to borrowing and ongoing running costs
- **Ambition gap** – current frustrations when looking at your capital investment ambition compared to your current ability to invest
- **Risk mitigation gap** – level of regional and/or local control over actions to improve the ability to invest
- **Capacity gap** – current headline view of capacity to deliver, in terms of people, programme and procurement resources.

From our research for this guidance, it is clear that the picture that can tell this story is incomplete for almost all regional and local government organisations. A tailored, long-term and fully informed capital strategy will set you on the path to addressing the above gaps, and any others identified, to ensure that your organisation's long-term priorities can be delivered. The first capital strategy that you developed for 2019 was just a start. The capital strategy that you develop for 2021 and beyond will need continual monitoring, review, improvement and planned action.

Our challenge to you as leaders of your respective organisations is to be ambitious, creative, inquisitive, sensitive and risk aware, while recognising the challenges and difficult choices, as you continue to develop your capital strategy for 2021 and beyond.

Capital strategy intention and long-term ambition

STRONG STATEMENT OF INTENTION AND LONG-TERM AMBITION

We have found that the better capital strategies published in 2020 have taken on a corporate style, rather than a report style. The leadership of the organisation tells the story of what is planned to be achieved by taking the identified investment and actions, which have been informed by the agreed capital strategy.

The way that you introduce your capital strategy should leave the target audience in no doubt about the intention and long-term ambition of your organisation for its area and population. This should be clearly aligned with your external, partner and internal influences, both political and corporate, and it should be framed within the context of evidenced need.

When the organisation sets out its plans for investment, the benefits, outputs and outcomes should be easily understood and recognised by all interested and affected stakeholders. A concise statement of intent for the outcome of the planned investment will provide a powerful message.

Here are some points for you to consider:

- Think about whether you can attempt to write this statement before commencing the refresh or development of your capital strategy – this is not intended as an executive summary.
- If you have taken up our challenge to collectively write your one-page story, this could be a starting point for your strong statement of intention and long-term ambition.
- As leaders of your organisation, care about what you include in this statement and write it yourselves.

Here are some good examples extracted from a local government capital strategy:

Figure 3.1 Extract from Cardiff capital strategy**Delivering Capital Ambition**

In January 2020, the Council's Administration published Capital Ambition, a policy programme which sets out a series of commitments for Cardiff.

These commitments prioritise maintaining momentum in city regeneration and economic development, tackling inequality and inclusive growth, responding to the climate emergency and public service reform.

Progressing this ambitious agenda will require capital investment if the administration is to deliver on its major commitments. This would include investment in new schools and in modernising school buildings, delivering a significant house building programme and enabling the continued regeneration of the city's business and transport infrastructure.

It is therefore crucial that, when long term investment decisions are undertaken, decision makers can rely on clear and informed information. This would include:

- A long term view of capital expenditure plans and any financial risks to which the Council is exposed.
- Ensuring due regard to the long term financing, affordability implications and potential risks.
- A clear overview of the Council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications.

The Capital Strategy will therefore continue to help support informed decision making in the delivery of Capital Ambition.

Source: Cardiff Council, Capital Strategy 2020/21.

Figure 3.2 Extract from Cardiff capital strategy**Introduction**

Our Capital Ambition is to create a greener, fairer and stronger capital city that plays a leading role in creating a better future for Wales.

When I became leader of Cardiff Council I set out my belief that Cardiff was facing a historic opportunity – a chance to turn potential into reality and become a truly great world capital. Over the past three years I have spent each and every day working alongside my colleague Cabinet members and Councillors, with businesses, charities, universities and public sector partners, and most importantly of all with the people of Cardiff, to turn this potential into reality. As this refreshed Capital Ambition shows, across all Cabinet portfolios and all aspects of public services and city life, we are taking our great city forward.

... I want Cardiff to play a leading role in the Welsh response to the climate emergency, turning the theory of a Green New Deal into practice. In no area of city life will this be more important than in shifting to sustainable transport. We have put forward a £1bn programme of rail, bus and bike projects that will radically change how people move around the city, reduce carbon emissions, tackle congestion and dramatically improve air quality.

That is why we are also looking at different, innovative funding mechanisms, including road user charging. We will also take forward a review of our Local Development Plan, putting sustainable development as the unifying guiding principle for managing Cardiff's rapid growth. Through our One Planet Cardiff strategy, which will also include a range of initiatives in sustainable energy, food, travel, housing and water management so that, over the decade ahead, we in Cardiff will lead the transition to a cleaner, greener Wales.

The next decade promises both opportunities and challenges for our public services. With the rapid growth of the city and entrenched inequalities, the demand for our services will continue to grow. Many services will therefore need to be re-invented and rebuilt to meet the new challenges of the decade ahead. These reforms will be based on the principles of prevention and partnership working, of listening to the voices and building on the strengths of citizens and communities and of applying digital technologies. Above all else I want Cardiff Council and its public sector partners to lead by example in delivering economic, social and climate justice – above and beyond the vital services we deliver. Together, we need to be far more inventive in our procurement, in our employment and recruitment policies and in the use of our assets to drive up workers' rights, improve environmental standards and better the lives of the people in our poorest communities.

These are our continuing Capital Ambitions. Their delivery will rely on the dedication, passion and creativity of thousands of our Council officers, teachers, social workers and street sweepers. But also our police officers, fire fighters, doctors and nurses. They are the bedrock of our public services, and I want to pay tribute on behalf of my Cabinet and the public service leadership of the capital city of Wales to the work that they do on behalf of our city, day in day out.

Every citizen, every business and every community group can make an important contribution to life in our city. Each of us can help play our part in building a city where everyone makes a valuable and valued contribution. My commitment remains, as Leader of the Council, to work together with you all in a common endeavour to make Cardiff a better place to live for all our people.

In delivering our Capital Ambition we will focus on four main areas:

1. Working for Cardiff

Making sure that all our citizens can contribute to, and benefit from, the city's success.

2. Working for Wales

A successful Wales needs a successful capital city.

3. Working for the Future

Managing the city's growth in a sustainable way.

4. Working for Public Services

Making sure our public services are delivered efficiently, effectively and sustainably in the face of the rising demand and reducing budgets.

Source: Cardiff Council, *Capital Ambition*.

ENGAGING THE INTENDED AUDIENCE

As a local government organisation, you do not develop your capital strategy in a vacuum. You are continually engaging, consulting and influencing your wide range of partners and stakeholders, particularly the population that you serve.

The planned long-term capital investment needs to be seen and easily understood by the people, communities and organisations that will benefit from that investment. Local government services and their delivery are complex and diverse. The capital strategy therefore needs to demystify the planned myriad of capital investments, so that the underlying intention and long-term ambition comes to life.

Engaging your intended audience should not be left until they get to the main content of your capital strategy, as you may have already lost them by then. Make sure that you get your message across as leaders right at the outset of your capital strategy. Your collective voice should come across clearly and genuinely.

Here are some points for you to consider:

- We suggest that you ask a cross-section of your workforce and your stakeholders what they expect from your capital strategy in terms of content and outcome.
- If some people are confused by the question you may need to better explain why you have a capital strategy.
- If you do this exercise, actively listen to the feedback and demonstrate how this feedback has informed your approach to the refresh or development of your capital strategy.

Here is a good example extracted from a local government capital strategy:

Figure 3.3 Extract from Waltham Forest capital strategy**The Purpose of the Capital Investment Strategy**

2019 was an incredible year of success for Waltham Forest with its rich culture and heritage celebrated as London's first Borough of Culture and receiving the prestigious award for 'The Municipal Journal's Council of the Year'. 2020 is a year of opportunity to both consolidate and build on these successes; critically this involves the acceleration of our £0.5 billion capital investment and delivery to secure a real cultural legacy for the borough and responding to the economic challenges brought by COVID-19. It sees the upscaling of activity with the commencement of the delivery phases of flagship programmes such as the redevelopment of the Town Hall Campus, the start of renovation works at the former EMD Cinema and building works on major housing delivery programmes and plans to finalise its new long term borough plan, Vision 2030. Successful delivery of this capital investment will be key to achieving the Council's priorities and embedding a lasting cultural legacy and fast paced economic recovery.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

VISUAL REPRESENTATION

We recognise that there is much to be incorporated into your capital strategy. This can potentially result in a lengthy and complex document to report. We do not specify a length of document, as this can naturally vary depending on the size and complexity of your organisation.

We have found that the capital strategies that incorporate a strong visual representation of the content are the easiest to read and understand. Using visuals in the statement of intent and long-term ambition is a powerful way to put a message across simply and effectively. It is important to understand how your different stakeholders take on board information and gain an understanding of the need for investment.

We are mindful that corporate resources differ depending on the size of the organisation and that sophisticated design and graphics cannot always be achieved. However, in our view, this does not prevent any organisation from bringing the capital strategy into line with the style and approach of its other corporate strategies and plans.

Here are some points for you to consider:

- A photo of you as leaders of your organisation can go a long way to personalising your opening statement.
- A human approach to your statement will help to demonstrate that this is not just about spending money on a big scale, it is about the outcome and the positive impact that is intended – for this purpose you could include a community photo.
- If you refer to your area, or any important statistics, you could visualise these in some way for ease of understanding – this can be more relatable for some stakeholders.

Here are some good examples extracted from local government capital strategies:

Figure 3.4 Image from Newcastle-under-Lyme capital strategy



Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

Figure 3.5 Image from the City of Edinburgh Council capital strategy



Source: The City of Edinburgh Council, Capital Strategy 2020–30.

Strategic planning framework

FIT WITH STRATEGIC PLANNING FRAMEWORK

Your capital strategy should be tailored to the circumstances of your organisation and the area that you serve. It can be the catalyst to enthuse you as regional or local leaders about what you can positively do to bring about sustainable long-term growth and to meaningfully engage with regional and local stakeholders.

You therefore need to consider where the capital strategy fits within your overall strategic planning framework. It is not purely a financial document: it is a whole organisation approach. Where you decide to position the capital strategy within your strategic planning framework will determine how it is perceived. If you achieve whole organisation buy-in for the development of your capital strategy, it enables the chief finance officer to take an appropriately independent role in safeguarding the planned capital investments and navigating through scrutiny and governance challenges.

We recognise that it is difficult to look to the longer-term horizon, more so now than ever, but you need to endeavour to do so. You will already have strategies and plans, both external and internal, that stretch beyond ten years. For example:

- Regional and local deals (15–20 years)
- Transport strategies (20–30 years)
- Local (development) plan (15–30 years)
- Housing Revenue Account business plan (30 years)
- Asset management strategy (30+ years).

Drawing on these existing strategies and plans, you should be able to tell a longer-term investment story, say 20–30 years, in your capital strategy, and aim for a capital investment plan that stretches to at least ten years.

Here are some points for you to consider:

- It will help with whole organisation buy-in if you are able to explain clearly where the capital strategy fits in your overall strategic planning approach.
- We recommend shifting from the perception that this is a finance responsibility to a view that the capital strategy should be steered by the leadership of the organisation and is the responsibility of all.
- You should determine what the longer-term horizon is for your organisation – in our view you should strive for 20–30 years for your longer-term investment story, but if you collectively feel that you are not in a position to stretch this far then we suggest that you should aim for at least 15 years.
- Similarly, you should determine how far you can realistically stretch your capital investment plan – due to the longer-term focus, we suggest that this should be at least six years.

Here is a good example extracted from a local government capital strategy:

Figure 4.1 Extract from Waltham Forest capital strategy

The Importance of the Capital Investment Strategy

The Council recognises the vital contribution its Capital Investment Strategy and portfolio play in the economic growth of the borough. The significant and strategically planned investment shows that Waltham Forest is an ambitious growth borough looking to invest in improvements of placemaking to create an economic resilience which allows both local business and communities to thrive. It also welcomes the opportunity to work with the private sector to deliver its priorities and for the private sector to see Waltham Forest as a place it wants to invest in. The Council recognises that it needs to leverage private investment to create a resilient local economy and deliver the best outcomes for residents and businesses.

The importance of having a meaningful and comprehensive Capital Investment Strategy was recognised in the Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Prudential Code (December 2017). This requires that (as of April 2019) all local authorities have a Capital Investment Strategy, allowing them to ensure capital investment is directed to programmes and projects which maximise the delivery of organisational objectives, support sound borrowing and effective financial management.

In response to these requirements, the Council recognises how the Capital Investment Strategy and the programmes that make up the investment portfolio contribute to delivering the organisation's strategic objectives and desired outcomes. Further, the Council appreciates that capital investment proposals emerge from local, regional and national priorities, enabling Service Directorate policies and plans which translate corporate priorities into tangible investment schemes – and critically that the Council's Capital Investment Strategy and its revenue impact form an important element of the Council's medium and longer term financial plan.

Importantly, the Council recognises that the future development and refinement of the Capital Investment Strategy is a continuing journey.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

VISUAL REPRESENTATION

When you can illustrate certain elements of your capital strategy you should take the opportunity to do so. Where your capital strategy sits in your overall strategic planning framework is not easy to understand in words alone, especially to the wider audience for your capital strategy.

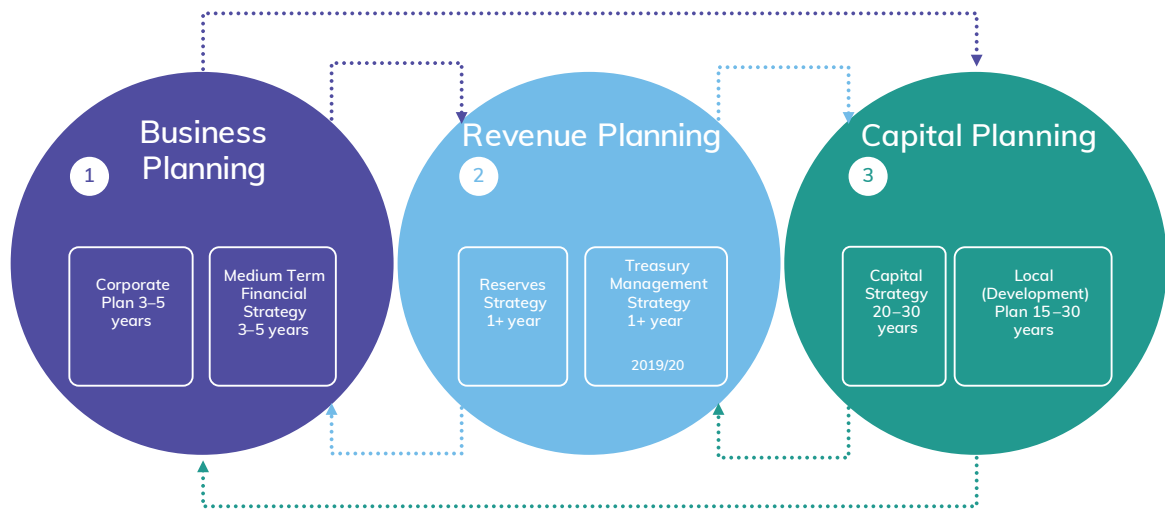
The visual representation should be tailored to your organisation's model, structure and process. Again, any diagrams, charts and tables that you include in your capital strategy assist with keeping the document concise, readable and easier to understand.

The following diagram picks out three elements of your strategic planning framework:

- **Business planning** – your corporate planning, both non-financial and financial, informed by your wider strategies and plans
- **Revenue planning** – your revenue planning, based on external and internal funding streams, informed by your reserves strategy and treasury management strategy
- **Capital planning** – your capital planning, based on ambition, external and internal funding streams, and steered by your capital strategy and local plan.

Figure 4.2 is just one example of how you can demonstrate that you have an integrated approach that ensures appropriate links are made across all elements of your organisation's strategic planning, both business and financial.

Figure 4.2 Strategic planning framework



Here are some points for you to consider:

- We suggest that you examine your own organisation's approach to strategic planning, and decide where your capital strategy fits in this picture.
- If you have an existing visual representation of your strategic planning structure, incorporate your capital strategy into the visual as appropriate.
- If you are starting from a blank page, this can be a good way for your collective leadership to focus on your current strategic planning approach and how you aim to operate in future.

Here are some good examples extracted from local government capital strategies:

Figure 4.3 Extract from Cardiff capital strategy

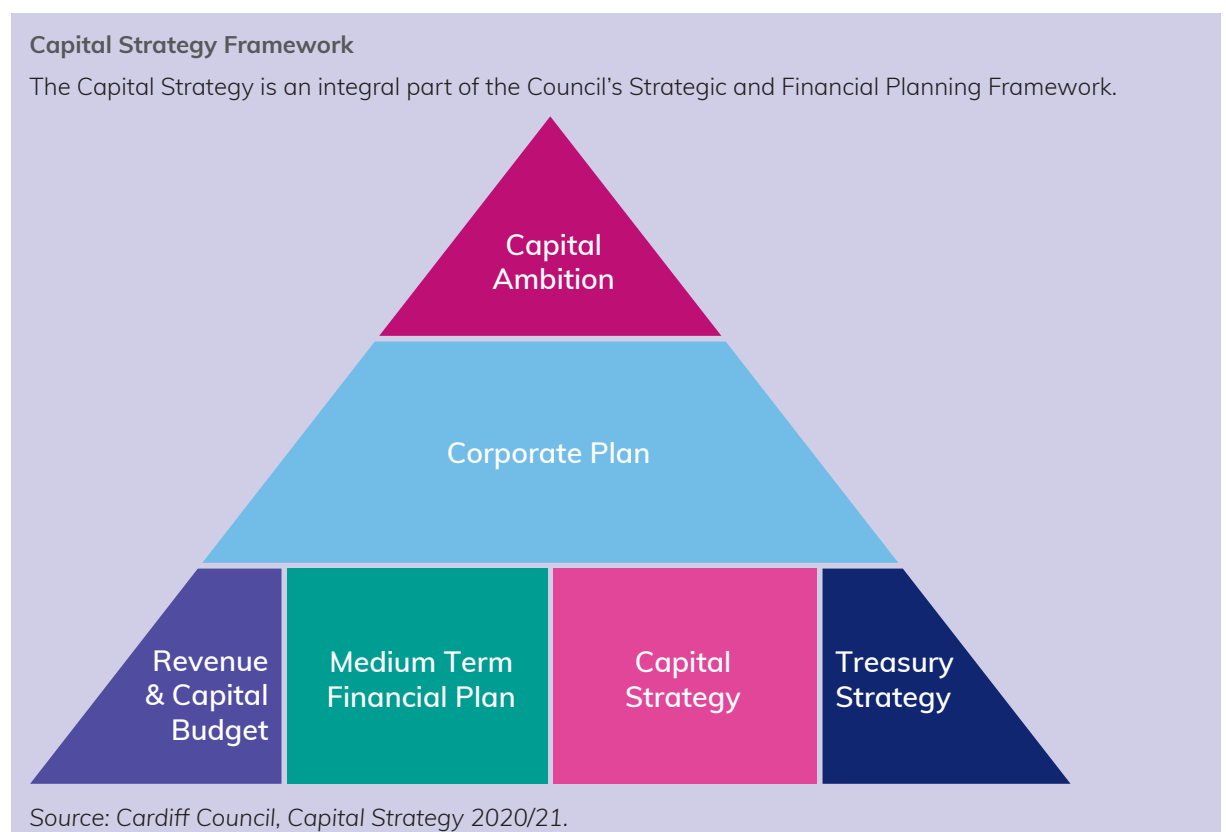
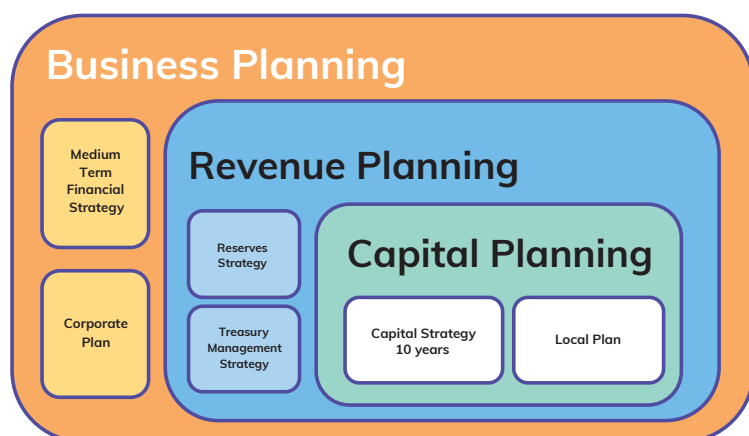


Figure 4.4 Image from Newcastle-under-Lyme capital strategy



Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

STRATEGIC QUESTIONS

We fully understand the challenge of developing a meaningful capital strategy and how difficult it is to keep your capital strategy relevant and up to date when you are faced with the following broad issues:

- the relatively short-term and volatile nature of the political cycle
- the changing landscape of local authority and public body models, such as rises in combined authorities, devolution, reorganisation, shared services and shared management teams
- the changing legislative and regulatory environment, leading to grey areas and therefore differing interpretations
- the long-lasting impact of austerity measures
- the short-term financial settlements from central government, which make long-term planning uncertain and more challenging
- the impact of your climate emergency declaration
- the volatile policy environment, making even the next year uncertain, let alone the next ten years
- the drive for local self-sufficiency as the revenue position becomes more and more difficult to manage
- the fact that local government organisations are now setting a budget based on a range of potential forecasts with high risk, rather than a set of clearly defined estimates with moderate risk
- the implications of Brexit, the unthinkable impact of COVID-19 and the need for a significant contribution to the UK recovery plan.

We therefore suggest that you ask yourselves strategic questions to ensure that your capital strategy adds real value to your strategic planning. For instance:

- What are the top ten needs of your area and population that you must address for current and future generations?
- What are your key priorities for lobbying?
- How can you strengthen your strategic partnerships?

- How will your organisation need to operate in the next 3–5 years and/or will it continue to exist in its current form?
- What are the next steps for your climate emergency plan?
- How can your organisation contribute to the UK recovery plan?
- What is your risk appetite for commercial activity?
- If you had one wish for your area, what would it be?

Here are some points for you to consider:

- If you are going to bring your capital strategy up to a strategic level, you will first need to stand back and afford yourselves more time to think and to be creative.
- Stop delegating the responsibility for your capital strategy outside of your leadership team – you do not have to sit down and compile your capital strategy yourselves, but you should determine its strategic direction and content.
- Start to see the refresh or development of your capital strategy as an opportunity that will add value to your organisation and support the successful delivery of your planned investment outcomes.

CLEAR MESSAGES TO BE CONVEYED

You need to consider how you are going to address the gaps that you identified when developing your one-page story, as recommended in Chapter 2. Your capital strategy for 2021 onwards will not be the complete position: you will understandably have gaps and improvements still to be made. Think about how you will deal with these outstanding issues. There is no need to apologise, so be positive about how you are going to tackle them and move things on for 2022 and beyond. Make sure that the timescale for improvement is realistic and deliverable.

If you ask yourselves strategic questions, this will enable you to convey clear messages to your key stakeholders, particularly the population that you serve. Your capital strategy can be a powerful platform for this purpose. If you collectively put the effort into making it a valuable and meaningful approach, the purpose and ambition of your planned investment will come through naturally and with clarity.

When you produce your one-page story as things stand, consider the answers to your strategic questions and integrate the capital planning building blocks that are already in place. This provides you with the foundation for a best practice capital strategy. Based on published 2020 capital strategies, our research indicates that there is currently good practice but not yet best practice.

Here are some points for you to consider:

- Aim to be clear about your gaps and be real about the challenges that you face – you need to enthuse people, communities, businesses and partners to get involved and be part of the solution.
- As part of your capital strategy, develop a strong and realistic action plan, either for each element of your capital strategy or a summary across all elements – this enables you to be positive about the way forward rather than apologetic for what has not been achieved to date.
- If you want your capital strategy to be a platform for lobbying, whether that be from a policy or funding perspective, you need to work hard on your messaging and back it up with strong evidence of need.

Here is a good example extracted from a local government capital strategy:

Figure 4.5 Extract from Cardiff capital strategy

Future Years Strategy Development

The development of a Capital Strategy is still a recent requirement in Wales and it is recognised some areas will need to develop over time. Potential development actions will be identified during 2020/21 as part of a process of continuous improvement to support members in their decision making.

Such actions include:

- Assessment of asset management planning to inform decision making and risk.
- Building on an initial data gathering exercise identifying capital pressures and risks over a 10 year horizon.
- Business case and viability best practice. Review approach ensuring they adequately inform decision making.
- Clear scope and post project evaluation of schemes.
- Reviewing the output from a self-assessment of skills and knowledge to inform capacity to deliver.
- Reviewing the linkages and role of Boards in the approval of effective business cases and asset management planning to ensure that all assets are captured.
- Reviewing whether any additional indicators or disclosures are required to support an assessment of 'proportionality of income' when considering investment in non treasury assets and where such assets are reported.

Progress on meeting these improvements will be reviewed by the Corporate Director Resources as part of a review to be commissioned using internal and external advice.

Source: Cardiff Council, Capital Strategy 2020/21.

Evidence of need

SOURCES OF EVIDENCE

There is a myriad of national, government, regional, professional and local data at your disposal. When developing or refreshing your capital strategy, you will need to review your current methodology for gathering statistics and data. You will also need to examine the statistics and data that you are relying on to inform the capital investment needs for your area and local population.

When you bring evidence about need into your thinking on your capital investment ambition, you must be sure that the evidence is well informed, relevant over the longer term and up to date. This is particularly important given the volatile conditions that local government organisations are facing in 2021.

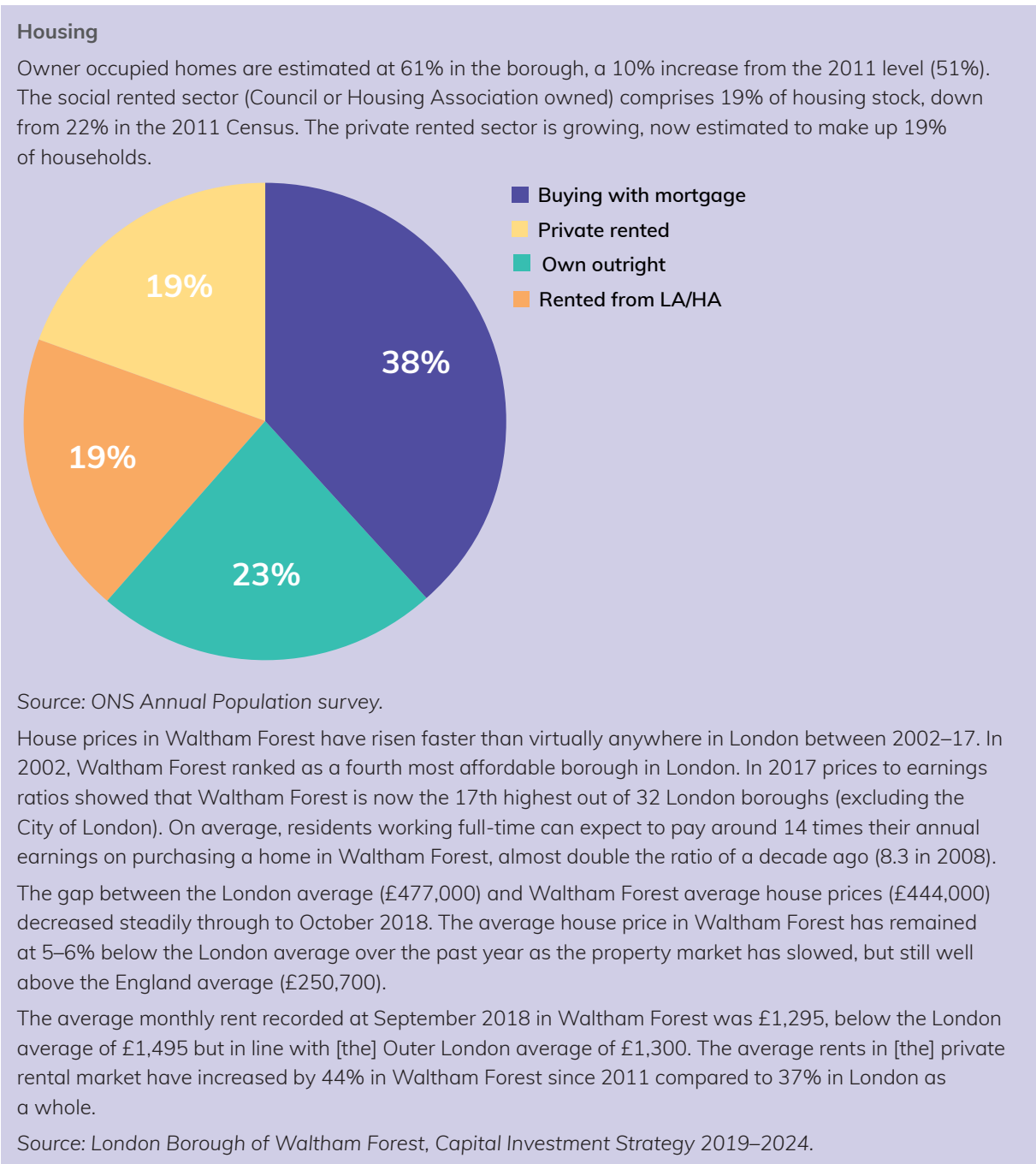
Basing your longer-term capital investment ambition on a patchy evidence base for regional and local need could lead to abortive work and become a drain on resources, rather than being a strong and transparent foundation for current and future decision making for capital investment.

Here are some points for you to consider:

- We suggest that you undertake an initial view across your organisation, focusing on current sources of data, current methods for building evidence of need and current concerns with the quality of supporting data.
- This review will give you an initial view of any risk areas that you can then explore in more detail to establish if you can make internal improvements or if you need to identify external solutions.
- Your regional and local strategic partner network will be extremely valuable – there may be opportunities to make better links with existing partner data sources, and there is also the potential to collaborate on improving available data sources and building a stronger base of evidence for any risk areas that you have identified.

Here is a good example extracted from a local government capital strategy:

Figure 5.1 Extract from Waltham Forest capital strategy



CHALLENGES TO BE ADDRESSED

We recognise how difficult it can be to resource the capture, evaluation and analysis of the statistics and data that can be vital to understand the make-up, location and needs of your area and local population. You will be doing this in all aspects of your service delivery and operations, at a time of scarce and stretched resources.

We also recognise that some statistics and data lag behind the timescale that you are planning for, and at a time of such volatility and change, this makes it even more difficult to evaluate the quality of evidence that you are gathering.

Nevertheless, it is important for you to think creatively about how you can gather your own data locally, based on the key statistics and measures that you think will provide you with the best

evidence for your regional and local needs. Where you have gaps, but the ability to address those gaps with your own resources, you should seek to do so. Shared learning with peer organisations will be extremely valuable for this endeavour.

Here are some points for you to consider:

- Once you have determined where your evidence gaps can be addressed internally, establish what methodology you need to put in place to either gather the relevant data or start to measure the required evidence.
- Where you are unable to solve an evidence gap internally, we suggest that you speak to partner and peer organisations in the first instance to see if there is a good methodology that has been identified elsewhere.
- Where external support is required, be clear about your evidence gap and your desired outcome.

Here are some good examples extracted from local government capital strategies:

Figure 5.2 Extract from the City of Edinburgh Council capital strategy

Edinburgh and the Council's Role

Edinburgh has seen significant population growth, with a 12.2% increase between 2006 and 2016, compared to a national rise of 5.3%. In 2021 it is forecast that the number of people aged 65 and over will overtake the number of people aged under 18. In comparison to 2018, by 2023 there will be 4,000 more children in our schools and our total population will have increased by 23,000 people.

This growth will place further demand on a range of frontline services, as such, the Council's budget framework continues to provide additional annual sums in respect of growing numbers of school pupils, at-risk children, older people and those with physical and/or learning disabilities.

A growing population is one of the most visible signs of the city's economic success. However, not all of our citizens share in that success and alongside our affluent areas, the city contains some of the most deprived communities in Scotland. We know that over 80,000 of our citizens, including almost 1 in 4 of our children, live in poverty and an increasing number of our citizens, even some in work, rely on foodbanks. This cannot be allowed to continue.

Working together as a city, we have a responsibility to act and a legal duty to end Child Poverty by 2030. More than that we have an opportunity to improve this position. We believe that much lower rates of poverty in Edinburgh can be achieved.

Narrowing these gaps and allowing all residents to share in the city's success therefore forms a key strand of the City Vision.

Responding to the global climate crisis is a central part of our plan for the future. We want to be a carbon-neutral city by 2030.

Source: The City of Edinburgh Council, Capital Strategy 2020–30.

Figure 5.3 Extract from Cardiff capital strategy**Strategic Context**

As the capital city of Wales, Cardiff is the commercial, cultural and retail driver of Wales. It is one of the fastest growing cities in the UK, with population growth projected to increase by 20% between 2019 and 2039. This is an additional 73,000 people, meaning that population growth in Cardiff will exceed the estimated population growth of every other local authority in Wales.

The city's economy is also growing, jobs and businesses are being created, unemployment is at its lowest level for over a decade and visitor numbers are increasing every year.

Whilst this growth brings opportunities, it also brings challenges. Rapid population growth will require more school placements and social care provision whilst placing pressure on housing and the city's transport infrastructure and environment. For example, as well as those living in the city, more than 98,000 people, over one third of the city's workforce, commute into Cardiff every day from across the region.

Capital Ambition identifies the opportunities facing the city and sets out the response to challenges. This is not just a consideration of how we manage decline but it is about investing in future economic growth and development, prioritising investment in schools, affordable housing, tackling homelessness, and protecting the city's most vulnerable people. It sets out the approach for tackling congestion and air pollution, improving recycling rates and keeping our streets clean, along with a series of commitments to create opportunities for local people and addressing inequality.

Source: Cardiff Council, Capital Strategy 2020/21.

SPATIAL REPRESENTATION OF NEED

We can see that there is an exciting move towards understanding the spatial view of need, using innovative technology. There are several emerging initiatives across the UK that apply spatial technology to regional and local data. This allows the leadership of a local government organisation to see a visual representation of its area based on an identified need for its population.

Providing that the gathered data and statistics are of sufficient quality, this adds a whole new dimension to thoughtful and informed decision making. When you are forming your capital investment ambition, the ability to visualise your regional and local needs spatially is a powerful tool. When combined with the evidence that you gather from engaging with stakeholders, this – when done well – can give you a more complete picture of need.

This approach can also make a valuable contribution to identifying on-the-ground solutions to the needs that you have identified. It better enables emerging ideas to be overlaid spatially, so that solutions can be flexed and adapted based on continued evidence gathering and stakeholder engagement. A spatial representation of your capital investment plan, where relevant, is an effective way of gaining buy-in and understanding from those who are expected to benefit from your planned interventions.

Here are some points for you to consider:

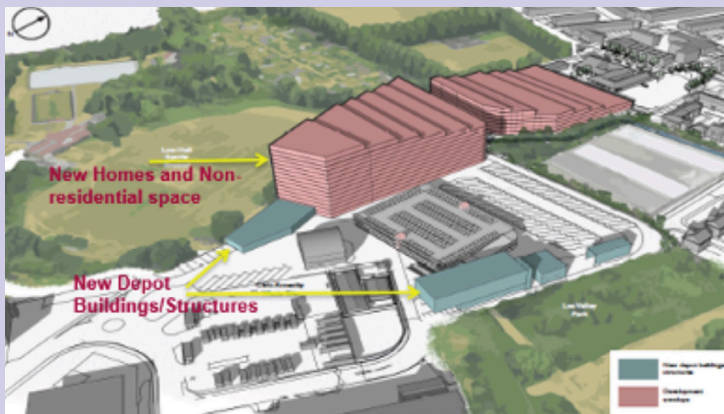
- We suggest that you explore new ways of examining and analysing the investment needs for your population and area – a spatial focus can support engagement and enable you to develop scenarios that support co-designed solutions.
- There are opportunities both for organisations that are already exploring this approach to share their experience and learning and for organisations that are interested to learn from those that have gone before.

Here is a good example extracted from a local government capital strategy:

Figure 5.4 Extract from Waltham Forest capital strategy**Plans for 2020–24**

A strong programme of delivery has been established to ensure that the Council's new depot facility is delivered at pace:

- Public engagement will commence in spring 2020, followed by;
- A planning application in late 2020
- Subject to planning, works on the new depot will commence in winter 2020
- The new facility will be completed and operational by late 2022
- Finally, the delivery of new homes will commence after the depot opens, with the intention of completing residential development in 2024.



Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

External and partner influences

IDENTIFY THE MOST STRATEGIC AND IMPORTANT EXTERNAL INFLUENCES

It is important for you to examine the strategic external influences on your capital strategy and your capital investment plan. For instance:

- Government policy
- Government strategies and plans
- Regional strategies and plans
- Regional and local deals
- Local plan (if not a planning authority).

When you examine your strategic external influences, it will help you to focus on the aspects that are driving your longer-term investment ambition. There is no doubt that some strategies and plans, at all levels of government, will be out of date or will have lost significance over the course of time. Determine which ones are strategically relevant for the priorities, objectives and outcomes that you are working towards.

You will have to decide which influences need to be reflected in your capital strategy and whether there is anything that your organisation can do to influence policies, strategies and plans that, in your view, are no longer fit for purpose or missing from the scene. This could form part of your lobbying position when it comes to addressing your capital investment ambition gap.

Here are some points for you to consider:

- We suggest that when you have identified your key external influences you do not simply list them in your capital strategy – you should provide a brief explanation of how your capital investment ambition has been influenced and over what timescale.
- Where you feel that there is a gap in external influence that is hindering you in developing your capital investment ambition, you should determine what actions you can take to resolve this.
- Where you are not able to resolve gaps as an individual organisation, we suggest that you work with your peer organisations, perhaps through your relevant societies and professional bodies, to establish whether there is a collective concern.

Here is a good example extracted from a local government capital strategy:

Figure 6.1 Extract from Newcastle-under-Lyme capital strategy**Introduction**

The Strategy has been prepared against a background of continuing reductions in funding provided to local authorities by central government and its agencies, arising from the need to restrain public expenditure owing to the ongoing economic conditions and to rebalance public finances. At the same time, the Council's own resources available to finance capital projects have reduced to a low level and will need replenishing before any substantial further capital investments can be made. As a result the Council is considering and consulting upon a programme of asset disposals to address this situation. In addition the Council has also produced a Commercial Strategy with the aim to generate income through commercial activities which can then be reinvested in local priorities.

... Factors Influencing the Capital Programme

Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors. The more significant of these can be summarised diagrammatically as follows:

Internal	External
Corporate Priorities, as set out in the Council Plan	Government sponsored programmes, e.g. Disabled Facilities Grants
Investment identified in Strategies, Policies and Plans	Unforeseen Emergency Works
Work needed to maintain Property Assets	Works required to comply with legislation, e.g. re disabled access, health and safety
Vehicles, Plant and Equipment replacement needs	Projects resulting from Partnership Activity
ICT Investment and Replacement	Availability of External Funding
Invest to Save Projects	Public expectation that works should be carried out

... External Influences, Partners and Consultation with Other Interested Parties

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

Government sponsored initiatives and programmes will influence the projects which the Council will include in its capital investment plans. In particular, its Housing Investment Programme in which the Council participates with regard to Disabled Facilities Grants, this is a major area of investment where funding is provided by Government to meet a proportion of the costs of some of these activities. This funding currently consists mainly of grant payments to partially meet the cost of disabled facilities grants payable to eligible applicants.

Where it may be required by legislation to carry out works of a capital nature, such as to comply with the Disablement Disability Act or Health and Safety requirements, or anti-pollution regulations, the Council will consider the most effective way to discharge its obligations and appropriate provision will be made in its Capital Programme once it has determined that it shall carry out the necessary work and that this should be capitalised.

... The Council is a participant in the Local Strategic Partnership (LSP) and will have regard to the content of its Sustainable Community Strategy together with any other elements of the partnership which relate to capital investment and may be able to use the capital programme as a means of fulfilling some of its obligations to the LSP.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

IDENTIFY THE KEY PARTNER INFLUENCES

It is also important for you to examine the partner influences, external organisations with which you have a legal or formal relationship, on your capital strategy and capital investment plan, such as strategies and plans related to:

- local enterprise partnerships
- health sector
- further education sector
- other public sectors
- charity, social and not-for-profit sectors
- community projects
- private sector.

When you examine your partner influences, you should reflect the current and potential future influences in your capital strategy. It is also worth setting out the opportunity that partnership working brings to your organisation: it enables you to leverage a bigger package of investment that extends beyond your investment potential as an individual organisation.

In this regard, your capital strategy needs to include any agreed or potential investment leverage that is part of your longer-term capital investment plan, subject to appropriate commercial sensitivity. This will demonstrate to your key stakeholders that you intend to achieve your capital investment ambition through a collaborative approach.

Here are some points for you to consider:

- We suggest that when you have identified your key partner influences and opportunities you do not simply list them in your capital strategy – you should provide a brief explanation of how your capital investment ambition has been influenced and over what timescale.
- Where you have identified future opportunities for partnership working that have yet to be meaningfully addressed, consider what can be included in your capital strategy, subject to commercial sensitivity.
- When you are developing a 20–30 year capital strategy you need to strike a balance between staying silent about opportunities for good reason and a perceived lack of transparency about your longer-term intentions.
- When working with local government organisations, we found that the capital programme is the tip of the iceberg – there is a tendency to bury some aspects of future plans that could be explored in the public domain. Give serious consideration to what can be enthused about and explored in your capital strategy.

Here are some good examples extracted from local government capital strategies:

Figure 6.2 Extract from Cardiff capital strategy**Working with Partners**

Delivering investment across the city to meet the ambition to create a greener, fairer and stronger capital city and its role as the economic driver for the wider region and Welsh context needs a strategic approach with the private and public sector.

... The Council works closely with regional, local authority partners in the Cardiff Capital Region, with partners in the Great Western Gateway and also as part of the UK Core Cities Group nationally. Within the city the Council has significant partnerships with other public sector bodies via informal or formal boards such as the Public Sector Service Board, Registered Social Housing Landlords, charities, universities and colleges to support the delivery of services for its residents, communities and businesses.

The Council will continue to work with Welsh Government to align key priorities and to make a case for a much longer-term and sustained approach to capital investment that not only supports the city's vital infrastructure, but also projects that can make a stepped change in helping to drive the city, region and nation forward.

The Council will continue to use its enabling role to harness skills and private funding, in order to take forward capital investment to deliver improvements and inclusive growth which would not otherwise be deliverable or affordable. It will set out its vision and co-ordinate activity between business and government bodies to develop a more productive and innovative platform for investment in the city.

Source: Cardiff Council, Capital Strategy 2020/21.

Figure 6.3 Extract from Newcastle-under-Lyme capital strategy**External Influences, Partners and Consultation with Other Interested Parties**

The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities. Relationships with partners, including those concerning capital matters, will be governed by the Council's Partnerships Code of Practice.

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 private sector, 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.

... Projects for consideration for inclusion in the Capital Programme may arise from the Council's participation in the Staffordshire and Stoke on Trent Local Enterprise Partnership (LEP) or similar sub-regional partnerships which seek to stimulate economic growth.

The Council has established a Town Centre Partnership, together with relevant parties such as representatives of retailers and businesses in the [Borough's] town centres of Newcastle and Kidsgrove. The partnership may identify proposals for town centre improvements which could place demands upon future capital programmes where such works align with the Council's economic development objectives. It may also present an opportunity for costs to be shared between the parties likely to benefit from their implementation.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

Internal influences

ORGANISATION STRATEGIES AND PLANS DRIVING INVESTMENT

As with external influences, it is important to examine the internal influences on your capital strategy and longer-term capital investment plan. Alongside your external and partner influences, your internal strategies and plans should play a fundamental role in driving your capital investment ambition. For instance:

- Local plan (for planning authorities)
- Climate change strategy
- Housing strategy
- Economic development strategy
- Transport strategy
- Health and wellbeing strategy
- Adult social care strategy
- Children's services strategy
- Social value policy
- Policing plan
- Fire and rescue plan
- Commercial strategy
- Asset management strategy and supporting asset management plans.

As with external influences, we have found that some local government organisation strategies and plans are out of date or have lost significance over the course of time. It is understandable at a time of unprecedented uncertainty that refreshing these strategies and plans can move down the list of priorities. However, when trying to look to the longer term, you need to be resolute both in removing strategies and plans that are not driving change, improvement and investment and in refreshing or creating strategies and plans that matter.

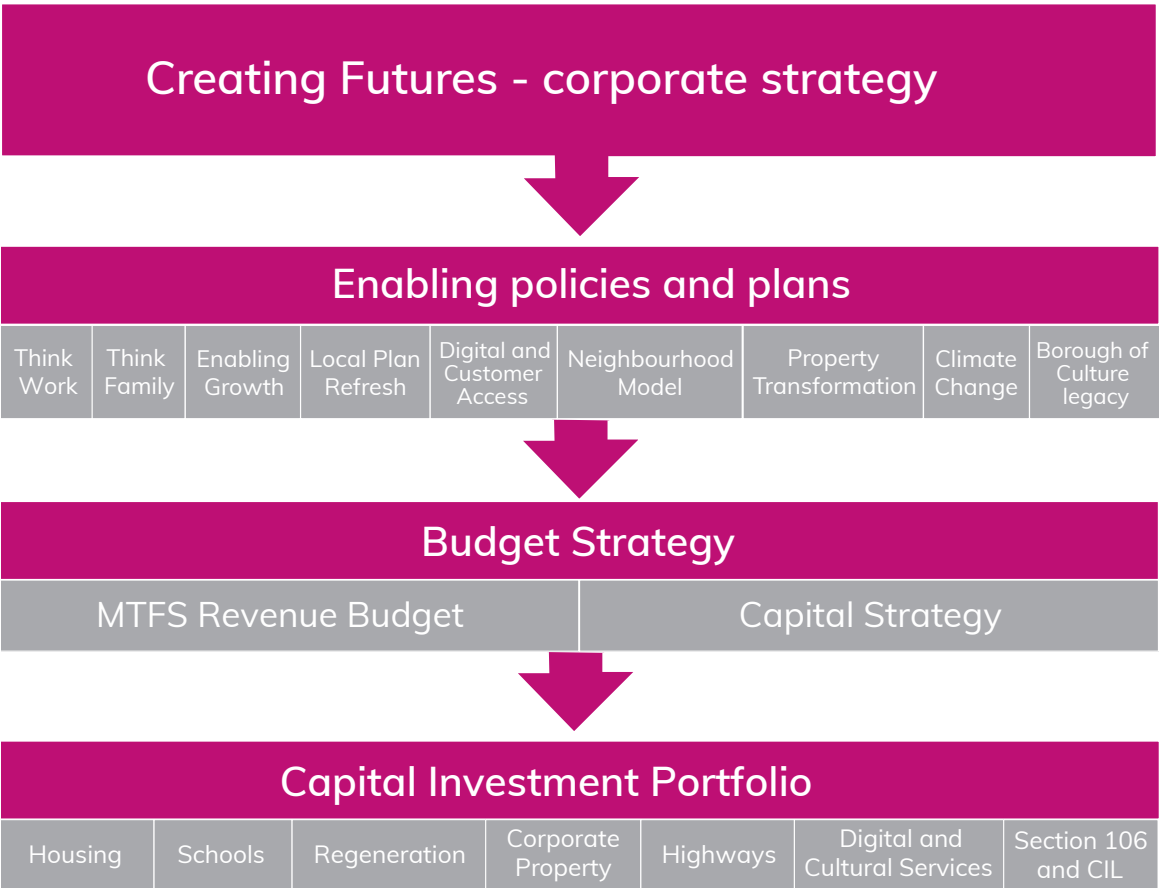
If your strategies and plans are up to date and in line with agreed refresh or lifespan timescales, then you will be able to rely on them to inform your capital investment ambition. If they are not, you should consider what information, research or data you have available to better inform your capital strategy. If you still have gaps, you should include appropriate actions in your capital strategy action plan to ensure that the position is improved over a realistically deliverable timescale.

Here are some points for you to consider:

- When working with local government organisations, we found that a good number of strategies were out of date and sat on a virtual shelf – consider how this happened, the effort that originally went into producing these strategies and plans, and how you intend to improve this in future.
- We suggest that internal strategies and plans should be more dynamic so that they stay relevant for longer – the effort that goes into developing strategies and plans can be considerable, so ensure that this effort results in strategies and plans with a valuable influence beyond the short to medium term.
- Challenge yourselves as leaders to have an action plan that sets out how you are going to address gaps that increase the risk for your organisation – you could include an action in your asset management strategy.

Here are some good examples extracted from local government capital strategies:

Figure 7.1 Image from Waltham Forest capital strategy



Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 7.2 Extract from Newcastle-under-Lyme capital strategy**Links with Other Strategies, Policies and Plans**

As well as the Council's Plan and the Capital Programme the Capital Strategy has clear links to many other strategies, policies and plans, the most significant of which are shown in the following table:

Key Strategies:

Economic Development Strategy

Health and Wellbeing Strategy

Stronger and Safer Communities Strategy

Other Strategies:

Asset Management Strategy

Investment Strategy

Medium Term Financial Strategy

Flexible Use of Capital Receipts Strategy

Service and Financial Plans

Procurement Strategy

North Staffs Green Spaces Strategy

Private Sector Housing Renewal Strategy

Housing Strategy

Arts and Cultural Strategy

Customer Access Strategy

Energy Efficiency and Climate Change Strategy and Carbon Reduction Plan

Treasury Management Strategy

Sustainable Community Strategy

The Investment Strategy sets out the Council's policies and practices in relation to commercial investments, for example investments in property and will include information about any such proposals, including funding the expenditure and the effect upon the revenue budget. Expenditure relating to commercial investments will be capital and will be included in the capital programme.

The Medium Term Financial Strategy will take account of the revenue effect of capital investment.

The Flexible Use of Capital Receipts Strategy sets out the conditions and arrangements in place to flexibly use Capital Receipts for qualifying 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 or to improve the quality of service delivery in future years.

Appraisal, procurement and management of capital projects needs to be carried out with regard to the objectives, methodologies, the principles and practices set out in the Procurement Strategy.

The various service based strategies will inform the Council's capital investment process through their identification of areas for action and of priorities within individual service areas.

The Treasury Management Strategy needs to reflect planned capital spend, particularly with regard to setting limits for tying up money over the longer term and the limits relating to the amount of permitted borrowing.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

Figure 7.3 Extract from Waltham Forest capital strategy**The importance of the Capital Investment Strategy**

... The existing Capital Investment Strategy operates on a medium term, 4–5 year planning and delivery timeline. However, further internal and external strategic drivers emerged in 2019–20 that are likely to provide a longer term context for the Council's strategic capital prioritisation, resourcing and delivery arrangements, in particular:

- **COVID-19:** COVID-19 has had an impact on all aspects of life. This includes the local economy where local businesses have reduced operations or temporarily ceased trading for the safety of the residents and communities. Whilst the full impact of business closure is not yet known, ensuring a fast and effective economic recovery from the effects of COVID-19 is a priority for the Council. Plans are already in development to ensure a fast paced and strong recovery of the local economy. This includes the continued and strong commitment to the Council's significant capital investment programme, recognising it will play a major role in the economic recovery of the Borough.
- **Vision 2030:** The Council continues to develop its long term borough plan, Vision 2030. Over the coming year the Council will work with its communities to set out what they want Waltham Forest to be in 2030. Vision 2030 will inform the services and infrastructure needed to help our residents succeed and provide the Council with a new political and organisational framework on which to build its future investment plans.
- **Climate Emergency:** In April 2019 the Council declared a Climate Emergency. This made a clear commitment to develop a firm and robust local response to tackling the impact of Climate Change as a priority. An independent Climate Commission involving experts from across the energy, waste and environmental sectors has been established, supporting the Council [to] develop its new Climate Emergency Strategy. Engagement with residents and businesses is ongoing and plans are in place to finalise the new strategy by autumn 2020. This will build on activity which has seen a 32% reduction in the Council's carbon emissions across the borough between 2005–2017.
- **The Local Plan:** Significant work has taken place in 2019 to review and adopt an updated Local Plan. This will be [the] borough's most ambitious growth development plan, the proposals outlined will look to potentially double housing targets up to 2035 and enable the development of new high quality, genuinely affordable homes, new jobs and employment space, thriving cultural neighbourhoods and town centres, infrastructure, preserving the environment and addressing Climate Change. The revised Local Plan in development consists of five golden threads:
 - Increasing housing delivery, creating liveable places
 - Ensuring growth is sustainable and supported by infrastructure
 - Building on the unique strengths of the borough and carrying forward its cultural legacy
 - Promoting the economy to improve life chances for all residents, students and workers
 - Ensuring land optimisation and driving investment.

Between June [and] September 2019 residents were consulted on the draft Local Plan which sets out the vision and strategic objectives for how the borough will grow over the next 15 years (2020–2035). Further consultation on the Plan will continue in summer 2020, with the intention of adopting a revised Local Plan in 2021. The current draft Plan aims to support the delivery of 27,000 new homes, 52,000 sqm of employment space with supporting physical, social and green infrastructure ensuring sustainable growth, maximising economic benefits for existing and new communities.

- **Borough of Culture Legacy:** In 2019 Waltham Forest was named as London's first Borough of Culture. The award by the Mayor of London, supported by over 14,000 residents and local businesses, ensured that arts and culture were placed at the heart of our communities. The year-long celebration highlighted the character, diversity and culture of the communities within the borough. The Council's investment in physical infrastructure will continue to recognise the importance of the borough's communities and culture to ensure a lasting cultural legacy is secured, including major cultural investments such as the purchase and restoration of the former EMD/Granada cinema venue in Walthamstow.

- **Austerity:** Since 2010 overall government funding for local authorities has reduced by 49%. During this period Waltham Forest has continued to deliver outstanding services despite the increasing financial challenges it faces. Government continues to review funding arrangements for local government through its Fair Funding Review which looks to implement self-sustainable funding arrangements for councils. This includes proposals for councils to retain 75% of Business Rates received from 2021–22. Waltham Forest is responding to these challenges through its capital investment portfolio by increasing the delivery of schemes which will support local growth and take a more commercial and innovative approach to use of its land and property. Funding and income received will continue to build and protect the services the Council provides to residents of the borough.
- **Brexit:** On 31 January 2020 the UK left the European Union (EU) entering into a transition period up to 31 December 2020. During this period the Government will look [sic]

The Council will continue to proactively engage with stakeholder partners and respond to these and other long term internal or external drivers that emerge – and ensure they are considered in the Council's long term capital investment strategy planning.

... Climate Emergency

... The borough continues to promote low carbon and sustainable transport following the success of the award winning 'Enjoy Waltham Forest' programme. 34 electronic vehicle charge points have already been installed and 97 more planned, those installed have been used 6,000 times by residents. The Waltham Forest Air Quality Action Plan has identified 39 actions which look to further reduce carbon emissions. Actions include the introduction of further segregated cycle highways to increase cycling, planting of more than 700 trees and two trial 'Schools Streets' locations to improve road safety, reduce pollution and encourage active lifestyles. These steps have seen cycle use increase by 103% and a reduction in car use by 7%.

The Council continues to invest in energy efficient technologies to reduce its carbon footprint, its investment since 2010 has reduced emissions from its corporate assets by 2,721 tonnes of CO₂ a year. It has also renegotiated its energy contract through the national LASER energy framework and from 2021 this will see 100% of the council's electricity coming from renewable sources. In addition, work is underway to develop a new Green Investment Fund (GIF). This will target significant investment to address local Climate Emergency challenges and deliver substantial CO₂ reductions whilst opening up new 'Green Economy' investment opportunities.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

SETTING THE SCENE FOR CAPITAL INVESTMENT MAPPING

Capital investment mapping is a way of representing your capital investment ambition, based on your strategic priorities, objectives and outcomes. This mapping enables you to demonstrate the intention of your investment ambition in a more rounded way than simply setting out the financial implications and your planned timescale. We will go into more detail about capital investment mapping in Chapter 8, but first we need to consider this from a strategic planning perspective.

When examining the internal influences on your capital investment ambition, it is important to identify the main strategic priorities, objectives and outcomes that you will need to map to in order to demonstrate how you plan for capital investment to contribute to achieving your identified outcomes. These should be continually reviewed, and refreshed where appropriate, so that each iteration of your capital strategy properly represents your capital investment ambition at that point in time.

The priorities, objectives and outcomes that you identify for this purpose can then be incorporated into your capital planning process when developing business cases and capital investment proposals. This ensures that, when you start your capital investment mapping exercise, it is naturally populated from your supporting process and documentation.

Here are some points for you to consider:

- We recognise that this can be a difficult exercise to undertake across all identified strategic priorities and identified outcomes – therefore carry out your mapping exercise in easy stages, starting with your strategic priorities.
- You can make this process more sophisticated as you progress and become more confident with your approach – developing a best practice capital strategy is not easy and you will need to build your approach steadily year on year.
- By identifying your core influences, you are already setting the scene for future progress – starting to bring your capital investment plan to life – as you examine your internal influences and identify the priorities, objectives and needs that will best demonstrate the achievement of planned outcomes from capital investment.

COMMERCIAL STRATEGY

We are addressing this aspect of your capital strategy from an opportunity, risk and reward perspective. We understand that there is some very good practice across local government that has put these organisations in a strong position to successfully deal with the significant challenges that they are facing. We understand the opportunity and reward aspects of commercial activity, and there is no doubt that local government organisations have had success with commercial activity, but our focus here is on risk.

The government's assessment is that it is unlikely to offer good value for money for the taxpayer for local authorities to hold significant commercial property assets which are generating yield and serve no direct policy purpose. This is reflected in the PWLB lending terms effective from 26 November 2020, which precluded authorities accessing PWLB finance for debt-for-yield projects. However, as effective regeneration schemes often have a commercial element to their activities, a robust risk management strategy is required, and this guidance is to promote effective risk management of commercial activities within service delivery schemes.

It is our role to properly safeguard the requirements and intention of the Prudential Code. In this regard, we are positive about the potential for improvement in all organisations. Our intention with this guidance is to constructively contribute to this endeavour.

Where these commercial operations are significant, you should develop a separate commercial strategy. This will ensure that the specialist requirements, not least the necessary skills and resources, can be properly and appropriately considered by the organisation before embarking upon, or continuing with, commercial activity. It also ensures that the risk appetite of the organisation in this regard is fully explained and justified.

The aspects of your commercial strategy that are steered by your capital strategy, and in turn inform your capital strategy, should be usefully and transparently summarised in your capital strategy. If your organisation does not have significant commercial aspects in your capital ambition, or a significant existing commercial portfolio, you can use the capital strategy to set out your modest commercial position and the reasoning behind your moderate risk appetite in this area of investment.

Here are some points for you to consider:

- If you have a commercial strategy, undertake a review based on this guidance, changes to HM Treasury's PWLB lending terms, CIPFA guidance and the current difficult economic circumstances.

- Consider if you have made strong enough links to your capital strategy – your commercial activity decision making should not be undertaken in isolation, and your strategy should recognise the whole organisation approach to capital investment.
- Consider how your commercial strategy needs to change and adapt to current circumstances and your best attempt at a longer-term view.
- Look back at performance to date to learn from what went well and what you would have done differently if you had the knowledge you have now – however, be cautious with backward trends as they will not necessarily provide a good base for future forecasting.
- Examine your decision making and performance management processes, particularly in terms of risk management and transparency – ‘what if’ scenarios will help to inform your risk management approach.
- Do not treat this review as a one-off exercise, as it should be a catalyst for ongoing examination and refresh – your commercial strategy needs to move with the times.
- If you do not have a commercial strategy, consider whether your risk appetite and current plans for capital investment suggest that you should develop one – if you decide that this is appropriate, add actions to your capital strategy to make sure that this happens in a timely manner, appropriate to the urgency of need.
- If you consider that your current risk appetite and plans for commercial activity are modest, think about how you can best summarise your strategy and approach in your capital strategy, with an aim to being informative and transparent.
- If your commercial activity is driven primarily by regeneration or other service objectives (in line with the PWLB lending criteria) consider the relationship of the commercial strategy to those objectives and the impact of those objectives on investment risk and return.

Here are some good examples extracted from local government capital strategies:

Figure 7.4 Extract from Cardiff capital strategy

Risk appetite

... In respect of 3 [non treasury investments purely to maximise financial return on assets and generate revenue income], the Council generated revenue income of circa £3.8 million in 2018/19 from commercial investment property landholdings, the income being used to support the delivery of services.

These holdings stem from historic interests of land, managed in accordance with an Investment Property Strategy approved by Cabinet. The aim is to review existing land holdings, maximise yield from the existing estate, remove liabilities, and secure future sustainable income streams by acquiring new sites that would support economic regeneration in the city. Acquisitions are funded by proceeds of existing investment property, the value of which was circa £118 million as at 31st March 2019.

... The Council's Investment Review Board chaired by the Corporate Director Resources aims to provide assurance to Cabinet by reviewing business cases in respect of change initiatives as well as capital projects proposed such as invest to save/earn schemes. During 2020/21, it will support the development of further Council guidance in respect of business cases and review the approach to support informed decision making, including effectiveness of governance for projects where there is deemed to be a significant financial or operational risk exposure.

Source: Cardiff Council, Capital Strategy 2020/21.

Figure 7.5 Extract from the City of Edinburgh Council capital strategy**Commercial Activities**

The Council retains a commercial property investment portfolio for city development purposes, but also derives financial gain from this activity. The investment portfolio consists of over 1,130 assets and is forecast to produce a rental income of c. £15m per annum. The portfolio is estimated to have a value of c. £230m.

With economic development being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include voids and falls in capital value. In order to minimise the liability to the Council the portfolio is actively managed on a commercial basis.

Source: The City of Edinburgh Council, Capital Strategy 2020–30.

Figure 7.6 Extract from Waltham Forest capital strategy**Property Investment Portfolio**

The Council has an asset base valued at £1.7 billion, the majority of the estate is council dwellings, valued at £819 million and its operational estate (Other Land and Buildings), valued at £719 million. It also holds a £74 million Property Investment Portfolio, managed on a commercial basis with the aim of generating a medium to long-term return on investment. The portfolio is on track to generate over £4m of income in 2019/20, with further growth forecasted in future years. This contributes towards making the Council's funding more sustainable, reducing the reliance on government funding, local business rates and council tax.

Established in July 2017 with access to significant funds, the Property Investment Strategy aims to generate an additional annual income from commercial property to the Council of at least £2m per year. In October 2019 the Council implemented its Investment Property Plan 2019 – 2025 setting out how the Council will maximise the growth of its asset base.

The plan also supports the Council's vision for growth in the Borough. Its goal is to deliver not only investments of which we can all be proud, but also to be a strong 'Local Partner' to the private sector to attract investment and create further opportunities for residents, such as new jobs and improved public realm.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 7.7 Extract from Cornwall capital strategy**Prioritisation and selection**

... The aim of the Investment Programme is to help deliver the Cornwall Local Plan and Strategic Economic Plan in a manner that makes a financial return for the Council – to support vital services and to help Cornwall Council future proof against the expected loss of European funding and the continued reduction in financial support from Central Government. The separate Investment Programme Strategy approved by Full Council in January 2019 (Agenda item 9.4 – Appendix 1), sets out the Council's approach towards capital expenditure and investment within this area.

Source: Cornwall Council, Capital Strategy 2020/21.

ASSET MANAGEMENT STRATEGY AND PLAN(S)

Based on our experience of local government approaches, there are several ways that local government organisations manage their current asset base and potential future asset base. Some organisations have an asset management strategy that informs their asset management plan(s). Others either have what they term their asset management strategy or their asset management plan. You should be clear on how your organisation manages your asset base and distinguish between asset strategy and asset planning.

Broadly speaking, your asset management strategy should take a steer from your current capital strategy and map out your longer-term requirement for the successful management of your asset base and your ambition for your expected future asset base. This is a circular position that should ensure that the detailed analysis undertaken to determine the needs for your assets, and your asset opportunities, then feeds into the next iteration of your capital strategy.

Your asset management plan(s) should then examine the application of the asset management strategy, the plan for capital investment implementation and the scheduled activity for the management and maintenance of each type of asset. Each plan should be based on the level of activity that fits with available resources, but also identify where available resources are inadequate for the identified investment requirement and what the backlog risk is in terms of public harm, health and safety, and financial impact.

The importance of the link between your asset management strategy and your supporting asset management plan(s) is stressed in the Prudential Code. This is a key area for improvement. In many cases asset management strategies and supporting asset management plans are not fit for purpose and out of date. As always, many organisations do this well, but you need to consider where your organisation sits within this spectrum. It is crucial to get this right, to have a dynamic approach to asset management and to safeguard against identified risks as much as possible.

Where your organisation manages housing stock directly, via an arms-length operation or a partnership model, your asset management strategy should cover this position in addition to your General Fund asset portfolio, linked to your strategic housing strategy. This will ensure that you have a whole asset view for your organisation when setting out your capital investment ambition to address housing need for your area. It is also important to deliver as a whole organisation from the perspective of your capacity. This should be fully recognised in your capital strategy.

Where your organisation has a Housing Revenue Account, we recognise that this is a ringfenced position and that you will have a 30-year Housing Revenue Account business plan, including a specific capital investment plan. However, it is still important to recognise the overall contribution that your housing position is making towards addressing the needs of both your growing local population and your whole organisation approach to longer-term capital investment planning. Again, this should be fully represented in your capital strategy.

Here are some points for you to consider:

- Undertake a review based on this guidance, additional CIPFA guidance on a strong asset management approach and the current difficult economic and environmental circumstances.
- Consider whether you have made strong enough links to your capital strategy, which should steer your asset management alongside your organisation's delivery strategies and plans – in turn, your asset management strategy should inform your capital strategy on the opportunities, investment requirement and risks associated with your current and future asset base.
- Consider how your asset management strategy needs to change and adapt to current circumstances and your best attempt at a longer-term view – more than ever, if your asset management strategies and plans are not up to date, you will not be addressing the immediate and longer-term implications of current events.
- Review your existing asset base thoroughly in terms of delivery need, potential partner opportunity, potential investment opportunity and potential community opportunity – the outcome of this review will strengthen your capital strategy significantly.
- Consider your current approach to asset disposal planning, as this will be very important for your longer-term view of available capital resources – we recognise that there can be commercial sensitivity and speculative exploration that you may not be able to include in your

forecast of capital receipts, but you will need to be as transparent and forward looking as possible in order to strengthen your view of affordability.

- Consider how your ringfenced asset investment and capital investment via delivery and operational models need to be expressed in your asset management strategy – also consider how this influences your capital strategy.
- Consider how your infrastructure strategies and plans relate to your asset management strategy – although we recognise that your infrastructure responsibilities will vary depending on your model of organisation.
- Consider how infrastructure strategies and plans, where they stand apart from your asset management strategy and plans, need to be expressed in your capital investment plan – often they will have longer-term investment requirement profiles that will impact on your new capital investment ambition.
- Give appropriate attention to your strategies and plans for non-property assets that you are likely to have a significant collective investment in, such as your ICT strategy and plan, your fleet strategy and plan, and your specialist equipment requirements – your capital investment plan should have a longer-term profile, where possible, which is based on a planned delivery profile.
- Address any backlog that you have in investment and maintenance requirements for your planned future asset base, which is a significant area of risk for your organisation and could at worst have serious public health and health and safety implications – in addition, it will have a significant negative impact on your revenue position and will increase the capital investment that is required due to deterioration in the condition of assets.
- Examine your decision making and performance management processes, particularly in terms of risk management and transparency, and do not treat your existing asset base as business as usual – it is as important to examine your current planned commitment as it is to properly appraise and plan for new asset investment.
- Treat this review as a catalyst for ongoing examination and refresh, not a one-off exercise – your asset management strategy, and supporting asset plans, need to move with the times.

Here are some good examples extracted from local government capital strategies:

Figure 7.8 Extract from Wirral capital strategy**Asset Management**

To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place. The strategy sets the high-level framework for managing Wirral's Public Sector land and property for the next 5 years. It has been developed to guide the collective strategic asset decisions of all partners and seeks to maximise efficiencies through a collaborative approach to the use and management of the whole asset portfolio.

The strategy centres on the continual corporate review [of] the Wirral estate of assets with the aims of:

- explore every opportunity to reduce costs
- streamlining processes
- improving performance
- generate income by adopting a commercial-minded approach to running Council business

The Asset Strategy Model:

Source: Wirral Council, Capital Financing Strategy 2020/21.

Figure 7.9 Extract from Cardiff capital strategy**Asset Management Planning**

The Council has responsibility for assets used in service delivery including property, highway infrastructure (roads, footpaths, structures, lighting) and Council dwellings. It is essential to understand the need, utilisation, condition and the investment and operating cost requirements of assets, whether owned or leased.

The Council's historic retained interests in land assets in various parts of the city has been an enabler in its ability to support development of key capital projects in the city. The Council also has a track record of acquiring significant assets on the basis of future regeneration projects or to secure strategic options. It is recognised that the acquisition of new assets such as land could gain or lose value in the intervening period. However the overarching aim of the Council is to release the value in the asset once the regeneration has been completed, and such benefits may be wider than financial considerations.

When prioritising investment it is essential to understand the long term cost of maintaining and operating existing assets and their fitness for purpose, having consideration of which are deemed essential in continued service delivery or which can be considered for alternative uses. The backlog of maintenance in some key assets is recognised and alternative approaches to longer term solutions will be considered to address the risks this poses rather than continued investment by the Council in the same assets.

This is neither an effective asset management approach nor affordable in the long term. These will be considerations in key assets such as schools and administrative buildings required for the long term.

Approved Asset Management Plans are in place for property assets including dwellings that demonstrate the Council's stewardship of assets. A disposal strategy is also in place to relinquish or find alternative beneficial uses for assets deemed surplus to requirements. This includes using property effectively across the Council by using suitable sites for the building of affordable Council housing.

The Council has set up a number of Boards that aim to provide assurance to Cabinet by embedding strategic asset management activity as a corporate activity. This covers activities such as property asset management, housing delivery, school organisation planning and for major transport projects.

In line with best practice, Cabinet will consider development of plans for Highways and other infrastructure assets during 2020/21 and updates on property asset management plans already developed. The Council's approach to asset management and stewardship of assets will be supported by targeted internal and external reviews to assess the effectiveness of asset management practices including governance, risk management and control.

Source: Cardiff Council, *Capital Strategy 2020/21*.

Figure 7.10 Extract from the City of Edinburgh Council capital strategy**Asset Management**

To ensure that capital assets continue to be of long-term use, the Council has [an] asset management strategy in place ... The Asset Management Strategy sets out the objective to create a credible, focused and sustainable delivery organisation for property and facilities management; provide a fit for purpose, right-sized and safe estate; provide an appropriate level of service at an acceptable and efficient cost; and act in a commercial manner in pursuit of maximising value for the Council.

... Resources like offices and depots can be shared across the public sector. We'll be able to identify sites for new housing, release capital for investment, reduce costs and carbon emissions. This will be overseen by a Land and Property Commission and supported by the Scottish Government. Three years ago we had 16 depots and yards spread all over the city. Today we have 10 and by 2023 we want this to reduce to three consolidated fit-for-purpose facilities. This will release land for housing and development and make our services more efficient and effective.

... We have committed £153m of additional investment in our estate. This will hugely improve the condition, safety and accessibility of our buildings. We are investigating energy generation, insulation and energy saving measures in some of our older buildings which will be done in an ethical, sustainable way contributing to our carbon target and saving money in the long term.

Source: The City of Edinburgh Council, *Capital Strategy 2020–30*.

Figure 7.11 Extract from Birmingham capital strategy**Property Strategy**

... The Property Strategy provides a long term strategic approach to the management of the Council's real estate. It aims to maximise commercial and social returns by re-aligning the property assets, ensuring they act as a catalyst for development and inclusive economic growth and underpin the social fabric of communities across the city. In order to achieve this vision the Strategy divides the existing property assets into four key themes:

- Commercial properties – this income earning portfolio focuses on increasing efficiency by selling underperforming properties and reinvesting the proceeds to maximise returns within a balanced and prudent risk management strategy
- Growth and Development – focusing on key growth areas, land and buildings will be utilised as catalysts for development and regeneration to deliver new homes and jobs
- Community – supporting community organisations to deliver Council's core objectives, encouraging independent social cohesion using sport, culture and third sector neighbourhood activities
- Operational – efficient and rationalised buildings to support the provision of modern 21st century Council services.

Source: Birmingham City Council, *Financial Plan 2020–2024*.

Figure 7.12 Extract from Lancashire capital strategy**Purpose and aims of the Capital Strategy**

... Additional expenditure for urgent projects has been on a reactive basis which can lead to higher cost projects than could otherwise be the case or repeated visits to the same building over time which is not efficient. This approach does not address all the risks within the asset portfolio and is therefore not sustainable in the long term over which this strategy is to be applied.

A move to a more proactive capital programme delivery, which focuses on managing risks within the asset base and control of demand for capital resources, is required.

Source: Lancashire County Council, *Capital Strategy 2020–2040*.

Figure 7.13 Extract from Newcastle-under-Lyme capital strategy**Key objectives and priorities**

... The Council will also endeavour, through its programme of capital investment, to maintain its assets to a standard such that they remain fit for purpose, enabling continuity of service delivery. In particular, it will carry out regular surveys of its stock of buildings and structures to ascertain their state of repair and any remedial works which may be necessary. Repair or improvement works arising from such surveys will be carried out subject to the availability of resources and consideration of the role the building plays in service delivery and the need to continue the relevant service in order to contribute to meeting corporate priorities. If a building is no longer required for service delivery, it will either be considered for alternative use by the Council or its partners or disposed of and the proceeds made available for future capital investment in priority areas. All property assets are held to either (i) provide Council services, (ii) provide an investment return or (iii) to further regeneration projects.

... Regular reviews of the property portfolio will be carried out by the [Capital Review] Group to identify properties or land which could potentially be disposed of, following a consultation process in the case of significant proposals, and a capital receipt obtained from the sale.

Links with Other Strategies, Policies and Plans

... An important link is to the Asset Management Strategy (AMS) in that many capital investment projects are related to the Council's fixed assets, such as its stock of buildings. Needs and priorities identified in the AMS will require consideration for inclusion in the Council's Capital Programme and have wider financial consequences. Equally important is the opportunity to generate capital receipts from the disposal of land/property where there is no current or likely future operational need.

Source: Newcastle-under-Lyme Borough Council, *Capital Strategy 2020 to 2030*.

Figure 7.14 Extract from Glasgow capital strategy**Operational Context**

The council manages its physical assets across a number of “asset classes”. These asset classes include:

- Property and Land
- Fleet
- ICT
- Land and Open Spaces
- Infrastructure
- Civic Collections

The council has adopted various approaches to the development of each asset class as outlined below:

Land and Property

The council approved its overall Property and Land Strategy at the City Administration Committee of 7 February 2019...

Fleet

The council's fleet strategy was approved by the City Administration Committee on the 12 September 2019.

ICT

The council has entered into a seven year contractual relationship with CGI for the provision and transformation of its ICT infrastructure. In addition the council has established its Digital Glasgow strategy to develop the use and application of ICT to benefit both the council itself and the citizens of Glasgow.

Land and Open Spaces

The council's Open Space Strategy is currently part of a consultation process before formal approval. Once approved this strategy and the associated Vision for Glasgow Parks and Greenspace policy will form the basis of the council's approach to the management of open spaces.

Infrastructure

The council's infrastructure is related to roads, lighting, pavements and bridges. The Environment, Sustainability and Carbon Reduction Committee considers a report annually in relation to the current condition of infrastructure and options for the underlying development of the assets.

Civic Collections

Glasgow has the largest and finest civic collection in the UK which is managed on behalf of the city by Glasgow Life. They are managed under the terms of the Collections Management Policy.

Source: Glasgow City Council, Capital Strategy.

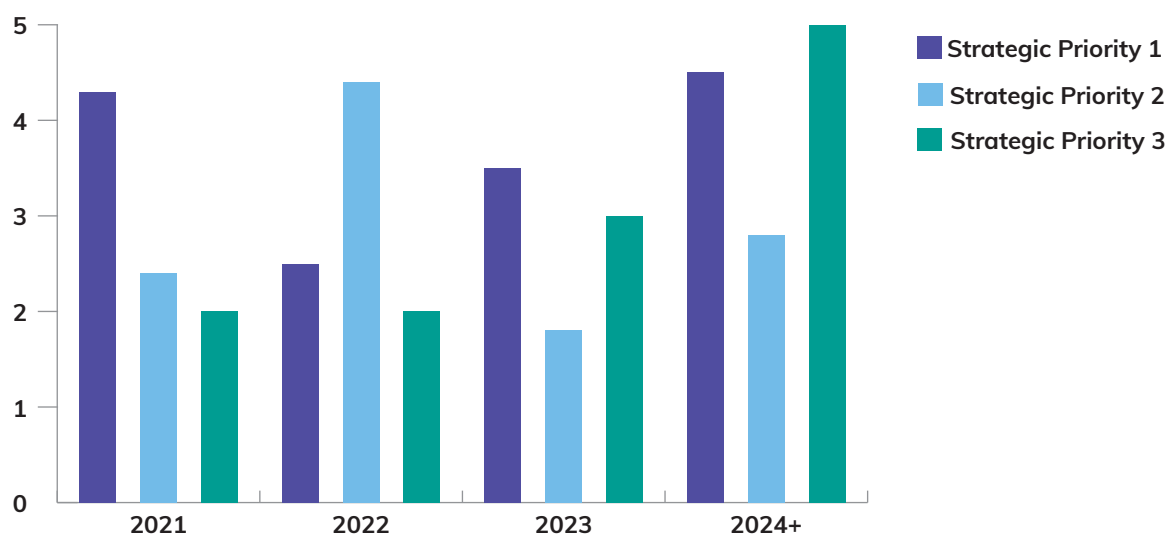
Capital investment mapping

MAPPING INVESTMENT AMBITION AGAINST STRATEGIC PRIORITIES

We recognise that each of your organisations will have different terminology and take a different approach to mapping. Whatever your approach, though, you should be able to express your capital investment ambition in terms of intended achievement against your strategic priorities.

Mapping it to your strategic priorities provides a very powerful representation of your capital investment ambition. More importantly, it represents it in a way that is understandable to a much wider audience of interested stakeholders. Capital investment mapping should span at least the timescale of your capital investment plan. This brings your planned investment to life on a year by year basis. We have provided a simple example in Figure 8.1.

Figure 8.1 Investment against strategic priority



Here are some points for you to consider:

- Aim to take time to consider how you can map your capital investment ambition to your strategic priorities – your capital investment plan is a significant commitment for your organisation and you should be able to express this investment in terms of delivery against your planned priorities.
- In Chapter 7, we discussed setting the scene for mapping your capital investment ambition by examining the external, partner and internal influences on your capital strategy – while we recognise that it takes time to develop this degree of sophistication, it can add considerable value to how you are able to get your investment message across to your stakeholders.
- We saw some tentative moves towards this type of analysis when looking at 2020 capital strategies – technology support is good at enabling such an analysis, so consider the technological solutions that are available, and also explore shared experience and learning with your peer organisations, which will be valuable for this purpose.

Here are some good examples extracted from local government capital strategies:

Figure 8.2 Extract from Cardiff capital strategy

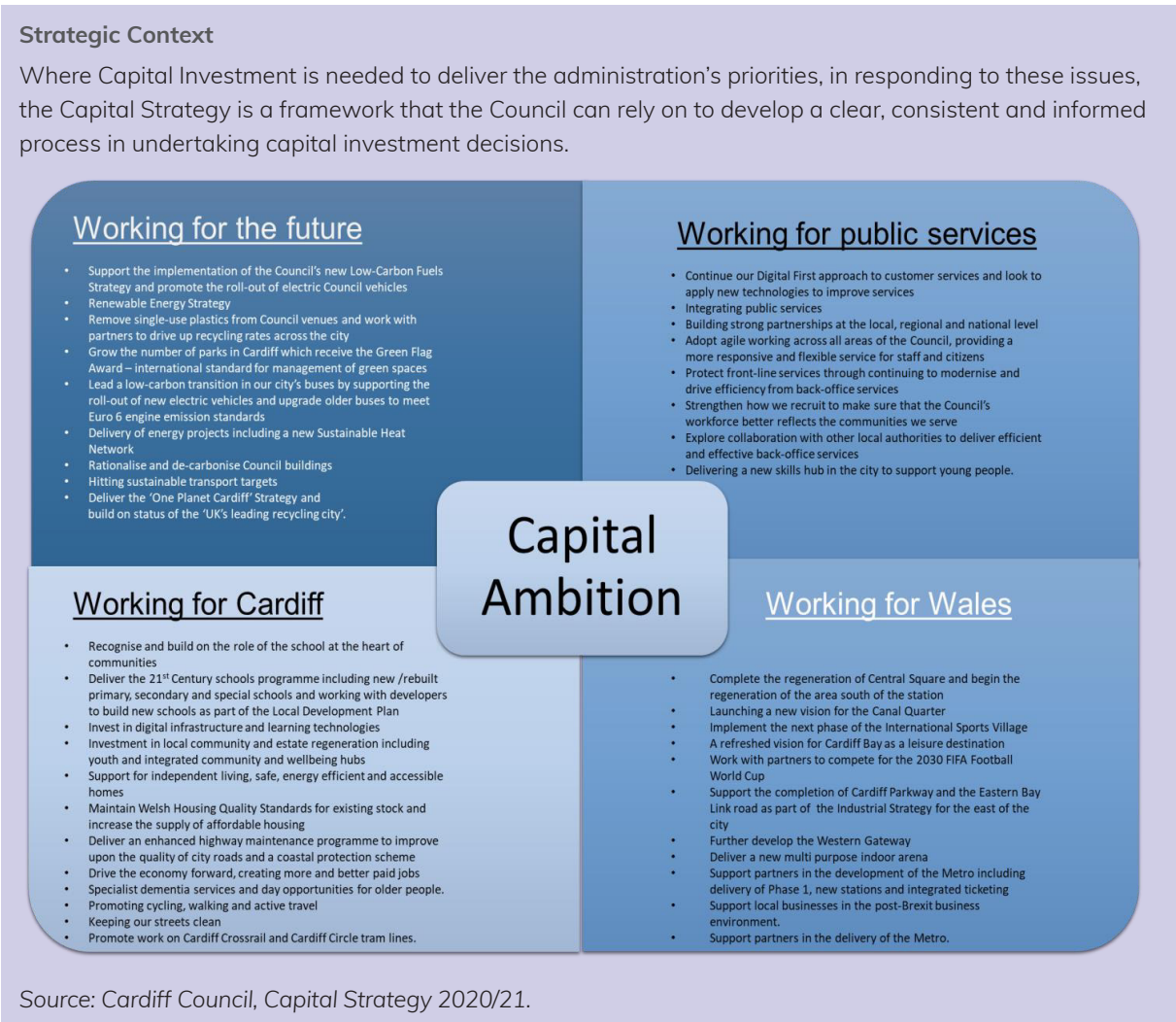
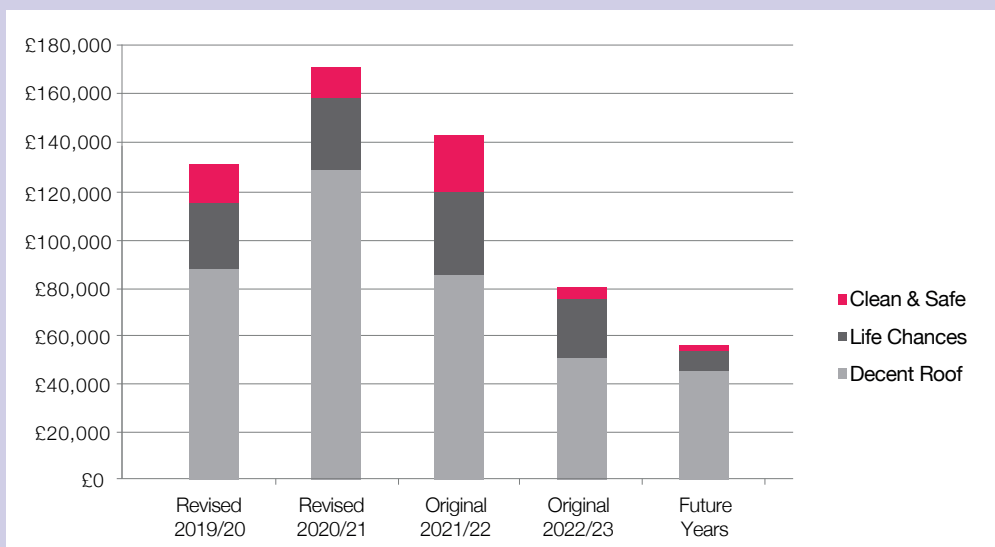


Figure 8.3 Extract from Waltham Forest capital strategy**The Capital Investment Portfolio**

... As set out earlier, the purpose of the Capital Investment Strategy and investment portfolio is to deliver the Council's political and Creating Futures strategic priorities. [The] table ... aligns the multi-year investment portfolio with the three Creating Futures priorities to keep Waltham Forest clean and safe, work to ensure everyone has a decent roof over their head and improve our residents' life chances.

Aligning the investment portfolio with the Creating Futures strategic priorities shows that the Council will be investing more than £397m in Decent Roofs, over £124m in Improving the Life Chances of the community and a further £59m on keeping the borough Clean and Safe over 5 years, which is likely to increase with priority investments in response to Climate Emergency. The first response to Climate Emergency will be a new Green Investment Fund with c.£25m of funding committed to be assigned to projects during 2020/21.

[The chart below] presents the annual investment portfolio graphically and shows [that] the value of the Decent Roofs and Life Chances investment pipelines are broadly consistent throughout the delivery period. 2020–21 also sees a peak of capital investment with nearly 30% of overall expenditure anticipated; this is following Cabinet approval to finance the delivery of several major housing, regeneration and property schemes. Importantly, the Council has reviewed its capability and capacity to deliver this increase in activity. In 2019 a restructure of the Economic Growth and Housing Delivery Division invested additional revenue resources in project delivery capacity. Sixty Bricks, the Council's housing delivery company has also been established to better manage increased direct housing development.



Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

STORYTELLING AND VISUAL REPRESENTATION

Your storytelling and visual representation of your capital investment ambition is also very important. Your capital strategy narrative should be accompanied by photographs and pictures that are meaningful to your stakeholders. Photographs and other images can help you to convey your message concisely and in a relatable way.

Combining images with stories can enhance the impact of your capital strategy. A photograph of an intended community project alongside a short story and quote from a member of the project team can highlight the positive aspects of the planned investment. This approach can demonstrate active listening, a local solution for a local need and the expected long-term benefit to the community. Such a story would be a much more powerful way to showcase the project than including it as a mere line in a table of projects.

When representing your capital investment ambition in this way, you will need to reflect the diversity of your population, stakeholders and area, to ensure that you are conveying an inclusive

approach. You will also need to consider the stakeholders that cannot take in information by visual means, for whatever reason. Consider how you can use engagement with stakeholders and technology to get your message across. You will have experts in your organisation who already understand these areas and can support this endeavour.

Here are some points for you to consider:

- Examine other corporate and front-facing publications to determine how you are currently representing important messages to your wide range of stakeholders.
- Think about how good practice within your own organisation can be translated into the visual representation of your capital strategy.
- Research good practice in peer and partner organisations to identify an approach that would work for your organisation.

Here is a good example extracted from a local government capital strategy:

Figure 8.4 Image from Waltham Forest capital strategy



Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

BENEFITS, OUTPUTS AND OUTCOMES

In addition to your strategic priorities, it is good practice to map your capital investment ambition against the intended benefits, outputs and outcomes. For instance:

- **Benefits** – these can be financial and non-financial: a programme or individual project could result in net savings, an increase in your funding stream, an increase in your income stream, a reduction in CO₂ emissions or other such benefits.
- **Outputs** – a programme or individual project could result in an increase in new business start-ups, new houses, an additional rail network, additional personal equipment for frontline policing, digital technology for fire and rescue operations or other such outputs.
- **Outcomes** – a programme or individual project could result in jobs created or safeguarded for your area, a contribution to your housing target, improved connectivity, a refurbished asset for community use or other such outcomes.

In terms of financial benefits, it is important to identify the potential revenue and capital impact of your planned capital investments. You can use this data in the measure of the affordability of your capital investment plan. We are aware that the financial benefit of programmes and individual projects is not always fully recognised. When considering revenue implications, service cost increases are often forgotten: for example, a new housing site will result in a gain in council tax but there will also be an increase in associated service costs, such as an increase in waste.

If you map the benefits, outputs and outcomes across your capital investment plan, you will be better able to demonstrate value for money on an individual project basis and a collective basis. This also better enables the comparison of very different projects and can be part of your project prioritisation approach.

Here are some points for you to consider:

- Afford quality time for this approach and include it in all layers of your capital planning process – if you set out to measure programmes and projects on the basis of benefits, outputs and outcomes from the start, it ensures that those responsible for the development of business cases and capital investment proposals take a more rounded and considered approach.
- If the effort is put into this exercise it adds significant value to each stage of your process and enables you to have a much more comprehensive view of your planned investment once you have populated your capital investment plan.
- When undertaking your prioritisation exercise, this wider view of investment impact will better enable you to score your many and varied investment proposals against each other and demonstrate a reasoned and justifiable approach.

Here is a good example extracted from a local government capital strategy:

Figure 8.5 Extract from Waltham Forest capital strategy**Return on Investment**

The vision is that Waltham Forest is confident in and able to demonstrate its return on investment as an organisation to members, local communities and residents and makes the best decisions for all future investment.

To support its vision, in 2019, the Council developed and implemented its Total Return on Investment (TROI) Framework. The framework looks to demonstrate both financial and nonfinancial return of every £1 spent by the Council, ensuring its resources are spent on activity which provides the maximum outcomes for the borough's residents, businesses and the Council.

The TROI Framework will consider financial, economic, organisational and social additionality of investments the Council makes alongside its corporate priorities set out in Creating Futures:

- Work to ensure everyone has a decent roof over their head
- Improve our residents' life chances
- Keep Waltham Forest safe and clean.

To ensure that the Council's decisions on capital funding deliver the strongest return on investment, it is in the process of establishing a new Capital Investment Prioritisation Framework. The framework will support the Council to prioritise delivery of new capital projects which maximise return on investment and achieve the Council's political priorities.

The tables in Appendix A of this document summarise the benefits and outcomes anticipated by the capital investment portfolio set in its RIO Framework and aligned to Creating Futures priorities.

Scheme name	Financial Outcomes and Outputs	Economic Outcomes and Outputs	Organisational Outcomes and Outputs	Social Outcomes and Outputs
HOUSING DELIVERY AND ESTATE REGENERATION 2019-2023				
Marlowe Road (HRA and general fund)	<ul style="list-style-type: none"> • significant capital receipt, on delivery of all 5 phases • Income from commercial units 	<ul style="list-style-type: none"> • £70m GVA through development • New Council owned commercial units 	<ul style="list-style-type: none"> • Contribution to Local Plan • Improved social housing offer • New Library • District Energy Centre 	<ul style="list-style-type: none"> • Delivery of 436 new homes of which 150 social rented and 18 shared ownership • Reduced vandalism, level of complaints and ASB
New Build and Local Growth Fund Schemes	<ul style="list-style-type: none"> • £300k p.a. income to HRA account 		<ul style="list-style-type: none"> • Contribution to Local Plan • Improved social housing offer • 300 people housed by 19/20 	<ul style="list-style-type: none"> • Delivery 111 homes across 17 sites by 19/20 • Longer term all 21 sites in will deliver 810 homes of which 50% will be affordable
Sixty Bricks, phase 1 schemes	<ul style="list-style-type: none"> • Medium term financial returns 		<ul style="list-style-type: none"> • Contribution to Local Plan • Improved social housing offer 	<ul style="list-style-type: none"> • Phase 1 Pipeline consists of 6 Sites and 417 homes • As of 2019/20, 5 of these sites have planning consent and onsite delivering 299 homes • 50% of homes delivered are affordable

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

ENABLING INVESTMENT AND DELIVERY INVESTMENT

When considering the different types of investment that your organisation includes in your capital investment plan, it is beneficial to differentiate between two types: enabling and delivery.

Enabling investment, sometimes termed 'business as usual' investment, includes investment in existing infrastructure and assets, ICT refresh, business improvement and other such investment. When examining capital programmes, we have found that this type of investment can tend to be included on a rolling basis and with little change in investment year on year. This suggests that the delivery plans that support these investments are not up to date, lack a proper planned schedule of investment and potentially lack scrutiny through the decision-making process.

Delivery investment includes investment in new infrastructure and assets, digital solutions, commercial activity and other such investment. This type of investment usually emerges through the capital planning process, via business cases and capital investment proposals. When done well, delivery investment will get full scrutiny throughout the capital planning process and will emerge through the prioritisation exercise.

If the enabling investment scenario sounds familiar, you should re-examine your capital planning process and ensure that this type of investment is afforded more time and scrutiny. You should examine the plans that support the annual capital investment profile to ensure that they are fit for purpose. There is no point endeavouring to stretch your capital investment plan to ten years if a significant element of your investment is simply rolled forward year on year. Mapping your capital investment plan in this way ensures that no stone goes unturned and your capital investment requirement is as accurate as possible.

Here are some points for you to consider:

- 'Business as usual' investment is an unhelpful term that suggests that enabling investment is a fixed requirement – while there is no doubt that you will have ongoing commitments that you will need to adequately address year on year, you need to continually challenge investment assumptions in these areas of investment.
- Enabling investment should have a strong and evidenced action plan – if you have lines in your capital investment plan that are only detailed in the early years and simply rolled forward for future years, this needs to be addressed, as if this continues it undermines your overall capital investment plan and ultimately leads to weak management of your Balance Sheet and, where appropriate, your borrowing strategy.
- If you are managing your delivery investment well, but not giving enough attention to your enabling investment, this can reduce your ability to embrace new opportunities – without the enabling investment, you cannot have sufficient reliance on your assessment of capacity, affordability and deliverability.

Here is a good example extracted from a local government capital strategy:

Figure 8.6 Extract from Waltham Forest capital strategy

Housing Investment Programme

The Housing investment programme contains three major workstreams. First, repairs, maintenance and major works required to meet the Council's landlord duties to local residents. Second, direct housing delivery. Third, estate-based regeneration supporting the Council's priority to increase the supply of genuinely affordable homes.

... Corporate & Strategic Property Investment Programme

The Corporate and Strategic Property Investment Programme invests in the Council's core corporate estate to improve operational facilities, ensuring they deliver the best possible services for residents and release surplus land for housing and other uses that drive the economic growth of the borough.

... Town Hall Campus Programme

The most significant Corporate & Strategic property investment scheme in the borough is the Town Hall Campus Programme. This is a once in a lifetime opportunity to create a vibrant new neighbourhood in the heart of the borough, delivering over 500 new homes, of which 50% will be affordable, on the Campus and at Willow House, the refurbishment of cherished historic buildings and opening up the Campus to be more accessible to the public. The Grade II-Listed Town Hall will be extensively refurbished, modernising the building to facilitate new ways of working and transforming the way the Council operates and delivers services to residents.

... The transformation of the Town Hall Campus will deliver ... the opportunity to co-locate other public services and wider partners on the Campus, improving service delivery and increased commercial opportunities for the Council.

... **Borough of Culture Legacy and Heritage Investments**

... The Culture and Heritage programme will continue to make investments which preserve and enhance the borough's important heritage assets, bringing current and future communities, residents and visitors together to celebrate these important local assets, and engender a strong sense of pride and place.

... **Cultural Services Investment Programme**

Libraries are integral to delivering outstanding cultural services to Waltham Forest residents. Being at the heart of the Council's face to face delivery of a wide range of services and providing access to a range of cultural opportunities and events.

The Council has made a firm commitment to retain eight current libraries, and through capital investment two libraries at Lea Bridge and Wood Street will be developed to "Library Plus" standard; increasing the services and facilities available as well as their opening hours.

... **Digital Investment**

Council's Digital and Technology Strategy 2018 sets out how the council will improve its services through a greater range of digital services offered to residents and businesses and introduce new ways of working [with] staff.

Delivery in 2019/2020

Work has focused on upgrading the Council's core technology and infrastructure supporting the introduction of modern, digitally based services and data and improving its reliability and accessibility. During 2019 the Council completed its Windows 10 and Office 365 roll-out and upgraded or replaced nearly 3000 PCs and laptops, supporting flexible working and providing modern software.

This will support mobile working which is a critical enabler for the Town Hall Campus redevelopment. A network upgrade, replacing hardware and firewall software by moving to modern cloud based technology, will provide greatly improved performance and resilience. These upgrades, combined with improved security monitoring, will also provide additional protection against cyber-attacks.

Plans for 2020–24

During 2020 work to move to Cloud based data processing solutions will allow the Council to close its data centre at Redhill. This will provide cost reductions and improve operational performance. The Council will also continue to invest in new voice and contact centre technology which will improve the frontline services the Council provides to the borough, as well [as] provide more flexibility to staff to work from any location. Continued digital technology investment will be increasingly leveraged to enable personal engagement with residents and businesses at scale, and to ensure we deliver state-of-the-art facilities on the Town Hall Campus, satellite sites and in libraries.

... **Climate Emergency**

As a priority, the Council continues work to develop a robust response to Climate Emergency. One element of the developing proposals is a firm commitment to establish a new Green Investment Fund. The Green Investment Fund has secured initial funding of £15m – £25 million, recognising the significant role that capital investment will play to support reducing CO2 emissions at an accelerated pace.

... It is also recognised that levels of capital investment to tackle Climate Emergency are anticipated to increase across all areas of the capital programme once the Council formalised its Climate Emergency Strategy in mid-2020.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Capital investment plan

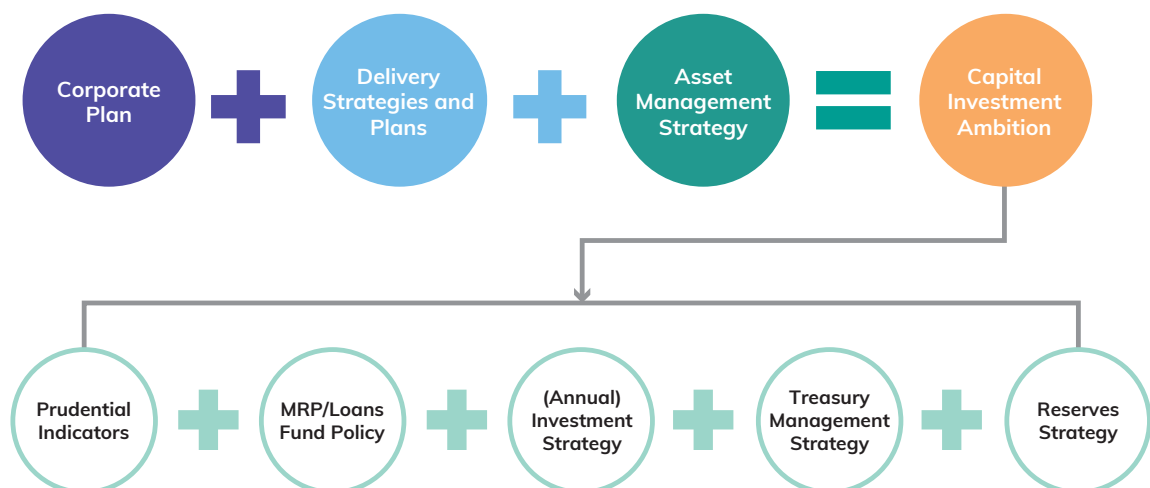
CAPITAL INVESTMENT AMBITION

There is a balance to be struck when determining your capital investment ambition. Your strategies and plans support you in establishing the need for capital investment and the required outcomes from that investment. However, you have a responsibility to apply an affordable, prudent and sustainable approach to that investment, as set out in the Prudential Code. The top half of the diagram in Figure 9.1 sets out simply the building blocks for the development of your capital investment ambition.

Depending on your type of organisation, you have a framework that you are working to, based on legislation, regulation, codes and guidance. This can be daunting and may feel complex. However, when you work within the controls that are in place, you are better placed to think strategically and longer term. This is where shared experience and good practice can be very beneficial, as they allow all organisations to learn but also help those that are responsible for the framework of controls, for example the Ministry of Housing, Communities and Local Government (MHCLG), to identify which concerns are valid and should be addressed.

We come on to talk about the power of the Balance Sheet later in this chapter, but first, Figure 9.1 illustrates the balanced position that you are working with when developing your capital strategy. Each bubble in the lower half of the diagram represents a different aspect of strategic financial planning. If each of these is addressed in isolation, you will not manage the overall position effectively. You will have much ambition but feel frustrated by the perceived constraints. However, if you put effort into understanding how these elements can be integrated into your capital investment ambition, you will get closer to your investment ambition while still being in line with your risk appetite and the spirit of the overall framework.

Figure 9.1



Here are some points for you to consider:

- Your capital investment ambition should be based on your evidence of need, as expressed in your corporate plan, and your external, partner and internal influences – this can present difficulties, as your ambition will almost certainly outweigh your available resources and what you can afford, which can lead to a fear of creating stakeholder expectations that you cannot meet.
- We recognise that some organisations approach the capital strategy from the perspective of recognised constraints on capital financing and revenue affordability – there is no doubt that this is a risk averse approach and will result in a deliverable capital investment plan when done well.
- We urge you, however, to consider the limitations that affordability places on your organisation in terms of getting clarity on your population's and area's need for investment, having a strong foundation for lobbying and having the ability to explore new opportunities.
- As leaders of your organisation, consider how you can approach your capital investment ambition and how you intend to put this across to your wide range of stakeholders – in our view this thoughtful approach provides you with the best opportunity to think creatively and longer term.

Here are some good examples extracted from local government capital strategies:

Figure 9.2 Extract from Waltham Forest capital strategy

Introduction

... In February 2018 the Cabinet adopted the Creating Futures Corporate Strategy which set out the Council's commitment to draw on all the strengths in Waltham Forest to build a positive future for the borough, build resilience and respond to unexpected opportunities and change. Developed through extensive consultation with residents, Creating Futures makes the best use of the borough's unique strengths and assets – both people and physical – and identifies three key priorities (and five driving principles) that continue to shape the Council and everything it does:

- Keep Waltham Forest clean and safe
- Work to ensure everyone has a decent roof over their head
- Improve our residents' life chances

These three priorities are at the heart of the capital investment portfolio, which invests more than £582m in new homes, improvements to council housing, school places, economic growth and regeneration, transport infrastructure and major corporate property initiatives in coming years.

... Ensuring Everyone Has a Decent Roof over Their heads

Between April 2019 and the mid 2020s the Council will invest over £397m to maintain, adapt and provide new affordable and decent homes in the borough. The primary investment vehicles for delivering this corporate priority are the Housing and Corporate and Strategic Property investment programmes, and the Disabled Facilities Grant.

... Improving Our Residents' Life Chances

Between April 2019 and the mid 2020s the Council will invest over £133 million to improve the life chances of borough residents. The primary investment vehicles for delivering this corporate priority are the Schools and Regeneration investment programmes. In addition, capital investment will continue in the Borough of Culture Legacy Programme, Libraries, Public Health and Parks, Digital and Section 106 and Community Infrastructure Levy (CIL) funding programmes.

... Keep Waltham Forest Clean and Safe

Between 2019 and 2024, the Council will invest over £84 million (including committed funding) to keep the borough clean and safe. The primary investment vehicles for delivering this corporate priority are the Low Hall Depot, Enjoy Waltham Forest, Highways, Parks, Public Health & Play and Regeneration programmes. Additional Investment will also support the Council's emerging response to Climate Emergency. As existing programmes progress and new initiatives emerge the Council will continually review future sources and use of funding available to meet its ongoing strategic priorities.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 9.3 Extract from Cardiff capital strategy**Delivering Capital Ambition**

In January 2020, the Council's Administration published Capital Ambition, a policy programme which sets out a series of commitments for Cardiff.

These commitments prioritise maintaining momentum in city regeneration and economic development, tackling inequality and inclusive growth, responding to the climate emergency and public service reform.

Progressing this ambitious agenda will require capital investment if the administration is to deliver on its major commitments. This would include investment in new schools and in modernising school buildings, delivering a significant house building programme and enabling the continued regeneration of the city's business and transport infrastructure.

It is therefore crucial that, when long term investment decisions are undertaken, decision makers can rely on clear and informed information. This would include:

- A long term view of capital expenditure plans and any financial risks to which the Council is exposed.
- Ensuring due regard to the long term financing, affordability implications and potential risks.
- A clear overview of the Council's asset management planning arrangements and any maintenance requirements that have resource and business planning implications.

The Capital Strategy will therefore continue to help support informed decision making in the delivery of Capital Ambition.

Source: Cardiff Council, Capital Strategy 2020/21.

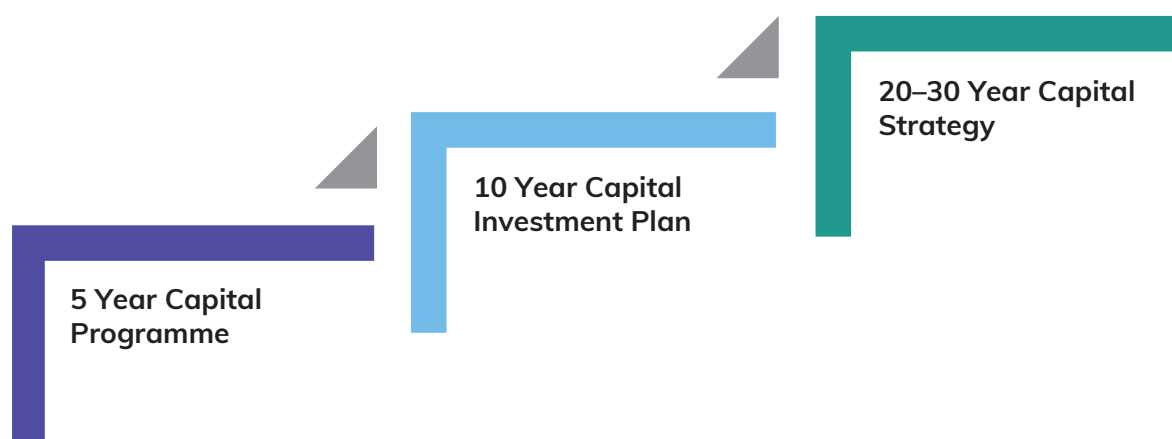
LONGER-TERM APPROACH TO CAPITAL INVESTMENT REQUIREMENT

We know that you are aware that capital investment will generally have a longer-term delivery profile and a long-term impact in terms of intended outcomes. In the main, capital investment relates to assets, whether that be the creation or purchase of new assets or the enhancement of existing assets. However, from our research of 2020 capital strategies, we can see that capital investment plans tend to be medium-term rather than long-term.

That is not to say that existing capital programmes will not have a long-term impact on intended outcomes – we fully expect that they will. The main problem with medium-term capital investment profiles is that they do not align with longer-term strategies and plans. They do not, therefore, provide a transparent view of capital investment ambition for longer than three to five years, and they tend to load delivery into the early years of the capital programme, leading to unnecessary slippage in delivery.

We understand the challenges that you face when trying to stretch your capital investment plan over the longer term. However, the reward for undertaking this endeavour is extremely valuable. Extending your capital investment plan provides you with the ability to plan for delivery over a realistic timescale, to assess and mitigate potential risk, and to adapt your plans to address unforeseen circumstances. We consider in the current environment that it is reasonable to attempt a capital investment plan that spans up to ten years, illustrated as follows:

Figure 9.4



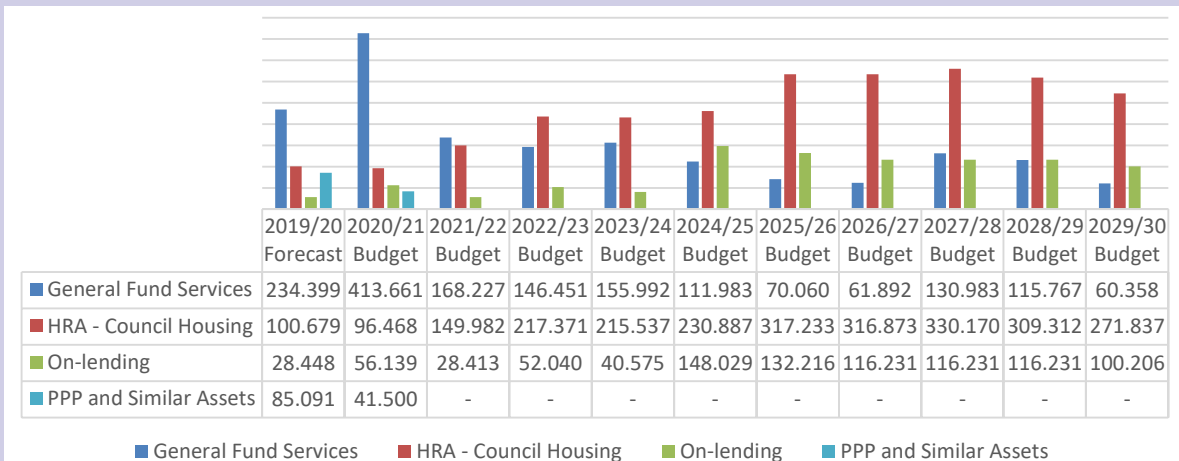
Here are some points for you to consider:

- Think about your capital planning in a structured way – you need a longer-term capital strategy to enable you to take a longer-term approach to your capital investment plan.
- Your capital investment plan will be more detailed in the early years and more speculative in the later years but provides a more realistic profile for your capital investment – this naturally stretches out your planned investment and therefore provides you with a stronger three-to-five-year position for your capital programme, as part of your medium-term financial strategy (MTFS) – this results in a more accurate and deliverable annual capital budget, as approved in your annual budget.
- If your capital investment plans consider the outputs and outcomes of your investment, you will have improved annual delivery – if slippage is managed at an appropriate level, you will have met your investment commitment for that year, and you will have delivered to your intended stakeholders as promised.
- We do not underestimate the challenge that developing a longer-term capital investment plan presents, and recognise that it is much easier said than done, but these are the underlying principles of the Prudential Code – the code provides you with the freedom to determine local need and investment requirement, but at the same time safeguards the prudent, affordable and sustainable application of public funds.

Here is a good example extracted from a local government capital strategy:

Figure 9.5 Extract from the City of Edinburgh Council capital strategy**Capital Expenditure**

In the period 2020/30, the Council is planning capital expenditure of £4,838.855m. Whilst the later years are only indicative at present, they are summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £ millions

Source: The City of Edinburgh Council, Capital Strategy 2020–30.

AVAILABLE RESOURCES

When you are aiming to develop a ten-year capital investment plan, it is important to put as much effort into forecasting your available capital financing resources as into forecasting your longer-term capital investment requirement. However, we fully recognise how challenging this can be, particularly with the current unprecedented uncertainty.

To make a best effort, you should consider all external and internal available capital resources over the longest period possible. For the later years of your capital investment plan, you will have to think about how you can reasonably forecast your known sources of capital financing. If you are struggling to stretch your capital investment plan up to ten years, you will need to determine what is your reasonable longer-term position, so that you do not have years where the forecasts are not meaningful. You should, however, include actions in your capital strategy to indicate how you can strive for a longer-term capital investment plan over time.

We recognise that some capital financing resources, such as capital receipts, can be speculative and difficult to identify when it comes to the timescale. We also recognise that there will be commercial sensitivity for some financing sources. There will therefore be an element of judgement in what you can reasonably include at any stage.

Here are some points for you to consider:

- Examine your current expected sources of available capital resource and make sure that you have a detailed understanding of each source in terms of longevity, application conditions, value and any other important aspects – this will give you a much stronger evidence base for a longer-term forecast.
- Review your approach and process for bidding and applying for external capital funding – you should be seeking access to external funding based on your identified need and investment requirement, not based on its availability alone.

- Consider your existing planned delivery in relation to both the leverage that your individual investment has achieved and any matched or additional partner and private investment – this provides you with a powerful story as context for your capital strategy.
- Consider your planned opportunities for leveraged investment based on your capital investment ambition and capital investment plan – this provides a powerful message for your future investment intent that your individual investment will be significantly enhanced by wider partner investment.
- Recognise that when you do not tell the full story of your capital investment ambition in your capital strategy, and you only articulate your own organisation's input to major investment projects, it weakens the impact of your message and keeps your stakeholders in the dark about the positive change to come.
- We recognise that you are not currently supported with a longer-term approach from central government, instead receiving short-term and volatile financial settlements – it is important for you to be part of a collective voice to get a strong message through to central government, and we suggest that you work with your peers and professional societies to make this collective voice as strong as possible.

Here are some good examples extracted from local government capital strategies:

Figure 9.6 Extract from Cardiff capital strategy

Funding the Strategy

The Council has several funding streams available to support capital investment. The resources assumed to pay for the five year capital investment programme from 2020/21 is set out in a table at the end of this Annex.

Cash Resources to pay for Capital Investment

These include:

- Non ring-fenced grants i.e. for use on Council determined priorities. These include General Capital Grant and Major Repair Allowance received from Welsh Government.
- Ring-fenced grants to achieve a particular outcome and therefore with restricted use as specified by the funder. The main source of external grants is from WG, which in most cases follows an application or bidding process for schemes or distribution of grants on a formula basis. The short term nature of grant awards makes long term planning and delivery of strategic schemes very difficult. Where external grant funding bids are made, it is essential that these are in line with Council priorities and include consideration of any revenue budget consequences. Where grants require match funding, the Council will prioritise such support to increase the likelihood of a successful bid.
- External Contributions from planning agreements or other sources. Large housing development sites as part of the Council's Local Development Plan will also impact on the city's infrastructure. Developer agreements either in place or to be determined will aim to mitigate impacts such as affordable housing, school capacity, open space and public transport infrastructure, subject to the planning process. Where contributions are being requested, sufficiency to achieve the required outcomes should be considered along with any revenue budget implications. The Finance section collates the profiling of sums received, over future years.
- Revenue budgets and earmarked reserves held and modelled specifically to support the affordability of capital investment.
- Capital receipts arising from the disposal of Council assets. The Council's approach to receipts is as follows:
 - Prioritise receipts required to meet the balance of the £40 million target for General Fund Capital Receipts (net of fees), assumed in the 2018/19 – 2022/23 Capital Programme and any additional targets set in subsequent years.
 - Use of receipts in excess of this target to be considered to reduce the level of debt.
 - Where an asset has been funded specifically from prudential borrowing, any receipt arising from it would be utilised to reduce expenditure not yet paid for.

- To limit the earmarking of capital receipts only for capital expenditure essential to secure a disposal, to meet the terms and conditions of a grant, where approved by Cabinet as ring-fenced for specific projects or strategies, or where required to be ring-fenced by legislation.

Where Cabinet approve land to be appropriated between the General Fund and Housing Revenue Account, this is to be at a valuation certified by a registered valuer with the decision delegated to the Corporate Director Resources.

The actual realisation and timing of capital receipts can be uncertain given the number of variable factors involved. In order to take this into account, a Capital Programme that includes assumptions on significant levels of capital receipts needs to be supported by a clear, approved strategy for the realisation and timing of such receipts. To do otherwise would be a significant risk to the Council's borrowing requirement and future revenue budget pressures.

In respect to the £40 million capital receipts target and the subsequent £1 million increase to this target in 2019/20, £5.5 million was received in 2018/19 and £3 million is assumed receivable in 2019/20. The approach to meet the balance of £32.5m is to be set out in the Corporate Land and Property Management Plan (CLPMP) to be considered by Cabinet in April 2020 including the key areas of disposal that will be considered.

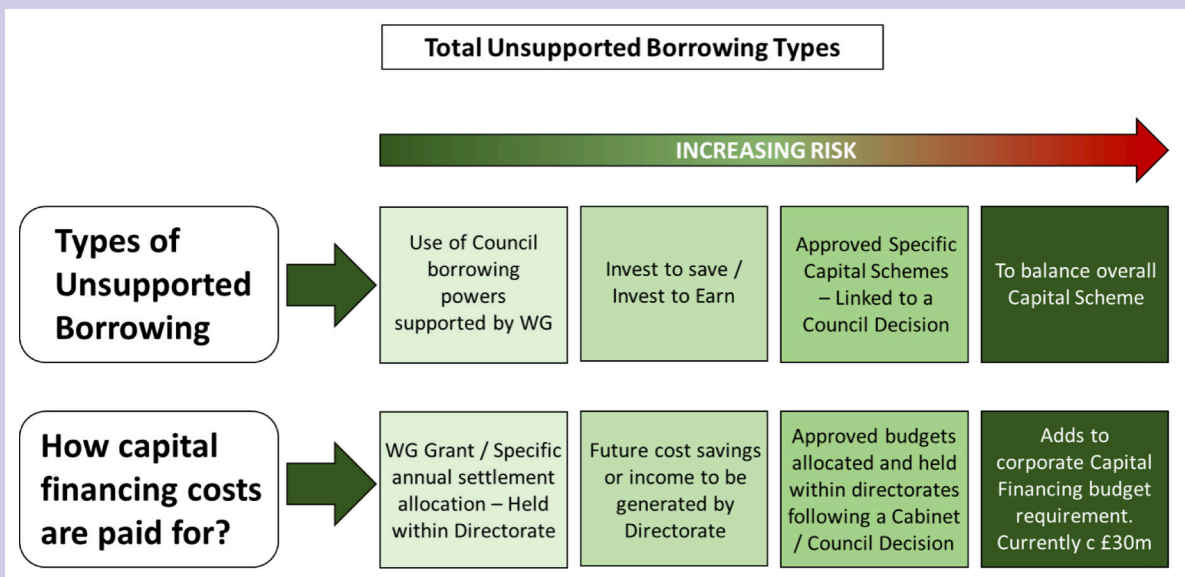
Progress in delivering receipts will be reported periodically to the Asset Management Board and as part of the Council's budget monitoring reporting process.

Borrowing to pay for Capital Investment

There are currently no nationally imposed restrictions to the quantum of borrowing that can be undertaken to pay for capital investment.

The Council approves its own affordable borrowing limit as part of the Local Government Act 2003 and this is set at a level consistent with the programme of capital investment proposed. There are two main types of borrowing to pay for capital investment which form part of the Council's borrowing requirement and is managed as part of the Treasury Management Strategy:

- 'Supported Borrowing' – costs of servicing are included within the annual Revenue Support Grant (RSG) the Council receives from Welsh Government.
- 'Unsupported Borrowing' – costs of servicing to be met from Council tax, rent, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown below.



Source: Cardiff Council, Capital Strategy 2020/21.

Figure 9.7 Extract from the City of Edinburgh Council capital strategy

Capital Financing

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing, Public Private Partnerships and similar instruments). The planned financing of the above expenditure is as follows:

Capital financing in £ millions

Capital Financing	2018/19 Actual	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Budget	2025/26 Budget	2026/27 Budget	2027/28 Budget	2028/29 Budget	2029/30 Budget
Grants	122.376	140.405	143.342	88.831	130.260	110.681	212.204	214.178	191.495	191.995	192.495	172.722
Asset Sales	26.534	50.496	6.150	9.722	14.340	12.805	9.638	16.989	5.000	5.000	5.000	14.508
Capital Fund	7.482	6.311	14.195	-	12.805	-	-	-	-	-	-	-
Supported Borrowing	48.518	23.000	69.262	30.241	37.921	37.529	28.538	7.100	7.100	7.100	7.100	27.100
On-Lending	-	-	56.139	28.413	52.040	40.575	148.029	132.216	116.231	116.231	116.231	100.206
Other External Income	7.938	4.617	6.297	10.012	3.106	3.273	12.038	18.619	23.964	7.701	4.065	0.756
PPP and similar arrangements	-	85.091	41.500	-	-	-	-	-	-	-	-	-
Loans Fund												
Advances - Self-Financed	53.855	138.697	270.883	179.403	165.391	207.241	80.452	130.407	151.206	249.357	216.419	117.109
Total	266.703	448.617	607.768	346.622	415.862	412.104	490.899	519.509	494.996	577.384	541.310	432.401

Source: The City of Edinburgh Council, Capital Strategy 2020–30.

Figure 9.8 Extract from Newcastle-under-Lyme capital strategy

2020/21 to 2029/30 Capital Programme											Annex B
CAPITAL PROJECTS	2020/21 to 2029/30 Proposed Programme										TOTAL
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	
	£	£	£	£	£	£	£	£	£	£	£
PRIORITY - Local Services that work for Local People											
Service Area - Council Modernisation	380,000	506,000	110,000	102,000	15,000	653,000	40,000	29,000	15,000	550,000	2,400,000
Total	380,000	506,000	110,000	102,000	15,000	653,000	40,000	29,000	15,000	550,000	2,400,000
PRIORITY - Growing our People and Places											
Service Area - Housing Improvements	1,070,000	1,080,000	2,615,000	2,625,000	2,675,000	2,775,000	2,975,000	3,500,000	5,125,000	3,125,000	27,565,000
Service Area - Managing Property & Assets	131,531	101,500	410,846	14,922	2,135	2,804	0	216,174	273,525	0	1,153,437
Total	1,201,531	1,181,500	3,025,846	2,639,922	2,677,135	2,777,804	2,975,000	3,716,174	5,398,525	3,125,000	28,718,437
PRIORITY - A Healthy, Active and Safe Borough											
Service Area - Environmental Health	10,000	0	0	60,000	0	12,000	0	0	0	0	82,000
Service Area - Streetscene and Bereavement Services	295,600	1,170,600	1,265,600	990,600	735,600	220,600	165,600	95,600	55,600	70,600	5,066,000
Service Area - Recycling and Fleet	3,766,000	609,500	351,000	2,899,500	565,500	1,026,500	3,431,000	1,395,000	303,000	3,109,000	17,456,000
Service Area - Leisure	3,682,000	331,000	687,000	17,000	17,000	150,000	0	0	0	0	4,884,000
Service Area - Museum	95,000	240,000	40,000	0	0	0	0	0	0	0	375,000
Service Area - Managing Property & Assets	55,547	40,456	273,403	220,498	89,622	819,395	215,754	219,340	329,716	0	2,263,731
Service Area - Engineering	165,873	140,193	806,287	1,287,105	0	0	0	0	0	0	2,399,457
Total	8,070,020	2,531,749	3,423,290	5,474,703	1,407,722	2,228,495	3,812,354	1,709,940	688,316	3,179,600	32,526,189
PRIORITY - A Town Centre for All											
Service Area - Managing Property & Assets	1,673,553	1,106,383	77,126	179,250	16,800	140,920	155,198	161,229	61,777	6,000	3,578,235
Total	1,673,553	1,106,383	77,126	179,250	16,800	140,920	155,198	161,229	61,777	6,000	3,578,235
CONTINGENCY/FEASIBILITY STUDIES											
TOTAL	12,425,103	5,425,631	6,736,262	8,395,875	4,116,657	5,800,219	6,982,552	5,616,343	6,163,619	6,860,600	68,522,861
FUNDING											
Capital Receipts C/Fd from 2019/20	2,062,506										2,062,506
Flexible Use of Capital Receipts	-400,000										-400,000
Capital Receipts	4,330,000	500,000	500,000	500,000	8,000,000	8,000,000	8,000,000	8,000,000	500,000	500,000	38,830,000
External Contributions	2,065,000	2,765,000	1,015,000	1,025,000	1,015,000	1,025,000	1,015,000	1,015,000	1,025,000	1,015,000	12,980,000
ICT Development Fund	50,000	50,000	50,000	50,000	15,000	50,000	40,000	29,000	15,000	50,000	399,000
Borrowing/Leasing	4,317,597	2,110,631	5,171,262	6,820,875	-4,913,343	-3,274,781	-2,072,448	-3,427,658	4,623,619	5,295,600	14,651,355

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

AFFORDABILITY GAP

When you have considered both your capital investment ambition and your available capital financing resources, up to a ten year profile, this will enable you to properly assess your affordability gap, before considering borrowing. This can then feed into decision making on borrowing, prioritisation and overall affordability. We recognise that each organisation model will differ in this regard, with some organisations being debt-free, and some with ringfenced borrowing

decisions and other organisational requirements. However, the principle of assessing your affordability gap still holds true in all cases.

Principles associated with borrowing can focus on several areas, such as overall level of borrowing (linked to prudential indicators), overall level of capital financing cost (linked to MTFs), proportion of capital financing cost to net revenue position (linked to prudential indicators) and gearing of capital financing requirement to long-term assets (linked to Balance Sheet management). Tighter controls on borrowing, over and above the usual prudential indicators, can assist with risk mitigation but can limit the flexibility and ability to react to new opportunities, although flexibility can be applied by exception.

When considering the level of capital financing cost that the organisation can sustainably afford, it is important to include the net return from planned capital investment in your assessment of affordability. This needs to be based on a fully evidenced analysis of net revenue return, as explored in Chapter 8, and tested for optimism bias. This will ensure that there is a quantified measure of return across the capital investment plan that can be monitored against delivery and that this will not be lost in the overall revenue position.

Here are some points for you to consider:

- When considering the impact of capital financing costs, remember that this is an element of the budget that your organisation is committed to, even before you have delivered any services or incurred other costs.
- It is also important to remember that, even though financing costs may be fixed, funding resources are reducing over time, so the ratio of costs to resources will continue to climb, leaving less available for frontline services.
- In addition to the prudential indicator for the ratio of financing costs to net revenue stream, you could introduce a local policy on the level of this ratio – this will assist with risk management in this area and provide a strong marker for your assessment of affordability when developing your capital investment plan.
- Your assessment of your affordability gap will inform your capacity to deliver, the prioritisation of your capital investment proposals and your capital investment ambition gap.
- We recognise that the significant pressure on revenue resources and reserves, coming from the long-term impact of austerity measures, the continuing funding uncertainty and the serious impact of current national and world events, is incredibly challenging – this can have a contradictory impact on the general reserve, where on the one hand you have to draw down on reserves to balance the budget, and on the other hand your risk-assessed level of reserve informs you that you should increase your general reserve.
- With this in mind, it is important to put effort into determining the revenue impact of your capital investment proposals, both from the perspective of a positive return and from the perspective of an increase in service costs – if you have a process that determines that investment should have a positive return, for example invest to save, you should ensure that you achieve your intended outcome.
- When you assess your overall affordability, you will need to fully understand the revenue impact of your capital investment plan – this will enable you to make proactive and well-informed decisions on planned investment.

Here are some good examples extracted from local government capital strategies:

Figure 9.9 Extract from Waltham Forest capital strategy

Revenue Implications

Borrowing, at £205.447m, is the largest source of funding and represents 56% of the programme.

[The table] below summarises the revenue implications of the proposed capital portfolio.

After considering projected income generated from development projects, the revenue cost of the capital portfolio is expected to be £47.505m by the end of 2024/25, the period of the programme under analysis. The financing costs of £46.341m are made up of interest payable (£28.120m) and an allocation for the repayment of debt (£18.221m) – the Minimum Revenue Provision (MRP). This is expected to be offset by investment property income of £1.384m over the lifetime of the programme.

In each year, revenue budget has been set aside to cover financing costs (MTFS budget assumptions). The difference between this amount and the net revenue position represents contributions to/from a smoothing reserve over the life of the programme. This enables the Council to manage its capital programme in a sustainable way. The MTFS assumes a £1m increase in 2021/22 rising to £2m a year in following years. Continuing that policy over the period, and indexing for inflation, generates sufficient budget to cover the £47.505m financing costs.

	Forecast 2019/20 £000	Three Year Plan			Future Years to 2024/25 £000	TOTAL £000
		Revised 2020/21 £000	Revised 2021/22 £000	Original 2022/23 £000		
Expenditure	88,553	99,963	98,749	57,177	20,005	(364,447)
External Funding	26,125	(23,112)	(22,220)	(26,634)	(9,363)	(107,456)
Revenue / Reserves	4,914	(200)	0	0	0	(5,114)
Capital Receipts	18,735	22,235	(2,100)	(99)	(3,261)	(46,430)
Borrowing Equipment	38,779	54,416	74,429	30,444	7,379	205,447
Revenue Impacts:						
Capital Financing Cost - Interest	2,341	5,957	7,110	6,618	6,618	28,121
Capital Financing Cost - MRP	3,191	2,805	2,916	3,088	6,221	(18,221)
Financed By:						
Commercial Income	0	(250)	(263)	(276)	(595)	(1,384)
Net Revenue Position	5,532	8,512	9,763	9,430	11,720	44,957
Sinking Fund Adjusted Balance	2,548	(432)	(683)	650	465	2,548
MTFS Budget Assumptions	8,080	8,080	9,080	10,080	12,185	47,5052

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 9.10 Extract from Cardiff capital strategy

Affordability

Capital investment undertaken historically, and the proposed Capital Programme, form an integral part of the Council's revenue budget and Medium Term Financial Plan. The revenue budget impact of capital schemes for Council Tax and Rent payers include:

- The costs of operating / maintaining new assets.
- The capital financing costs of servicing any borrowing required to pay for investment (interest and the Council's approach to making prudent provision for repayment of capital investment paid for by borrowing).
- The revenue costs of preparing and delivering projects.
- Abortive costs required to be charged to revenue budgets if schemes do not proceed.

Some or all costs of that investment may be offset by financial and non-financial benefits such as income, cost avoidance and importantly improved outcomes for residents of the city.

Where capital investment has been undertaken by borrowing, the Council is required to spread the cost of that investment over future years' revenue budgets. This is in accordance with its Policy on Prudent Provision for the Repayment of Capital Expenditure which is approved as part of the budget proposals each year.

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, where it needs to do so, this will be considered. The Council's approach to affordability of its capital financing budgets in the medium term are as follows:

- General Fund – Additional investment funded by borrowing over the medium term to be minimised unless approved on an invest to save/invest to earn basis.
- Housing Revenue Account – Increasing over the medium term primarily as a result of implementing Capital Ambition target of new affordable housing. Future rent policy, pressures and a robust approach to ensuring viability of new development will be key to affordability.
- Strategic and major development projects – To create affordable revenue budget allocations to cover capital financing costs arising from approved business cases.

Prudential indicators and financial resilience indicators included in the Budget Report must be considered in taking a longer term view of affordability, prudence and sustainability.

The percentage of the Council's revenue budget that is committed to capital financing costs is increasing in the long term. Given the pressure on revenue budgets, this clearly limits the affordability for additional borrowing in future years and must be a factor considered by members when determining the Capital Programme.

The indicator below identifies the trend in the cost of capital financing (excluding the running costs of schemes). Financing costs include:

- Interest payable on borrowing and receivable on investments
- Penalties or any benefits receivable on early repayment of debt
- Prudent revenue budget provision for repayment of capital expenditure paid for by borrowing
- Reimbursement of borrowing costs from directorates in respect of Invest to Save/Earn schemes.

For the General Fund, the net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers. An increasing ratio indicates that a greater proportion of the estimated future revenue budget is required for capital financing costs over the planned Capital Programme period.

Indicator							
Ratio of Financing Costs to Net Revenue Budget Stream							
	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %
General Fund – Net Capital Financing Budget	5.70	4.77	4.61	4.64	4.56	5.16	5.01
General Fund – Gross Capital Financing Budget	7.65	7.02	6.94	7.06	7.29	8.09	7.88
HRA	31.21	33.24	34.66	35.44	35.98	37.86	38.38

Indicator								
Capital Financing Costs expressed as percentage of Controllable Budget								
	2011/12 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	Difference 11/12-24/25 %
Net	13.47	11.84	11.21	11.35	11.21	12.88	12.49	(7.28)
Gross	15.17	17.04	16.02	16.41	17.05	19.35	18.82	24.06

Source: Cardiff Council, Capital Strategy 2020/21.

Figure 9.11 Extract from Newcastle-under-Lyme capital strategy**Resources Available to Finance Capital Investment**

... The capital investment programme set out in Annex B will require a significant amount of borrowing if it is to be carried out in its entirety.

... Future Capital Programme

... Funding will depend on capital receipts from asset sales. There will be insufficient capital receipts arising from these planned sales to meet all of the costs of the investment programme. Accordingly, it is estimated that around £14.716m of expenditure will have to be funded from borrowing over the ten year period if the programme is to be delivered in its entirety.

... Current estimates of the amount required to be invested in projects to ensure continued service delivery and meet commitments compared with forecasts of likely receipts from asset sales and other available resources indicate that there will be insufficient resources available to fund all [capital] requirements. If forecast receipts from sales of assets cannot be achieved within this timeframe, the Council may have to review its stance with regard to borrowing, if this proves to be the only practical means of funding necessary investment, particularly if a major unforeseen item of capital expenditure were to materialise, for example major repairs to enable an operational building to continue to be used or new legislation requiring capital spending.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

Figure 9.12 Extract from the City of Edinburgh Council capital strategy**Capital Expenditure**

... This Capital Budget Strategy 2020–30 set out additional capital expenditure of £556.748m, offset by additional income of £226.437m, resulting in a requirement of £330.311m in loans fund advances. The loans charges associated with this over a 30-year period would be a principal amount of £330.311m and interest of £288.985m, resulting in a total cost of £619.296m based on an assumed loans fund interest rate of 4.5%. This represents an annual cost of £20.643m.

Revenue budget planning assumptions mean that costs associated with £78m of the loans fund advances will be met from savings initiatives and £43m can be met from Council Tax. This was contingent on the Council approving a balanced medium-term revenue budget on 20 February 2020. It is also assumed that £41m will come from services for investment in schools. A further £12.564m will be funded through the fleet review and third-party grants and £1.145m from temporary accommodation savings for the house share scheme.

The remaining £154.602m is currently unfunded and will require the Council to find additional revenue savings in future years, or lead to projects having to be removed from the capital investment programme before they commence.

Source: The City of Edinburgh Council, Capital Strategy 2020–30.

CAPACITY TO DELIVER

Having considered the affordability gap, it is important not to ignore your organisation's capacity to deliver. You may have an agreed position on available capital and revenue resources, including your appetite and capacity to borrow. However, your ability to deliver against the profile in your capital investment plan, particularly with the current volatile environment, could be a serious limiting factor when it comes to achieving your intended outcomes over the planned timescale.

When considering your capacity to deliver we expect this to cover the following, along with any other relevant local issues:

- **Available resources** – as we have already discussed, a well-considered and informed view of your available resources will provide a strong base for your view of your capacity to deliver.

- **People** – at a time of scarce resources and reducing workforces, you will need to consider what impact this has on your ability to deliver against your capital investment plan, including vacant posts in key areas, training needs and availability of contractors.
- **Procurement process** – make sure that you afford adequate time for due process because, even with significant experience in procurement, often insufficient time is afforded for this important process.
- **Starter budget** – your ability to cover the initial investment required to get major programmes and projects off the ground will have been impacted by the challenges in your revenue position.
- **Earmarked reserves** – you need to apply strategic thinking to establishing and applying earmarked reserves to ensure that they meet their intended purpose over the planned timescale.
- **Programme and project support** – you will need an appropriately skilled and adequately resourced programme office, although we recognise again that not every organisation will be able to adequately resource this requirement.
- **Consultation process** – you will need a strong process for consultation, as part of the overall capital planning process, and this should link to your overall approach to consultation.
- **Decision-making process** – you will need strong and effective governance in place to ensure that your capital investment plan has been appropriately supported and scrutinised.

When thinking about your capital investment ambition gap, you need to consider any issues that you have with your capacity to deliver and it is important that you identify actions to improve where possible.

Here are some points for you to consider:

- Based on our experience of local government organisations, we have found that the capacity to deliver can be treated as a separate organisational issue – this is appropriate in some ways, but you should make links to this wider challenge when considering the overall deliverability of your capital investment plan.
- If you consider your capacity to deliver at the point that you develop your capital investment plan, it prevents you from making delivery promises that you may be able to afford but that you are not able to deliver in the time planned – it also enables you to manage risk proactively rather than reactively.
- Review your capital planning process to determine how much attention you give to capacity to deliver – where this is weak, include actions in your capital strategy to improve this position over a reasonable time period.

Here is a good example extracted from a local government capital strategy:

Figure 9.13 Extract from Cardiff capital strategy

Constitution, Procurement and Value for Money

The Council's Procurement Strategy ensures that the principles and practices associated with procuring works, goods and services consistently achieve value-for-money and actively contribute to the Council's priority outcomes. The Strategy, and the Council's Socially Responsible Procurement Policy, aims to ensure that procurement becomes sufficiently flexible and agile to support the Council to operate in an efficient, compliant and ethical manner to deliver capital projects on time, on budget and to specified quality standards with contractors supporting the delivery of wider community benefits.

Procurement considers third party spend across budgets and taking opportunities to consolidate and aggregate spend and achieve economies of scale are a key focus.

The Council recognises the benefits of utilising regional, joint and local framework arrangements where they can demonstrate value for money and compliance with the Council's Procurement Strategy objectives.

Source: Cardiff Council, Capital Strategy 2020/21.

CAPITAL INVESTMENT AMBITION GAP

We recognise that some organisations will view the term capital investment ambition as inappropriate when compared to the current approach to, and perception of, available financial resources. Where this is the case, we understand that you may be working to a capital investment requirement only, which already recognises that your investment is constrained.

However, we urge you to take a step back and consider what your capital investment ambition needs to be to address the evidence-based need for your population and the area that you serve. By doing this, you create space for more strategic and longer-term thinking, and demonstrate to your stakeholders that you are willing to take action to address the capital investment ambition gap.

The capital investment ambition gap is the element of your capital investment plan that is constrained by available resources, affordability and capacity to deliver. The articulation of your capital investment ambition gap provides you with the strong evidence that you need to inform the actions that you can take.

These actions could include lobbying central government and/or regional government; collaborating with partners, both public and private; giving input to submissions and bids to relevant funding programmes; or being creative and coming up with new delivery approaches. We are aware that many local government organisations are already doing this effectively. Again, sharing experience and good practice on potential actions that can be taken will be beneficial for organisations that aim to improve their approach.

Here are some points for you to consider:

- We have already noted that if you are aiming your capital strategy at a capital investment ambition, you will have to be prepared for what you do about your capital investment ambition gap – in current circumstances the gap, based on evidenced investment need, is likely to be significant.
- We recognise that there is only so much control and influence that you have for improving this position, but you should endeavour to do what you can.
- A collective voice in this regard can be powerful – where possible, work with your peers and professional bodies to highlight common areas of need.

- Where you have a specific regional or local gap between your investment ambition and your resources, think about how you can approach central government, regional bodies, partner bodies and the private sector to fill the gap.
- How you positively approach this as an organisation can be a powerful part of your capital strategy story – one that should resonate with your key stakeholders.

Here is a good example extracted from a local government capital strategy:

Figure 9.14 Extract from Cardiff capital strategy

Risk Appetite

... Financial austerity has had a significant impact on affordability, however taking the city forward is not just a consideration of how we manage decline. Capital investment funded by borrowing will be undertaken in priority areas to meet Capital Ambition, whilst at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases, risk management and monitoring.

... Affordability

... 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, where it needs to do so, this will be considered.

... The percentage of the Council's revenue budget that is committed to capital financing costs is increasing in the long term. Given the pressure on revenue budgets, this clearly limits the affordability for additional borrowing in future years and must be a factor considered by members when determining the Capital Programme.

... Asset Management Planning

... The Council's historic retained interests in land assets in various parts of the city has been an enabler in its ability to support development of key capital projects in the city.

... Working with Partners

... The Council will continue to use its enabling role to harness skills and private funding, in order to take forward capital investment to deliver improvements and inclusive growth which would not otherwise be deliverable or affordable. It will set out its vision and co-ordinate activity between business and government bodies to develop a more productive and innovative platform for investment in the city.

Source: Cardiff Council, Capital Strategy 2020/21.

BALANCE SHEET FORWARD PLANNING

The capital financing requirement is only as good as the profile in your capital investment plan. If you are an organisation that borrows, you will not have an effective borrowing strategy if it is based on a short- to medium-term capital financing requirement. On this basis, your forward Balance Sheet view will not give you an accurate picture of your investment requirement and will not enable you to take a strategic approach to borrowing.

As illustrated in Figure 9.1, at the start of this chapter, you need to ensure that your Balance Sheet management is integrated with your reserves strategy, your minimum revenue provision (having regard to *Capital Finance: Guidance on Minimum Revenue Provision*, fourth edition) or loans fund policy, and your treasury management strategy. In all cases you need to put concentrated effort into understanding the impact of your approach and what you need to do to improve that approach, using your prudential and local indicators to support this view.

We talk about the links with your treasury management strategy below. In terms of your minimum revenue provision or loans fund policy, you need to ensure that it is appropriate for your investment

types, investment profile and approach. This feeds into the effective management of your capital financing costs over the profile of your capital investment plan.

In terms of your reserves strategy, you should have a risk-assessed General Fund reserve and effective management and allocation of earmarked reserves over the longer term. All of this will ensure that your forward Balance Sheet projection provides a valuable foundation for your strategic financial planning.

Figure 9.15



Here are some points for you to consider:

- Gain a strong whole organisation understanding of your Balance Sheet position and the impact of effective Balance Sheet management – your chief finance officer will inform this understanding, and this should not be in technical terms but in a way that demonstrates the story that each line in the Balance Sheet is telling.
- You need the forward view of your Balance Sheet to be as accurate and appropriately profiled as possible – if it is not, you will be making decisions on a poor foundation because it will not be telling you a true story.
- If you put effort into this exercise, it will bring significant benefits to your leadership thinking – it will also enable you to have a much more considered view of your financial resilience.

Here is a good example extracted from a local government capital strategy:

Figure 9.16 Extract from Cardiff capital strategy

Managing the Borrowing Requirement

The Council's Treasury Management Strategy considers how the cash requirements arising from the Council's Capital Strategy and detailed investment programme are managed by external borrowing and the timing of any such borrowing. This is delegated to the Corporate Director Resources. Audit Committee is responsible for seeking assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

Where capital expenditure has been incurred without a resource to pay for it, i.e. when proposed to be paid for by supported or unsupported borrowing, 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 policy. This reduces the CFR. Calculation of the CFR is summarised in the table below and results in the need to borrow money.

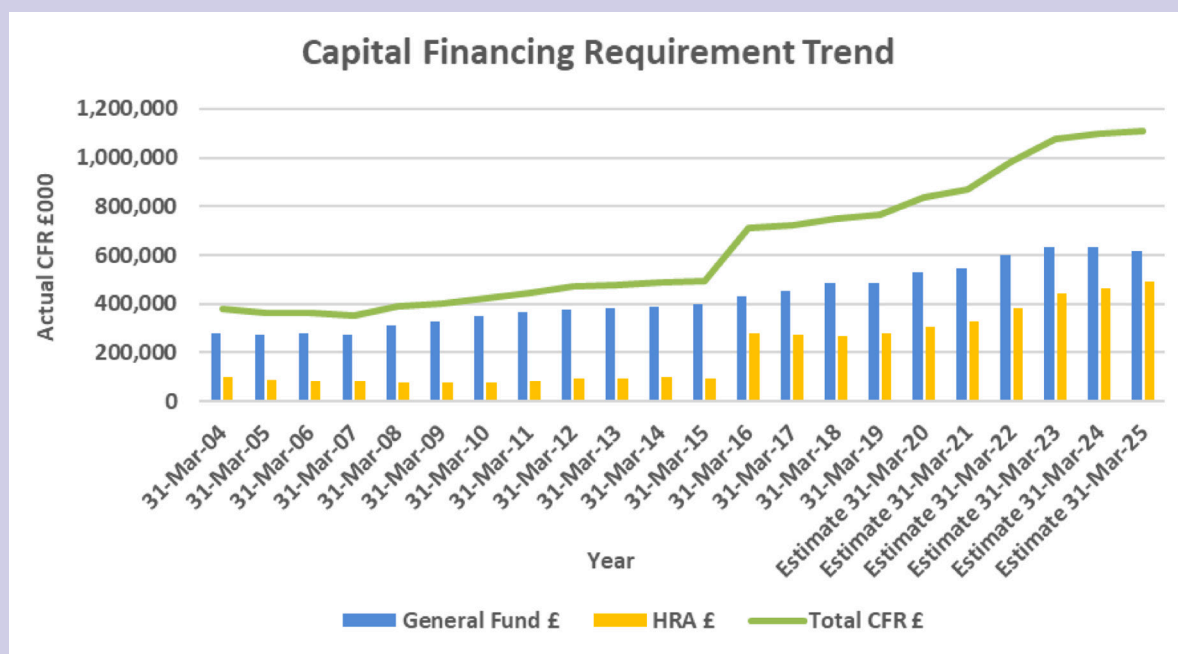
Movement	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts used for capital expenditure
-	Prudent Minimum Revenue Provision and Voluntary Provision
=	Closing Capital Financing Requirement (CFR)

Future projections of the CFR based on the Capital investment programme and resources deemed available to fund it are shown in the table below. Forecasts are subject to the timing of capital expenditure and receipt of funding sources.

Indicator							
Capital Financing Requirement as at 31 March							
	2019 Actual £m	2020 Estimate £m	2021 Estimate £m	2022 Estimate £m	2023 Estimate £m	2024 Estimate £m	2025 Estimate £m
General Fund	488	531	544	601	634	634	615
Housing Revenue Account	279	303	326	381	441	464	493
Total	767	834	870	982	1,075	1,098	1,108

The chart below shows the historic trend in the CFR including the Housing Revenue Account.

The latter includes the £187 million payment made to HM Treasury to exit the subsidy system in 2015/16 and also future expenditure to create new Council owned affordable housing from various measures to be updated in the next iteration of the Housing 30 Year Business Plan.



The Medium Term Financial Plan projections for the General Fund and HRA include the costs of servicing the respective borrowing requirements. The Treasury Management Strategy addresses how the Council will meet the borrowing requirement including any external borrowing.

The Council can consider various debt instruments, with the main source of long term borrowing for local authorities historically being the Public Works Loan Board. Best treasury management practice is that loans are not taken on a project by project basis. However, alternative options could be considered for specific council projects where relevant such as leasing and bonds where these would allow financing requirements to be met in an efficient manner. Advantages and disadvantages of such products, supported by external advice in respect of different options, would need to be considered including risks, track record and cost of issuance.

Source: Cardiff Council, Capital Strategy 2020/21.

LINKS TO TREASURY MANAGEMENT STRATEGY

When considering how to appropriately link your capital strategy with the treasury management strategy (having regard to *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*, 2017 edition), it is important to remember that you are doing this for a purpose. A good summary of the treasury management implications of your capital strategy will inform the decision maker, or general reader of the capital strategy, about the relevant prudential and local indicators, and consequently the level of capital investment risk and how it is being managed.

A well-managed and transparent approach will ensure that the risk appetite of the organisation, and the associated risk management, align with the position in the Balance Sheet. This can be complex and impenetrable if it is not put across in a simple and understandable manner.

This is an area where a clear and visual approach can be effective. We suggest that you examine which prudential indicators will best illustrate the planned position and which local indicators will complete the picture to enhance the understanding of interested stakeholders.

Here are some points for you to consider:

- If your capital financing requirement forward profile is short- to medium-term, you need to improve your longer-term approach to your capital investment plan.
- You cannot properly plan for borrowing on this short- to medium-term basis – you will therefore need to explain why this is the current position and what you plan to do to improve and extend the profile for future iterations of the capital strategy.
- Illustrating the capital financing requirement position in a chart alongside your authorised limit and operational boundary, and comparing all three positions with the profile of external debt, will simply and powerfully explain the position for you.
- The gap between the capital financing requirement and the operational boundary/authorised limit demonstrates the potential flexibility for further borrowing.
- The gap between the capital financing requirement and external debt helps to illustrate the level of internal borrowing.
- A potential risk management tool is to introduce a minimum percentage of the reserves that are backed by cash – this helps to manage the risk of having to borrow earlier than planned and alerts the reader of the capital strategy to this aspect of Balance Sheet management.
- When it comes to local government organisations that have commercial portfolios, it is advisable to have a gearing ratio, comparing the capital financing requirement with total long-term assets – this can provide an early indication of debt levels that are rising relative to long-term assets held, but care needs to be taken with this type of local indicator to ensure there is a strong understanding of the Balance Sheet and the outcome of the ratio is understood by the capital strategy audience.
- Really think about how you can summarise and visualise this element of the capital strategy to keep things concise and simple, while powerfully expressing the level of risk and how this risk is managed.
- Note that the ratio of financing costs to net revenue stream is covered under affordability gap considerations above.

Here is a good example extracted from a local government capital strategy:

Figure 9.17 Extract from Wirral capital strategy

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently has £278 million borrowing at an average interest rate of 3.91% and £33 million treasury investments.

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 cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0% to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases [and transfers from local government reorganisation]) are shown below, compared with the capital financing requirement (see above).

Table 7: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31/3/2019 Actual	31/3/2020 Forecast	31/3/2021 Estimate	31/3/2022 Estimate	31/3/2023 Estimate
	£000	£000	£000	£000	£000
Debt	312,165	321,896	345,325	339,069	340,541
Capital Financing Requirement	345,788	360,776	401,729	398,429	381,778

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 7, the Council expects to comply with this in the medium term.

Affordable Borrowing Limit

The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt

	2019/20 limit £m	2020/21 limit £m	2021/22 limit £m	2022/23 limit £m
Authorised limit – borrowing	465	455	442	427
Authorised limit – PFI and leases	65	63	61	59
Authorised limit – total external debt	530	518	503	486
Operational boundary – borrowing	455	445	432	417
Operational boundary – PFI and leases	60	58	56	54
Operational boundary – total external debt	515	503	488	471

Further details on borrowing can be found in the treasury management strategy statement.

Source: Wirral Council, Capital Financing Strategy 2020/21.

NON-TREASURY AND TREASURY INVESTMENTS

When considering how to represent your non-treasury (capital and capital loans) and treasury (cash) investments in your capital strategy, you will need to refer to both the Prudential Code and *Statutory Guidance on Local Government Investments*, third edition. Based on the requirements in these publications, we suggest that you incorporate a summary of your non-treasury investments. This should refer to the powers that you are relying upon and the governance and risk management measures that you have in place, in contrast to your summary of treasury investments, which is managed on a security, liquidity, yield basis.

You can do this by including a summary of non-treasury investments alongside treasury investments. We expect this to be accompanied by a description of the decision-making processes and governance. In the case of non-treasury investments, based on business case and risk assessment, and in regard to treasury investments, driven by security, liquidity and yield. This creates a bridge to your treasury management strategy, (annual) investment strategy, risk assessment and reserves strategy. We feel that this will be digestible to the varied audience and appropriate for a strategic capital strategy.

We see there being three places to include non-treasury investments in your capital strategy:

- a table that sets out the type of commercial investments your organisation intends to consider and any local parameters against each type of investment, which is part of your decision making
- the current non-treasury portfolio in terms of make-up and return, which is part of your performance management
- the capital investment plan, up to ten years, which will include the non-treasury investments, in terms of planned investment and financing, alongside all other capital scheme proposals.

It will be a local choice whether detailed tables (if activity is significant) are included in appendices or as background working papers, particularly where you are aiming to keep your capital strategy as concise and readable as possible. In the case of treasury investments, these will be detailed in your treasury management strategy and (annual) investment strategy anyway. Careful consideration will need to be given to the balance between commercially sensitive information and the need for transparency.

Here are some points for you to consider:

- We recognise that it is not easy to consider your non-treasury investments alongside your longer-term treasury investments, but you need to think about the purpose of this approach – you are expected to demonstrate the level of longer-term investment that has been planned on the basis of return, in order to provide assurance that you are acting to minimise the risk of failure.
- You are summarising this position in your capital strategy to ensure that the whole picture is presented in a transparent manner – we do recognise that there may be some commercial sensitivity involved, but you should be able to demonstrate that you are managing this position effectively, including value and achieved and expected return, with an emphasis on the management of risk.
- When looking at 2020 capital strategies, we saw that this is an important area for improvement – we have not identified any good examples from local government capital strategies for this purpose, and we suggest that you give this priority attention for the next iteration of your capital strategy.

Risk management and assessment

ARTICULATION OF RISK APPETITE

We recognise that it is not easy to evaluate and articulate your risk appetite when it comes to your capital investment ambition. When looking at 2020 capital strategies, we found that in many cases local government organisations articulated what risk appetite means rather than specifically stating what their organisational risk appetite is and what this means for their investment approach and risk management.

It is important for your organisation to get this right, particularly when it comes to planned commercial activity, which should be informed by your commercial strategy if you have one. We recognise that each organisation will have differing levels of risk appetite. Whatever your risk appetite is, it should be clear, easily understood and transparent. Your risk appetite should address both your planned new investment and the management of your current asset portfolio.

We recognise that your commercial strategy, or general approach to commercial activity, can be viewed based on opportunity, risk and reward consummate to the authority's risk appetite. There is no doubt that local government organisations should be open to opportunity and the potential reward, within the boundaries of the Prudential Code and its guidance, is not insignificant. As a public body, your approach to the identification and management of risk should be paramount.

Here are some points for you to consider:

- Your risk appetite could be articulated by the level of annual investment across the period of your capital investment plan, as a proportion of your overall investment ambition and financial resilience; your expected income stream contribution to the revenue position; your view of the impact of asset and/or income failure on reserves; or other such measures and considerations, such as spending pressures, organisational management and capacity.
- These measures will inform your capital strategy risk assessment and your approach to the management of identified risks.
- You should put effort into properly identifying and agreeing your risk appetite as an organisation, which will help you to understand what you need to put in place to manage effectively at the accepted level of risk – the higher the risk appetite, the more you will have to do to monitor your performance and you will have to be prepared to act decisively and in a timely manner if mitigations against identified risks are proving inadequate.

Here is a good example extracted from a local government capital strategy:

Figure 10.1 Extract from Cardiff capital strategy**Risk Appetite**

... For large complex projects, professional external advice and services would be sourced to undertake due diligence to understand risks and inform decision making.

Capital investment to be undertaken can be broadly split into [two] types:

1. Expenditure on **existing assets** to ensure they meet the requirements of service delivery, are fit for purpose, meet health and safety guidance, and reduce future costs.
2. Expenditure on **specific projects or non treasury investments to meet strategic aims**. Non treasury investment to meet service or Council obligations could include loans or equity towards capital expenditure incurred by external bodies, Council subsidiaries or joint ventures.

... In respect of 1 and 2, the Council recognises that achieving these aims will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however taking the city forward is not just a consideration of how we manage decline. Capital investment funded by borrowing will be undertaken in priority areas to meet Capital Ambition, whilst at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases, risk management and monitoring.

Source: Cardiff Council, Capital Strategy 2020/21.

ALIGNMENT WITH RISK MANAGEMENT FRAMEWORK

We recommend that you include a specific risk assessment in your capital strategy, which should be aligned to your risk management framework. The capital strategy risk assessment cannot be produced in isolation, so you should consider how you can incorporate it into your framework, including reporting, decision making and ongoing management.

When looking at 2020 capital strategies, we saw that some organisations included an assessment of risk as a key element of the capital strategy. We see this as being essential, given the material nature of capital investment, the longer-term focus and the significant impact of getting it wrong.

You should apply your usual organisational risk management approach to the capital strategy risk assessment in terms of methodology, look and feel, but it should be at a strategic summary level when included in your published capital strategy. That is not to say that a more detailed risk assessment should not be produced, though, as this could be beneficial for supporting day-to-day risk management.

Here are some points for you to consider:

- You should determine how you can link your capital strategy risk management approach to your risk management framework – this will ensure that your capital strategy risk assessment is not considered in isolation.
- A whole organisation approach will help you to develop your capital strategy effectively – you will have expertise in your organisation that can ensure that capital investment risk is recognised as important and is monitored and reported appropriately.

Here is a good example extracted from a local government capital strategy:

Figure 10.2 Extract from Cardiff capital strategy**Risk Appetite**

... Non treasury investment funded by additional borrowing would only be undertaken after:

- Cabinet approval of a robust business case supported by independent advice
- Consideration of the legal basis on which the expenditure is being incurred
- Affordability and risk assessment of such expenditure over the longer term

The Council's Investment Review Board chaired by the Corporate Director Resources aims to provide assurance to Cabinet by reviewing business cases in respect of change initiatives as well as capital projects proposed such as invest to save/earn schemes. During 2020/21, it will support the development of further Council guidance in respect of business cases and review the approach to support informed decision making, including effectiveness of governance for projects where there is deemed to be a significant financial or operational risk exposure.

Source: Cardiff Council, Capital Strategy 2020/21.

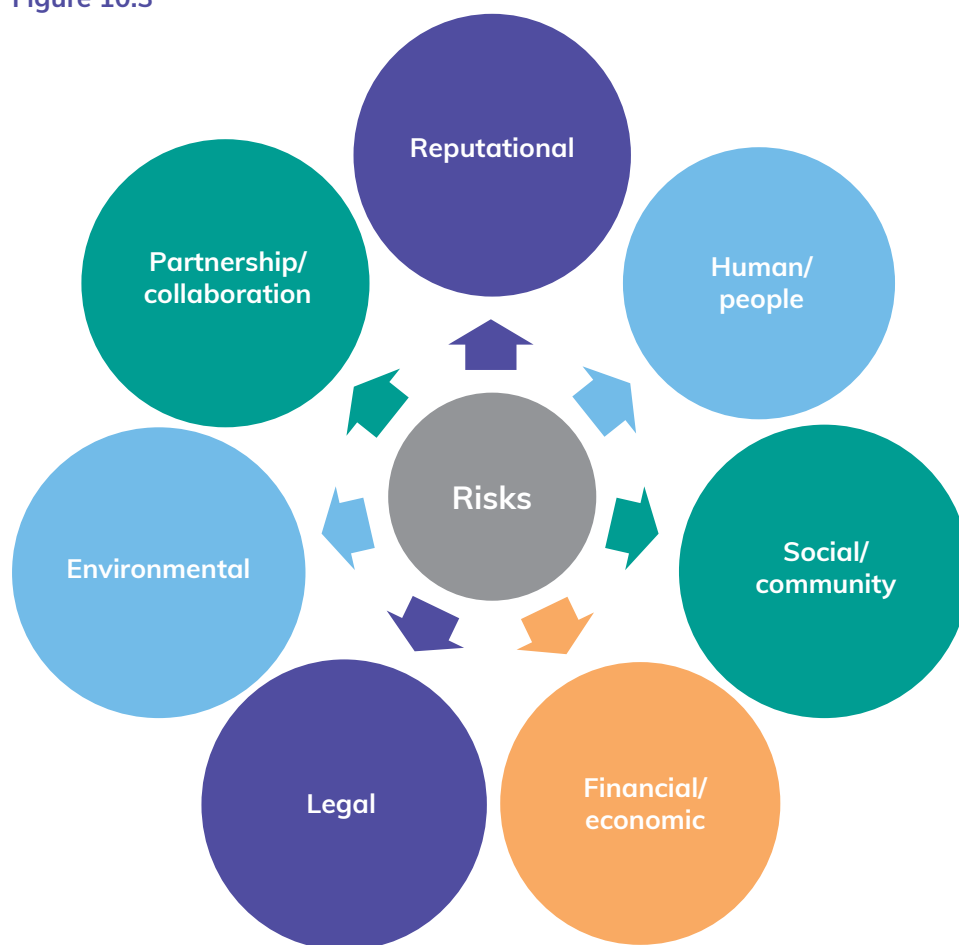
RISK ASSESSMENT

We have indicated that you should apply your organisational approach to risk management for the purposes of the capital strategy. However, you should consider the specific risks that are unique to capital investment. These could be general risks that would be the same for all organisations or specific risks that are of a regional or local nature, such as geographic, location or spatial considerations.

The purpose of your capital strategy risk assessment is to contribute to the assurance that you give as an organisation when you approve capital investment. Based on your capital investment plan, the transparency of approach and the integrity of your intention should be based on the evidence of need.

Figure 10.3 is not prescriptive but sets out the broad risk areas that we would expect to be included in your strategic capital strategy risk assessment. We recognise that some risks, particularly financial and economic risks, are likely to be included in your MTFS and budget management already. It would be beneficial to pick out any relevant risks for inclusion in your capital strategy risk assessment, as this demonstrates that you already have a managed position and that appropriate links are being made to your strategic financial management.

Figure 10.3



Here are some points for you to consider:

- We suggest that you only include a high-level risk assessment in your capital strategy – this should include the most important identified risks, the mitigations for those risks and the subsequent level of residual risk.
- Depending on the size of your capital investment ambition and capital investment plan, you could undertake a more detailed risk assessment as part of your capital planning process – we expect this to be based on your usual risk assessment methodology, and it will assist you with linking to the more detailed risk assessments that you undertake for capital investment programmes and projects.

Here is a good example extracted from a local government capital strategy:

Figure 10.4 Extract from Waltham Forest capital strategy

Risk Management

Major regeneration and housing projects constitute most of the Council's capital portfolio. These inherently carry risk, most of which is outside the Council's control. The Council's planning and governance processes have been developed in such a way as to mitigate these risks. [This table] sets out these risks and mitigations:

Risk	Mitigation
Interest rate	The Council's capital portfolio is heavily dependent on borrowing and is therefore exposed to fluctuations in interest rates. External borrowing is projected to be £205.447m over the next five years. Interest rates are variable, and a rise could push the capital programme beyond affordability. A 1% rise would add an extra £2.054m to the revenue costs of the portfolio. The Council has used prudent interest estimates in order to mitigate this risk.
Inflation	Capital delivery costs are vulnerable to inflation. Given the size of the portfolio, a 1% rise in inflation could add an extra £3.644m to the costs. In costing the capital portfolio, therefore, a level of contingency has been built into each scheme to mitigate this risk, as well as negotiating fixed price contracts wherever possible. Close monitoring of the portfolio through the governance processes will lead to early highlighting and mitigation of further risks.
Legislative	Changes in statute and regulations will impact capital projects, as they must comply with current legislation. As mitigation, the Council must horizon scan and remain aware of any changes in the pipeline which might affect projects and make amendments accordingly through proper governance channels.
Market	The portfolio is complex, and the successful delivery of various aspects depends to a large extent on the commercial environment. Examples are property rental income, capital receipts and future health of the property market. Assumptions are made which underpin projections. The Council relies on expert advice to mitigate this risk.
Transfer	Increasingly, major projects are not delivered by the Council itself, but by developers – either alone or jointly with the Council or its delivery subsidiary. Whilst using a developer transfers risk away from the Council, this means extra costs and therefore a careful balance is required. Risks associated with newly incorporated subsidiaries will decrease with time as they gain experience.
Project delivery	In the main, these are unforeseen delays and increases in costs. Apart from building in contingencies there is a range of measures that can mitigate the risks. Effective scrutiny of business cases at the outset will ensure robustness of projects included in the portfolio. During the life of the project, risks are monitored with risk registers being properly maintained and updated. Regular highlight reporting keeps key stakeholders informed to allow early intervention where necessary. In the case of complex major projects, professional experts are used at all necessary stages to ensure effective delivery.
Portfolio delivery capacity	The investment portfolio set out in this Capital Strategy totals over £580m. A priority is to ensure sufficient project delivery expertise, enabling support and supply chain capacity is available to deliver the Council's investment portfolio outcomes, on time and to agreed costs. The Council will continue its existing arrangements which mean senior responsible officers (SROs) and dedicated project delivery resources are allocated to key investment programmes and projects. Appropriate resource plans (and service level agreements) are developed to provide sufficient enabling expertise. Supply chain capacity will primarily be managed at the project and programme level – with residual risks escalated through the Council's governance as necessary.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Capital planning process

STEERED BY A STRATEGIC LONG-TERM APPROACH

Your capital planning process should be steered by your strategic long-term approach, as articulated in your capital strategy. Whatever progress you have made with the development of your capital strategy and capital planning process, we are confident that you have the building blocks to make improvements year on year.

As we have already stated, it is important that you put effort into bringing your supporting strategies and plans up to date, particularly your asset management strategy and supporting asset management plans. You need to make sure that your current capital planning process is fit for purpose and that your project prioritisation approach reflects your identified strategic priorities and the up-to-date knowledge of your asset base.

If your capital planning process is geared to providing the information and data that is needed to fully articulate the benefits, outputs and outcomes of your capital investment plan, your analysis will populate itself, affording you more time for longer-term thinking and decision making.

Here are some points for you to consider:

- As leaders of your organisation, do not perceive the capital planning process as beneath your sphere of responsibility because the process should be steered by you and based on the intent set out in your capital strategy – if your capital planning process is led in this way, and afforded the appropriate importance, you will achieve a whole organisation approach.
- Ensure that the capital planning process is reviewed when developing or refreshing your capital strategy – if it is not, there is a danger that the process will lag behind the intention and promise in the capital strategy.

Here is a good example extracted from a local government capital strategy:

Figure 11.1 Extract from Cardiff capital strategy**Prioritisation, Capacity and Skills**

Following consideration of resources and affordability, capital expenditure requirements are prioritised on the following basis:

- Firstly, to meet expenditure on Annual Sum requirements, to meet expenditure on mandatory grants and for the renewal of existing assets such as property, parks and highways.
- Secondly, to meet expenditure on schemes previously approved by Cabinet which have been committed to, either contractually or in principal years and where following a review, these are still deemed essential to proceed.
- Thirdly, new expenditure proposed after consideration of:
 - link to strategic objectives
 - risk of not undertaking the expenditure
 - statutory / legislative requirements
 - financial implications and affordability
 - review of relevant business cases.

Source: Cardiff Council, Capital Strategy 2020/21.

WHOLE ORGANISATION BUY-IN

It is very important for you to provide strong leadership for the capital planning process. It requires a whole organisation buy-in for it to be effective, to be managed well from a risk perspective and to be applied at all times. We are aware from our experience of local government organisations that there can be a tendency to apply a different approach to larger capital investment projects and projects where urgency is perceived as a reason for not following the usual process.

This is where the leadership needs to set an example. The capital planning process developed and agreed by your organisation should be all-encompassing. It should factor in how the organisation manages the more complex and strategic programmes and projects, perhaps by having a layered approach for large, medium and small projects. It should also factor in how the organisation approaches well-founded urgent decision making.

This helps to safeguard the process for the whole organisation, decision makers, statutory officers and delivery services. It also supports the consistency, understanding and transparency of your organisation approach. When representing the process in the capital strategy, it is useful to do this visually. This avoids having to provide a lengthy explanation and makes the flow of the process clearer. Figure 11.2 provides an example of this.

Figure 11.2 Decision-making process

Here are some points for you to consider:

- Review the effectiveness of your current capital planning process, considering where applying the process has gone well and also when it has been applied poorly or not applied at all – this will give you a strong view of areas for improvement, based on lessons learned that everyone can positively sign up to.

- As leaders, do not endorse unreasonable reactive behaviour that enables due process to be put to one side – where a capital investment proposal is strategic and complex, make sure that your process is appropriate for this purpose, and, where the urgency of an investment decision is justified, your capital planning process should enable you to apply an expedient but well-managed approach suitable for all circumstances.
- Seek to build a process that is practical, flexible and manages risk at a level appropriate to your risk appetite – take an inclusive approach to improving the process to make sure that you have complete support and full participation.
- You can include your high-level actions for improvement in your capital strategy to emphasise the importance of getting this right.

Here is a good example extracted from a local government capital strategy:

Figure 11.3 Extract from Lancashire capital strategy

Identification and prioritisation of capital investment needs

The formulation of the Capital Programme is driven by the budget and service planning process. The size of the Capital Programme is determined by the following:

- The need to incur capital expenditure to protect and preserve the existing asset base;
- To enhance the existing asset base where this is required to preserve service delivery;
- The proposals for extending the asset base to provide services which deliver the priorities in the corporate strategy;
- The resources available to fund the expenditure; and
- The revenue implications flowing from the capital expenditure, both positive and negative.

As part of the budget setting process, services will be required to submit capital proposals which are considered by Members for investment decisions. This will be after a triage process at officer level led by Capital Board which will have ensured the proposal's strategic fit in line with the principles of the Capital Strategy and will have scored the projects for prioritisation in line with all competing proposals. The capital investment appraisal process will take into consideration:

- Corporate Strategy Visions and Principles
- Affordability and Resources
- Risk Management
- Value for Money, taking into account options appraisals and cost benefit analysis
- Capability and capacity within the council to manage and deliver the project.

Capital investment proposals will be presented initially to capital board in a standard form that includes the following sections:

- Description of the proposal
- The outputs and outcomes to be achieved
- The project's fit with council's Corporate Strategy
- Key dates and milestones
- Cost of the Scheme and the funding source to be applied
- Revenue implications over time
- Evaluation comments and recommendations from Capital Board including prioritisation scoring
- Risks associated with the proposal including the implications of not proceeding.

Proposals recommended for approval by capital board will be submitted to members for approval along with any recommended changes to the agreed to delivery plan required to accommodate the proposal.

Source: Lancashire County Council, Capital Strategy 2020–2040.

BUSINESS CASES

Your methodology and approach for developing business cases should be steered by the capital strategy. It should also enable the evidence that will be required for the capital planning process, if the business case is made and results in an agreed programme or individual project. The capital strategy should inform the critical success factors and investment objectives for your business cases. Later in your capital planning process, this will assist you with mapping your capital investment ambition and the development of your capital investment plan.

We have found from our experience that some business cases, even those that on the face of it have been very well thought through and developed, have been considered in isolation. There is no doubt that a business case must demonstrate viability and value for money on its own merit. However, if it is not considered in the wider context of your organisation's one-page story, its contribution to the overall capital investment ambition may not be as beneficial.

Business cases should also not be made based on available funding alone, particularly where external funding is available through bidding. When an external funding opportunity presents itself there should be an initial review of its fit with your organisation's strategic priorities and evidenced needs for the population and area that you serve. Bidding that is not informed in this way may lead to a drain on scarce resources and the delivery of unwanted and unnecessary interventions, to the detriment of the wider delivery programme.

Here are some points for you to consider:

- When dealing with major and complex capital programmes or individual capital projects, we recommend that you use the five case model for developing business cases (based on HM Treasury guidance in the Green Book) – however, you need to adapt this methodology to suit your regional or local circumstances.
- We recognise that demonstrating value for money now needs to be considered within a different context, compared with the traditional economy, efficiency and effectiveness measures, particularly for the valuation of benefits – there are many benefits that have come more to the fore recently, such as social value, health and wellbeing benefits, and clean growth benefits, and you will need to focus on the elements that resonate with your regional or local area and identify new ways to quantify benefits.
- You will need to ensure that business cases are made not only in the context of the type of investment and its subject matter drivers, but that they also consider the potential investment and its associated return in the context of the whole organisation capital investment ambition – if you do not do this, your value for money conclusion may not hold true.
- If you make business cases based on the strategic steer from the capital strategy, this will ensure that any proposals that come through as capital investment proposals will already meet the requirement to demonstrate the wider benefits, outputs and outcomes of the proposed investment.

Here are some good examples extracted from local government capital strategies:

Figure 11.4 Extract from Cornwall capital strategy**Robust Project Planning and Development**

... For projects to be considered for inclusion within the capital programme, Strategic Directors should bring forward (see below) [a] fully worked up business case demonstrating how investment best meets Council objectives. The Council has adopted the HM Treasury 5 Case Business Model and will include:

- expected outcomes aligned to key corporate objectives and/or service need
- resource implications
- alternative option appraisals
- project management and delivery including key milestones, consultation plans and impact assessment
- route to market

... Before business cases are brought forward for consideration, Service Directors should ensure that portfolio holders are briefed and understand the service need, financial implications and risks of proposed capital investment.

Service need may be for any number of purposes but may include for example:

- to meet a particular service demand or improvement
- in response to a deficiency in the condition, suitability and sufficiency of the existing stock recognised in asset management planning
- delivering a comprehensive and rolling strategic capital investment programme e.g. the Local Transport Plan
- to improve service delivery and meet key performance targets and/or deliver revenue savings
- in response to Government initiative and new laws and regulations
- the need to generate a revenue income to contribute to the funding of services

This strategy recognises that in some cases Government grant allocations are made directly for specific service areas, schemes or priorities. In these instances, grant funding (and other 100% externally funded schemes) will normally be brought into the capital programme and earmarked to specific service outputs for which the allocation is intended; subject to confirmation of the external funding, project fit with Council priorities and consideration of associated revenue implications.

The Strategic Director responsible will determine and bring forward projects to be funded from these resources that deliver service outcomes and achieve value for money.

Source: Cornwall Council, *Capital Strategy 2020/21*.

Figure 11.5 Extract from the City of Edinburgh Council capital strategy**Identifying Capital Priorities**

For new projects to be added to the Council's capital programme, Asset Investment Groups within each directorate identify their investment priorities and develop business cases supporting those priorities. These priorities are then scored against a set series of prioritisation criteria agreed by the Council's Asset Management Board.

The Asset Management Board, which is an officer group chaired by the Executive Director of Resources, appraises all business cases and recommends investment priorities to the Corporate Leadership Team of the Council and then to the Finance and Resources Committee, ahead of the full Council budget setting meeting each year. Smaller ad-hoc projects may be added through the year following appropriate approval of project business cases, including those through executive committees or via the full Council itself.

Source: The City of Edinburgh Council, *Capital Strategy 2020–30*.

Figure 11.6 Extract from Cardiff capital strategy**Risk Appetite**

The Council's Investment Review Board chaired by the Corporate Director Resources aims to provide assurance to Cabinet by reviewing business cases in respect of change initiatives as well as capital projects proposed such as invest to save/earn schemes. During 2020/21, it will support the development of further Council guidance in respect of business cases and review the approach to support informed decision making, including effectiveness of governance for projects where there is deemed to be a significant financial or operational risk exposure.

Source: Cardiff Council, Capital Strategy 2020/21.

DUE DILIGENCE

We are fully aware that local government organisations are operating in a very complex and varied environment and that all capital investment proposals require some form of due diligence, whether that be internally managed only or with external support. Due diligence covers a number of areas, such as legal, treasury, accounting and technical implications.

This is a vitally important area of your capital planning process and should be considered at all levels of the organisation. As leaders of your organisation you should ensure that your due diligence approach is strong, consistently applied, continually reviewed, adapted for changing circumstances and properly supported with the appropriate skills.

You need to ensure that the required skill set for each proposal is applied. Where you have a significant lack of internal skills, you will need to determine how you will address this position, by recruiting where possible and appropriate, training where appropriate and taking on external support where required. You also need to ensure that you afford time for the assessment of skills need so that proposals are not unduly delayed, as they should certainly not proceed through the process without appropriate due diligence being undertaken.

Here are some points for you to consider:

- If you have not reviewed your due diligence approach for some time, we suggest that you do this as part of the review of your capital planning process – the impact of failure in due diligence can be significant for your organisation.
- Based on your internal skill set and capacity, determine what you can do to improve the internal support for due diligence and what level of external resource is required, whether that be for your overall approach or for individual capital investment proposals.
- Where you have identified improvements to be made and action to be taken over a reasonable timescale, you can include the key actions in your capital strategy action plan.

Here are some good examples extracted from local government capital strategies:

Figure 11.7 Extract from Waltham Forest capital strategy**Portfolio Delivery Assurance**

The Council recognises that as the Capital Investment Portfolio continues to increase in scale and ambition that it requires sophisticated and robust governance and assurance measures in place to ensure delivery. To support this the Council has developed and continually refines its **Delivery Assurance Framework**. This framework is a critical component of the Capital Investment Strategy, ensuring that both organisational priorities and robust financial management are at the forefront of delivery. It ensures that politicians, officers of the appropriate seniority and technical expertise are part of decisions on how capital investment is allocated and controlled. Sections 5 and 6 of this document set out the financial and delivery management arrangements in place.

... Return on Investment

The vision is that Waltham Forest is confident in and able to demonstrate its return on investment as an organisation to members, local communities and residents and makes the best decisions for all future investment.

To support its vision, in 2019, the Council developed and implemented its Total Return on Investment (TROI) Framework. The framework looks to demonstrate both financial and non-financial return of every £1 spent by the Council, ensuring its resources are spent on activity which provides the maximum outcomes for the borough's residents, businesses and the Council.

The TROI Framework will consider financial, economic, organisational and social additionality of investments the Council makes alongside its corporate priorities set out in Creating Futures:

- Work to ensure everyone has a decent roof over their head
- Improve our residents' life chances
- Keep Waltham Forest safe and clean.

To ensure that the Council's decisions on capital funding deliver the strongest return on investment, it is in the process of establishing a new Capital Investment Prioritisation Framework. The framework will support the Council to prioritise delivery of new capital projects which maximise return on investment and achieve the Council's political priorities.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 11.8 Extract from Cardiff capital strategy**Risk Appetite**

For large complex projects, professional external advice and services would be sourced to undertake due diligence to understand risks and inform decision making.

Capital investment to be undertaken can be broadly split into [two] types:

1. Expenditure on **existing assets** to ensure they meet the requirements of service delivery, are fit for purpose, meet health and safety guidance, and reduce future costs.
2. Expenditure on **specific projects or non treasury investments to meet strategic aims**. Non treasury investment to meet service or Council obligations could include loans or equity towards capital expenditure incurred by external bodies, Council subsidiaries or joint ventures.

... The Council recognises that achieving these aims will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity has had a significant impact on affordability, however taking the city forward is not just a consideration of how we manage decline. Capital investment funded by borrowing will be undertaken in priority areas to meet Capital Ambition, whilst at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases, risk management and monitoring.

Source: Cardiff Council, Capital Strategy 2020/21.

CAPITAL INVESTMENT PROPOSALS

Your capital investment proposals should be based on the evidence of need and capital investment ambition articulated in your capital strategy. When this is done well, your capital proposals will provide strong building blocks for the development of your capital investment plan. The proposals should be appropriate to the size and significance of the proposed investment and should be fully completed, so that they can be thoroughly considered.

Based on experience across local government organisations, in some cases capital investment proposals are being developed in isolation, lack strong links to the capital strategy, lack the necessary detail on investment requirement and lack detail on the expected wider benefits, outputs and outcomes. This provides a poor foundation for your prioritisation process and for your subsequent decision making.

Make sure that your capital investment proposal methodology incorporates the elements already covered in this guidance, in terms of wider benefits, outputs and outcomes. This will ensure that you will more easily be able to populate your capital investment mapping and capital investment plan. This mapping and methodology will provide the tools to tell a more comprehensive story to your many and varied stakeholders.

When considering a longer-term position for your capital investment plan, the proposal for a specific capital investment will quite rightly inform what will eventually be approved and included within your overall capital programme. However, these proposals will have been thought about and formed for some time, some of them via business cases. In addition, you will also have a pipeline of forming ideas, emerging business cases and developing proposals. Think about how much of this pipeline activity you can include in your longer-term capital investment plan. This will help you to stretch your capital investment plan up to ten years.

Also remember that you will have a significant element of your capital investment plan that should be informed by your infrastructure, asset management and specialist equipment plans. We recognise that, in most instances, this type of planned investment will not follow the process for the submission of capital investment proposals. It is however important that this type of investment is fully evidenced and scrutinised ahead of decision making.

Here are some points for you to consider:

- We suggest that you examine your current approach to capital investment proposals and determine if any improvements need to be made – consider whether you need to make proposals for more complex investments more rigorous and whether you need to simplify the process for more modest capital proposals, and make sure that your proposal methodology includes links to strategic priorities, benefits, outputs and outcomes.
- As leaders you need to seek positive compliance with your capital planning process – it should therefore be designed with input from users, and you need to demonstrate that there will be consequences for non-compliance, which can simply mean not letting proposals be put forward that are incomplete or inadequate for the purpose of informed prioritisation and decision making.
- You will not have a strong capital investment plan, and subsequent capital programme, if you do not put effort into the building blocks – with effort and appropriate compliance, you will have a smoother process and a capital investment plan that is well evidenced and justified.

Here are some good examples extracted from local government capital strategies:

Figure 11.9 Extract from Lancashire capital strategy**The county council's corporate objectives and priorities**

The capital budgets within the capital programme as directed by the capital strategy will support the key priorities laid out in the corporate strategy. Each capital proposal will be required to clearly demonstrate the links to these priorities:

- **Lancashire will be the place to live** – assets will be invested in, to allow provision of first class schools, and good quality reliable roads and public transport, vulnerable people are protected and supported as well as connected to their community. Technology investments will allow digital access to services as well as efficient use of information by services. Investment will be made, subject to prioritisation, where it is necessary to provide the council's services to be delivered or to deliver growth that would otherwise be undeliverable.
- **Lancashire will be the place to work** – capital investments will be made to develop infrastructure and transport links where the private sector alone cannot. By working with partner local authorities, Transport for Lancashire and Transport for the North, as well as the private sector, individual partners' transport and infrastructure priorities can be supported through the council's local highway authority process and grant funding potential by utilising partner funding where this is available as match funding. Any requirement for county council borrowing to match fund a scheme would be subject to the principles of the capital strategy as documented above including the prioritisation process, sustainability of revenue provision to support the investment and the ranking against other proposals.
- **Lancashire will be the place to prosper** – Capital investment proposals will be considered for prioritisation and ranking that support the development of economic growth where they link with the Lancashire Plan and Lancashire Industrial Strategy and the investment or supporting infrastructure cannot be brought forward by the private sector due to viability issues.
- **Lancashire will be the place to visit** – Capital investments will be made, where financially prudent to do so, to preserve our cultural, leisure and heritage assets. Where it is not financially prudent to do so the council will work with partners to ensure the long term security of heritage, culture and leisure assets valued by our communities.
- **Lancashire will be the place where everyone acts responsibly** – Capital investments will be prioritised in our asset base including information technology assets that allow services to promote and enable communities to meet their own needs.

Source: Lancashire County Council, Capital Strategy 2020–2040.

Figure 11.10 Extract from Newcastle-under-Lyme capital strategy**Key Objectives and Priorities**

The Council's Priorities contained in the Council Plan are:

- Local Services that work for Local People
- Growing our People and Places
- A Healthy, Active and Safe Borough
- A Town Centre for All

Capital investment projects will be included in the Council's Capital Programme on the basis that they address issues arising from one or more of these Priority Areas. An indication is shown against each project in the Programme of the area or areas it addresses.

New proposals for capital investment will be assessed against the corporate priorities to ensure that they will contribute towards achieving the aims expressed. This assessment will be carried out as part of the appraisal process for new projects.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

Figure 11.11 Extract from Glasgow capital strategy**Strategic Context**

The capital investment strategy supports the delivery of the Council Strategic Plan 2017–2022. ... This plan identified seven key themes and identified outcomes to be delivered against them. The key themes are:

- A Thriving Economy
- A Vibrant City
- A Healthier City
- Excellent and Inclusive Education
- A Sustainable and Low Carbon City
- Resilient and Empowered Neighbourhoods
- A Well Governed City that Listens and Responds

The focus of the capital strategy is therefore to support the delivery of these outcomes through targeted investments in our asset base to develop the council's infrastructure, enhance capabilities and improve efficiency of service delivery.

Source: Glasgow City Council, Capital Strategy.

CAPITAL INVESTMENT PRIORITISATION

We recognise that for all local government organisations, if you identify your capital investment ambition based on evidence of need, you will have an ambition gap based on available resources and overall affordability. We covered this capital investment ambition gap in Chapter 9. You will therefore need to have a strong capital investment prioritisation methodology as part of your capital planning process.

Your project prioritisation approach should provide the building blocks for mapping your capital investment ambition and developing your capital investment plan. At a minimum, this should incorporate your strategic priorities. Ideally, it should also incorporate the wider priorities, objectives and outcomes that you defined when mapping your capital investment ambition.

We recommend that emerging projects should only be linked to achieving one strategic priority, or two strategic priorities if appropriate. We recognise that some projects may contribute to many strategic priorities to a greater or lesser extent. However, in our experience, there is usually a primary strategic priority that is the key focus, and this provides a much clearer view of expected achievement against strategic priorities when programmes and projects are considered against the overall capital investment ambition.

Your evaluation and project prioritisation methodology should also incorporate relevant and comprehensive local criteria that enable a transparent and fair capital planning process. It is important to provide a useful and understandable summary of your project prioritisation approach in your capital strategy. This needs to demonstrate both that the strategic aspects of your capital strategy have steered the required approach and that this is evident when it comes to decision making for the capital investment plan.

Here are some points for you to consider:

- We suggest that any project prioritisation methodology that you apply should have a regional or local focus, depending on your model of organisation – there is no doubt that you will have general criteria common to most capital investment proposals, but you should ensure that you focus on your intended investment outcomes and your strategic priorities, which will be unique.

- Make sure that you make best use of the wider benefits, outputs and outcomes that you have identified across your capital investment proposals – this will provide a strong foundation for comparing the relative merit of very different proposals and strengthen the justification for your prioritisation decisions.
- When you have identified your prioritised proposals to put forward to your governance process, think about the proposals that have not come forward at this stage – some may fall away due to lack of alignment with your capital strategy intent, some may inform your capital investment ambition gap and some may need more work to be complete proposals – it is important for you to see this as a continual process, with actions continuing beyond decision making, not waiting until the next cycle of decision making.

Here are some good examples extracted from local government capital strategies:

Figure 11.12 Extract from Police and Crime Commissioner for Devon and Cornwall capital strategy

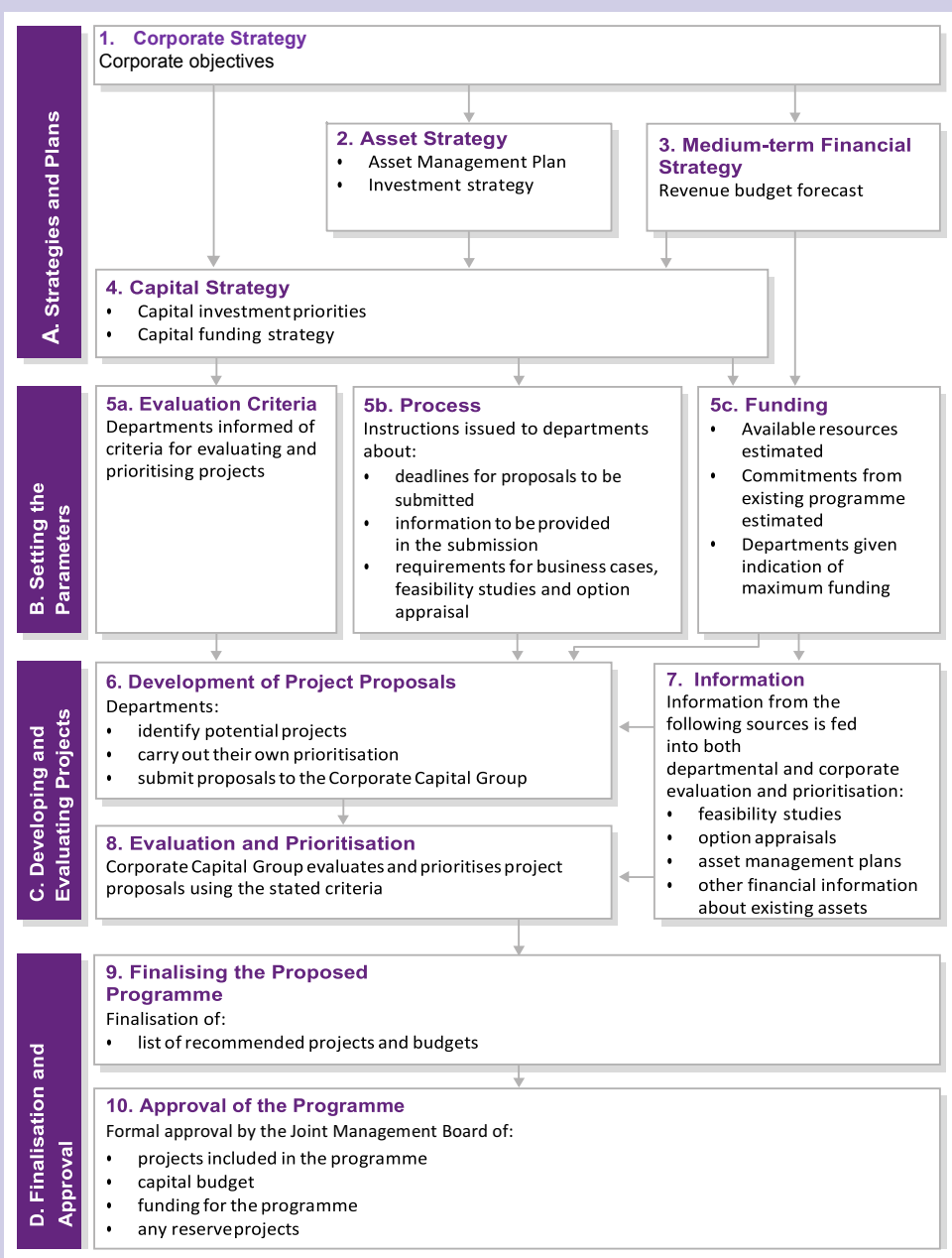
Capital programme

The Capital Strategy is led by the priorities outlined in the OPCC's Police and Crime Plan. It translates these priorities into a programme of projects in the OPCC's Capital Programme that will achieve the intended outcome.

These priorities could include the effective maintenance, enhancement or disposal of existing assets as well as investment in new capital assets.

Assets are vital to the delivery of efficient services, and so the optimum use of resources whilst securing best value in relation to both cost and quality are key considerations. This is done by following best practice in relation to procurement, sales and construction and taking external legal advice where required.

IT, Equipment and Vehicles are managed and maintained by their respective departments overseen by the Chief Constable with Estates being overseen by the PCC. An asset management plan/strategy for each asset classification is held and contains specific details of each asset including the longevity and optimum replacement cycles. The information is consolidated into the Capital Programme.



Source: Office of the Police and Crime Commissioner for Devon and Cornwall, Capital Strategy 2020/21.

Figure 11.13 Extract from Lancashire capital strategy**Annex 1. Capital projects: evaluation and priority scoring**

The criteria referred to in section 2.3 of the Capital Strategy to be applied for 2020–2021 is set out below.

- The contribution the proposal will make to one or more of the corporate strategy priorities.
- The impact the proposal will have on the council's revenue budgets either as additional running costs or as a saving, including allowing service to be delivered in a more effective way.
- The proposal's contribution to maintain existing assets to the standard in the specific asset management strategy or to allow services to be delivered as per directorate strategies for non property assets.
- The proposal's ability to assist in attracting a wider investment such as external funds.
- The proposal's ability to meet statutory compliance and regulatory requirements including those relating to information assets.
- The proposal meets specific government initiatives.
- The proposal addresses non statutory health and safety risks identified by survey data or mitigates issues included in the corporate capital risk register.

Source: Lancashire County Council, Capital Strategy 2020–2040.

Figure 11.14 Extract from Cornwall capital strategy**Prioritisation and selection**

Schemes included for capital investment must demonstrate at least one of the following prioritisation criteria:

Strengthen the Council's financial position through schemes that deliver long term revenue savings (Invest To Save) and/or generate income (Commercial Benefits)	Promote economic development and regeneration within Cornwall
Safeguard business continuity by delivering essential statutory works, health and safety measures and maintaining effectively the Council's essential infrastructure	Support the Council's devolution and localism objectives by providing for asset disposals to partner organisations

The governance and assurance processes that are in place to ensure capital investment decisions are made legitimately, transparently and deliver these priority outcomes are set out in detail in Appendix 3.

... In accordance with the Constitution the capital programme is approved by Full Council. The programme will be presented annually as part of the budget setting process and quarterly thereafter for any new additions and/or changes e.g. for programme slippage.

The Cabinet is responsible for setting the corporate framework and strategic priorities that drive the capital programme. Recommendations to Full Council for changes to the capital programme are made by the Cabinet, ensuring proposed investment is aligned to key corporate aims and objectives.

The Customer and Support Services Overview and Scrutiny Committee is responsible for the scrutiny of the budget process and Medium Term Financial Plan, Treasury Management Strategy and Capital Strategy and make representation to Cabinet and Full Council accordingly.

... Governance and Assurance

... Strategic Directors, in conjunction with their wider Directorate Leadership Team (DLT), are responsible for the development, implementation and monitoring of capital projects within their remit.

... All capital schemes must be first considered and endorsed by the **Investment and Commercial Board** (ICB) for onward recommendation to Cabinet and, ultimately, to Full Council for final approval.

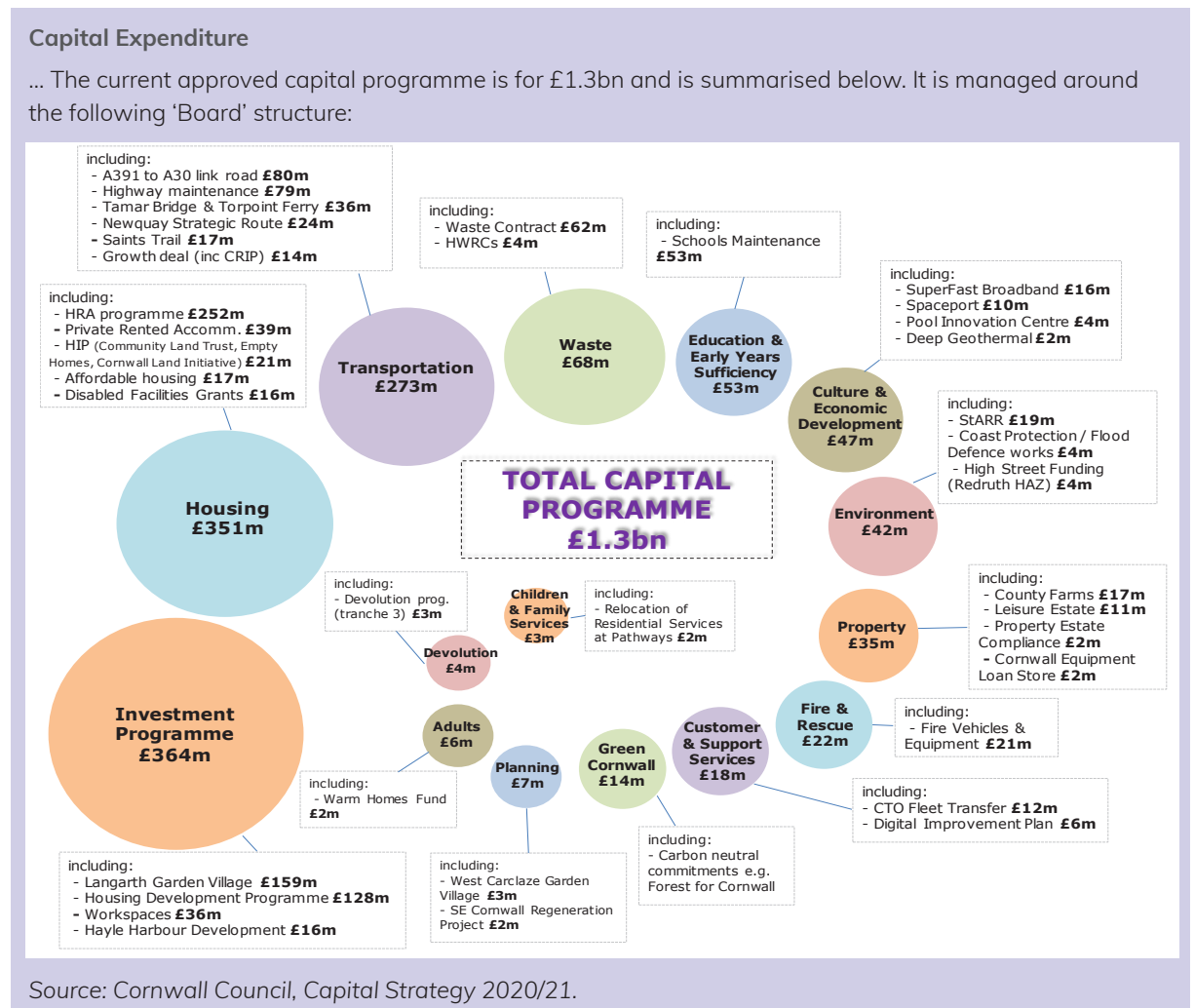
... The Section 151 officer is a member of the ICB, and will take a view on the prudence, affordability and sustainability of the overall capital programme.

... As with any other capital expenditure, proposed capital investment made under the Investment Programme is subject to robust peer review and the risks associated with the investment explored – however, due to the specific nature of such proposals, these are considered by a separate **Investment Programme Assurance Group**.

... **Programme Boards** are in place for each of the major programmes within the capital programme e.g. Transport and Infrastructure, Property, Education, Environment and Housing. The boards meet on a monthly basis to ensure that any key issues are resolved, risks mitigated and budget pressures are identified. These boards will also discuss, and recommend for approval to DLT and ICB, any new and emerging capital projects which are considered a priority.

Source: Cornwall Council, Capital Strategy 2020/21.

Figure 11.15 Extract from Cornwall capital strategy



CONTINUAL REFRESH AND IMPROVEMENT

You should apply an approach of continual refresh and improvement to your capital planning process. If you have not updated your process for a while, you should undertake a capital planning review to inform your actions for improvement, as we have indicated.

We are mindful of the current pressures and challenges on local government organisations and recognise that it is difficult to review and adapt your capital planning process in these circumstances. However, this exercise can be beneficial in challenging periods, ensuring that processes can be adapted helpfully and appropriately, without a breakdown in process.

It is also appropriate to re-examine your existing capital programme. This is always a worthwhile exercise, but even more so at this time, when capital investment interventions may have to be delayed, re-profiled, adapted or removed permanently based on a re-evaluation of the needs of your population and area.

Here are some points for you to consider:

- As leaders you need to think about what the current pressures and immediate needs are telling you about your capital investment requirement and your capital planning process – this could lead to a rethink of your approach to ensure that the problems that you have encountered do not continue to be repeated.

- Taking time to step back and think about this properly will be helpful and will take pressure out of the system, allowing more time to be devoted to frontline need.
- You should also consider if your current experiences will lead to a significant change in your capital strategy – this could include a new understanding of need for your regional or local population and area, new funding streams made available or secure changes to your process to better support agile decision making and delivery.

Here are some good examples extracted from local government capital strategies:

Figure 11.16 Extract from Waltham Forest capital strategy

<p>Future Pipeline of Activity</p> <p>The Council continues to develop and manage a long term pipeline of activity which has the potential to deliver significant benefits for the borough. The pipeline contains projects of strategic importance where future capital funding may be required for delivery. This pipeline is managed and governed through the capital investment portfolio's assurance framework and aligned to Council governance mechanisms, ensuring a robust decision making process is in place when providing capital investment.</p> <p>... Plans for 2020–24</p> <p>During 2020 the Council will continue to develop its capital investment planning arrangements. A number of priorities for action to take forward the Council's response to the CIPFA Prudential Code have been identified and summarised in [this] table ...</p>	
Aspect of CIPFA Guidance	Priorities for 2019–20
Apply a long-term approach – 20–30 year Capital Strategy	<p>The current Capital Investment Strategy and investment portfolio operates on a c4–5 year rolling cycle as part of the MTFS.</p> <p>Work to develop Vision 2030, the Council's long term corporate plan, is underway. A longer term Capital Investment Strategy will be developed and aligned to the objectives of the refreshed corporate priorities once in place during 2020. The long term investment strategy will also take into consideration interdependent objectives such as the revised Local Plan, Climate Emergency and Brexit.</p>
Explore external influences on Capital Strategy	<p>Core investment programmes in the Capital Investment Strategy, including schools, housing and highways for example, respond directly to regional or national policy priorities (and are externally funded).</p> <p>In January 2020 the UK left the EU with Government looking to agree its exit deal by the end of 2020. The impact on the borough's population growth, economic activity, land and housing values as well as the resilience of delivery partner supply chains could start to influence the Council's long term Capital Investment Strategy and investment portfolio decision making. During 2020/21 the Council will continue to manage any potential outcomes and impact of Brexit. Activity will be reflected in the updated 2021/22 Capital Investment Strategy.</p>
Explore internal influence on Capital Investment Strategy	<p>The link between internal enabling policies and plans and capital investment is implicit in the current Capital Investment Strategy.</p> <p>During 2020/21 the Council will commence development of its long term Corporate Strategy, Vision 2030, and finalise its response to Climate Emergency. Through its Delivery Assurance Framework the council will continue to review ... the current capital investment portfolio and assess new capital scheme proposals ensuring they align with wider service policies and plans.</p>

Examine commercial activity / ambition	<p>The Return on Investment Programme commenced in Jan 2019. It targets areas of investment by the Council (be it Capital or revenue) to guarantee either a financial return on investment or a Social return on investment.</p> <p>When applied to commercial endeavours to drive profitable income, this gives the Council confidence in its ability to drive value for the residents. Going forward the Capital Investment Strategy will continue to report outcomes of its investment against the objectives of the ROI Programme and aligned to its corporate priorities.</p>
Determine implications of Investment Strategy	<p>The Investment Strategy of the Council will be driven from the Return on Investment programme.</p>
Ensure corporate plan priorities drive identified capital investment ambition	<p>The Capital Investment Strategy 2019–24 explicitly aligns the investment portfolio with the Council's Creating Futures corporate priorities. In addition, the Capital Investment Strategy sets out a range of outcomes and output benefits that will be delivered by the capital investment against each of the Creating Futures priorities, including Return on Investment.</p> <p>The Capital Investment Strategy 2021/22 will ensure developing corporate plans such as Vision 2030, Climate Emergency and the Local Plan are identified and responded to.</p>
Examine available resources and capacity to deliver	<p>The Capital Investment Strategy notes delivery assurance arrangements implemented over the past 12 months.</p> <p>During 2019/20 the Council recognised and reviewed its capacity to deliver its capital investment portfolio of c. £580m ensuring that sufficient resources and expertise are in place.</p> <p>The Council also continues to mitigate Brexit and associated risks to its supply chain delivering the capital investment portfolio. As part of Cabinet approvals all proposals for new or revised schemes must provide Brexit Risk Assessment. The Property PMO continues to monitor and report risks and mitigation in its supply chain on a regular basis.</p>
Assess affordability against ambition and address any gap e.g. remove, re-profile, prioritise, lobby	<p>The ambitious plans in the Capital Investment Strategy are fully reflected in the MTFS. The Council has a robust decision making process, and when combined with the new Return on Investment programme will be able to make swift decisions on funding new projects, re-profiling others and the ability to remove/ close those in train if the ROI monitoring shows the Council's finances are at risk or may afford the opportunity to identify new funding sources.</p>
Identify capital financing principles e.g. borrowing constraints, capital receipts allocation, ring-fence requirements	<p>The MTFS is clear as to how funding is planned to be utilised by the Council, as is the Capital Investment Strategy. The established budget monitoring process and financial regulations reinforce the controls around the uses of funding.</p>
Demonstrate integration with other strategies and plans e.g. Treasury Management Strategy, Reserves Strategy	<p>The Capital Investment Strategy forms an integral part of the overarching budget report which also includes the treasury management strategy as well as the Reserve strategy. Each with clear linkages throughout.</p>

Produce a 10-year capital investment plan – with actions, timescale, outputs and outcomes	The development of a longer term investment portfolio will emerge as the Capital Investment Strategy is reviewed in light of the refreshed Local Plan, Vision 2030 and other strategies and priorities.
Capture risks and mitigating factors	Portfolio level risks are reported and discussed at CSAMG as part of [the] quarterly monitoring cycle. In addition, the relevant risks are set out elsewhere in this document. This work will continue in 2020/21 complemented by continued monitoring of the impacts of Brexit.
Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.	

Figure 11.17 Extract from Waltham Forest capital strategy**Delivery in 2019/20**

Working closely with the sponsoring Capital Strategy and Asset Management Group (CSAMG) – Chaired by the Director of Financial Services – Senior Responsible Officers (SROs), finance and delivery experts the Property Programme Management Office (PMO) continue to further enhance the Council's Delivery Assurance Framework. A Capital Improvement Plan agreed in summer 2019 looked to outline a number of enhancements for implementation. Actions taken include:

- A revised Capital Investment Strategy 2019/20 which enables the council to demonstrate that its capital investment portfolio fully aligned to the Council's strategic objectives, and supporting overall Council Budget setting, and an ongoing commitment to annually refresh its Capital Investment Strategy, to manage finance and incorporate emerging Council priorities
- Embedded quarterly monitoring of the financial performance of its capital investment portfolio, including the mid-year revision of budgets in a process integrated with the Council's overall budget reporting and monitoring reported to Cabinet
- Implemented a quarterly risk management reporting process, ensuring all projects within the investment portfolio demonstrate performance against time, quality and cost measures
- Enhanced the management of external risks which could impact the ability of the Council to deliver its capital investment portfolio, successfully negating risks to delivery which have impacted other Local Authorities through the collapse of major suppliers (such as Carillion) and to manage the ongoing uncertainty caused by Brexit
- Implemented controls which ensured that additions and revisions to the capital portfolio are tracked, managed and agreed through CSAMG and Cabinet
- Ensuring compliance with the revised CIPFA Prudential Code and integrating the Council's Return on Investment Framework, allowing the council to better demonstrate outcomes to be delivered against its investment.

Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 11.18 Extract from Cardiff capital strategy**Future Years Strategy Development**

The development of a Capital Strategy is still a recent requirement in Wales and it is recognised some areas will need to develop over time. Potential development actions will be identified during 2020/21 as part of a process of continuous improvement to support members in their decision making.

Such actions include:

- Assessment of asset management planning to inform decision making and risk.
- Building on an initial data gathering exercise identifying capital pressures and risks over a 10 year horizon.
- Business case and viability best practice. Review approach ensuring they adequately inform decision making.
- Clear scope and post project evaluation of schemes.
- Reviewing the output from a self-assessment of skills and knowledge to inform capacity to deliver.
- Reviewing the linkages and role of Boards in the approval of effective business cases and asset management planning to ensure that all assets are captured.
- Reviewing whether any additional indicators or disclosures are required to support an assessment of 'proportionality of income' when considering investment in non treasury assets and where such assets are reported.

Progress on meeting these improvements will be reviewed by the Corporate Director Resources as part of a review to be commissioned using internal and external advice.

Source: Cardiff Council, Capital Strategy 2020/21.

CHAPTER 12

Governance

DECISION MAKING AND REPORTING

We see capital strategy as a dynamic approach that should be reported throughout the year to reflect the fast-changing public environment. We see the requirement in the Prudential Code to report annually to full council (or equivalent), or delegated body, as simply being part of this ongoing process.

If a major event, opportunity or risk occurs during the year it is likely to impact on the capital strategy. If this is of immediate or imminent significance, it will be appropriate to examine the capital strategy to determine the impact on the longer-term view, the need for change in the capital investment plan and the need to update the action plan. A current example of such an event is COVID-19. In contributing to the COVID-19 recovery plan, local government organisations will also need to recognise potential permanent changes of behaviour in the population. This will require organisations to adapt and change existing planned investment and new investment.

On a more general basis, you may wish to report during the year to demonstrate progress against your capital strategy action plan. This will help you to demonstrate that the capital strategy is a live and ongoing approach that is represented at a point in time when it is reported. Based on our experience of local government approaches to capital strategies, we have found that the asset management strategy, and its supporting plans, is often out of date. In this case there should be an action to resolve this, and it would be advisable to report on your progress during the year.

Here are some points for you to consider:

- The Prudential Code requirement for a capital strategy applies to all local authorities (combined authorities, Greater London Authority, fire and rescue authorities and other authorities) and police and crime commissioners – so ensure that your organisation is fulfilling this requirement.
- Full implementation of the capital strategy requirement was expected from 2019, and we therefore expect to see further progress and improvement in capital strategies reported from 2021 – have regard to the *Financial Management Code*.
- Capital strategy reporting can be delegated to cabinet (or similar body) with full council (or similar body) responsible – ensure that you have appropriately articulated your decision on the reporting level and any delegation that you have put in place.
- Capital strategy reporting can be integrated with your treasury management strategy reporting – however, from a good practice perspective, we can see that the better capital strategies are reported separately to ensure that the policy and strategic aspects are afforded full consideration.
- Capital strategy reporting can incorporate the annual investment strategy, as per the *Statutory Guidance on Local Government Investments*, third edition – however, from a good practice perspective, we consider that it is better to summarise the cash (treasury) investments alongside the capital (non-treasury) investments in the appropriate area of the capital strategy.

- Capital strategies have been reported in a number of different ways, but the main approach adopted to date has been to report as part of the annual budget package, and we urge you to consider if this sends the appropriate message given that we have already indicated that this should be a whole organisation approach and not purely a financial document – for instance, you could report alongside the budget package to afford the capital strategy its own profile.
- Reporting provides you with an opportunity for engagement with full council (or similar body) to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members (or equivalent) – ensure that where capital strategy reporting is delegated, full council is still able to give proper consideration to the longer-term strategy.
- Your capital strategy should, at a minimum, cover capital expenditure, investments and liabilities, and treasury management – this guidance document, though, based on good practice to date, provides you with the opportunity to stretch significantly beyond this minimum requirement.
- Your capital strategy should allow all members (or equivalent) to understand how stewardship, value for money, prudence, sustainability and affordability will be secured – this has always been the underlying requirement for the Prudential Code, therefore please ensure that your capital strategy approach continues to meet with this requirement, both from a compliance perspective and to keep to the spirit of the Prudential Code.
- Your capital strategy should set out the long-term context in which both capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes.
- Your capital strategy should link strongly with your organisation's integrated revenue, capital and Balance Sheet planning – when looking at capital strategies reported to date, the links to revenue and Balance Sheet planning are relatively weak, so we urge you to make improvements in these important areas.

Here are some good examples extracted from local government capital strategies:

Figure 12.1 Extract from Cardiff capital strategy

Approval, Monitoring and Reporting the Capital Programme

The Capital Strategy informs the Council's capital investment programme and Treasury Management Strategy. This integration is one of the reasons why it is deemed that full Council should continue to consider and approve the affordability of the Capital Strategy and detailed programme as part of the Council's budget proposals recommended by Cabinet.

Council approves the capital investment programme having consideration of CIPFA's Prudential and Treasury Management Code indicators highlighting the impact of capital decisions on the revenue budget and affordability, prudence and sustainability.

Directorates are responsible for monitoring capital schemes, and the reporting of progress in delivering the Capital Programme periodically to Cabinet as part of the Council's Budget Monitoring and final outturn reports. The reports include:

- Forecast expenditure during the year on schemes
- The stage at which projects are in terms of timescale and any issues resulting in delay
- Changes in funding available for schemes
- Any cost increases and how they are being managed
- Virements or other changes required in accordance with the Council's Constitution.

Prior to presentation at Cabinet, monitoring reports on key schemes are provided to the relevant Cabinet members highlighting any key issues and risks in delivery of the programme.

Source: Cardiff Council, Capital Strategy 2020/21.

Figure 12.2 Extract from Glasgow capital strategy**Programme Governance**

The investment programme activity is managed and governed at various levels within the council.

Investment Programme

- The overall investment programme is approved by the City Administration Committee or Council on an ongoing basis and particularly through the annual estimates process
- On a quarterly basis a report is provided to the City Administration Committee outlining progress to date and highlighting any significant issues. This report and further detailed reports are also considered by the Finance and Audit Scrutiny Committee on a quarterly basis
- Any changes to the agreed programme will be approved either by the City Administration Committee or Council
- A senior officer group (Capital Programme Board) meets on a four-weekly basis to review progress on the delivery of the investment programme.

Source: Glasgow City Council, Capital Strategy.

Figure 12.3 Extract from Shropshire and Wrekin Fire Authority capital strategy**Governance Arrangements**

Consideration, approval and monitoring of the capital programme takes place as part of the Authority's strategic planning timetable.

Formulation of the Capital Programme

- Property, fleet and ICT requirements are incorporated into the capital programme based on the priorities identified in the respective strategies.
- Officers may also submit additional business plans to the Service Management Team and Strategic Transformation Board, and if there is agreement that these projects should go ahead, these will be added to the capital programme.
- As part of its planning cycle, Service Transformation Board may also initiate reviews in service areas, to take place prior to the proposed commencement date of the scheme. This ensures that the scheme will accurately address service priorities.
- The capital programme is put together in the last quarter of the year, with final review by Service Management Team or its Budget Board.
- Financing of the capital programme is determined; this is detailed later in this strategy.
- Prudential indicators, including Capital Financing Requirement, are put together based on the proposed programme. This demonstrates that the programme is affordable, sustainable and prudent. This is detailed in the Treasury Management Strategy.
- The capital programme, capital strategy and treasury management strategy are taken to Strategy & Resources Committee in February, for consideration and recommendation to the Fire Authority.
- The capital programme is approved by the Fire Authority later in February as part of the budget and precept setting process.

Performance Management

- Spend on the capital programme is monitored by officers on a monthly basis.
- Service Transformation Board meetings are held on a bi-monthly basis, where capital schemes and associated spend are reviewed.
- The programme is also reviewed by Service Management Team and its Budget Board.
- Quarterly reviews are taken to Strategy & Resources Committee, to ensure member overview and scrutiny. Service heads are present to provide further information about the schemes within the programme.

In Year Capital Decisions

Proposals for capital schemes may also be brought to Service Transformation Board or Service Management Team outside of the capital programme planning process. Following consideration of a business case, approval will be sought from officers or members in line with the Authority's Financial Regulations, and the scheme can be added to the existing capital programme.

Source: Shropshire and Wrekin Fire Authority, Capital Strategy 2020/21 to 2024/25.

Figure 12.4 Extract from Newcastle-under-Lyme capital strategy**... Appraisal and Prioritisation of Investment Proposals**

... All new capital investment proposals must be considered by the Capital Programme Review Group prior to specific Cabinet approval being requested. Before any project may be commenced, Specific Cabinet approval must be obtained, and the project will only be included in the approved Capital Programme after considering its priority relative to other proposed projects and the overall level of resources available to fund the Capital Programme as a whole.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

ROLES AND RESPONSIBILITIES

Your capital strategy sets out strategic policy for your organisation. We expect policy to be set by the political leadership (or equivalent) and to be driven by senior management. All directorates and services should inform the development of your capital strategy.

You need to consider how you will engage with all elected members (or equivalent) and officers from all disciplines as part of the capital planning process. Your engagement with key stakeholders and your consultation approach are also important aspects of your capital planning process and the development of your capital strategy. Consider how you can reflect your consultation approach in your capital strategy and, importantly, the influence and outcome of the consultation.

If you undertake a capital planning review, you should examine how effectively your capital planning process is managed. Where you have groups in place as part of your gateway process in the lead up to decision making, review how these groups are operating and whether your current set-up needs adapting or improving. If there are too many layers, it can unduly slow down the process and lead to process fatigue. However, too few layers can lead to incomplete and weak capital investment proposals. You will need to strike the appropriate balance, taking account of your identified risks.

Here are some points for you to consider:

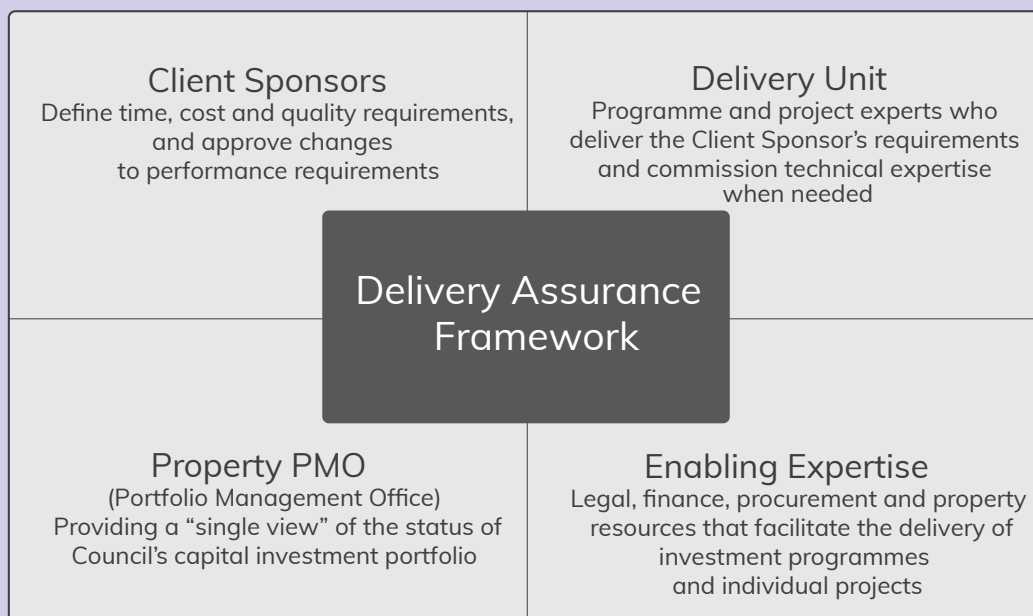
- We suggest that you examine your current capital planning and decision-making process in terms of roles and responsibilities – each layer of your process needs to have appropriate levels of involvement and all formal elements should have clear terms of reference, including roles and responsibilities.
- Consider your consultation approach, both internal and external, and ensure that any consultation is collated, included in the consideration of your capital investment ambition and, where appropriate, acted upon – you should adopt an active listening approach.
- As leaders of your organisation, you should be fully aware of the role of your statutory officers in the development of your capital strategy and in the decision-making process for your capital investment plan and its subsequent delivery – afford your statutory officers the space they need so that they can fulfil their independent roles while also embracing their involvement as part of your leadership team.
- Your statutory officers have a responsibility to inform all members (or equivalent) about the approach to developing your capital strategy, the capital process that is being applied and the governance requirements for decision making – ensure that you are supportive of this responsibility.

Here are some good examples extracted from local government capital strategies:

Figure 12.5 Extract from Waltham Forest capital strategy

Delivery Assurance Framework

The Council has established, and continues [to] refine, its Delivery Assurance Framework which supports the strategic planning and delivery of its capital investment portfolio. The Delivery Assurance Framework brings together four core functions that individually and collectively underpin the successful delivery of the Council's investment priorities.



Source: London Borough of Waltham Forest, Capital Investment Strategy 2019–2024.

Figure 12.6 Extract from Cornwall capital strategy

Governance and Assurance

... The following [diagram] outlines the governance arrangements that are in place to ensure capital investment decisions (including loans and grants) are made legitimately, transparently and deliver priority outcomes in line with Council and service aims and objectives. Officers are not authorised to commit expenditure without prior formal approval.



Source: Cornwall Council, Capital Strategy 2020/21.

Figure 12.7 Extract from Newcastle-under-Lyme capital strategy**Key objectives and priorities**

... A Capital Review Group is in place and chaired by the Cabinet Portfolio Holder for Finance and Efficiency. This Group keeps the Council's capital investment strategy under continuous review, including the prioritisation of projects for inclusion in future capital investment programmes over the medium term. Regular reviews of the property portfolio will be carried out by the group to identify properties or land which could potentially be disposed of, following a consultation process in the case of significant proposals, and a capital receipt obtained from the sale.

... Monitoring Arrangements and Project Management

... Progress in relation to individual projects will be monitored through the Council's arrangements for the monitoring of capital projects, which entail quarterly monitoring reports to be received by the Cabinet. The Capital Programme Review Group will also review project progress and corrective action will be initiated where projects fall behind schedule, appear likely to overspend or otherwise give cause for concern. Individual Project Forms will be maintained in respect of each project by the Executive Director (Resources and Support Services) which will track the progress of projects and be available to officers and members with an interest in reviewing progress of those projects.

All projects will be assigned to a named officer who will be responsible for overseeing the project, including project monitoring and control and implementing exception reports and, where appropriate, corrective action if the project deviates from its planned progress or cost.

Source: Newcastle-under-Lyme Borough Council, Capital Strategy 2020 to 2030.

Figure 12.8 Extract from Police and Crime Commissioner for Devon and Cornwall capital strategy**Implementing and monitoring capital projects**

Following approval of the capital programme, a project manager and a user representative is nominated for each capital project. The project manager is responsible for managing the project implementation and delivering its objectives.

Heads of Department have overall responsibility for ensuring that the objectives are met for all projects, but particular focus will be placed on ensuring that:

- high-profile projects are delivered on time and achieve the intended outcome
- good progress is being made in delivering the programme in general
- the overall use of capital and revenue funding is as close as possible to the plans set out in the current year's budget, the Capital Programme and the MTFS
- that when these factors are not achieved, variations are reported to the Resource Board

Progress against capital schemes is reported on a quarterly and annual basis to the Resource Board.

In terms of capital financing, this is covered in the Treasury Management report which is produced on a quarterly and annual basis to the Resource Board.

... Governance

... The OPCC [Office of the Police and Crime Commissioner] in consultation with the Chief Constable will prepare a minimum of a four year programme of proposed capital expenditure for approval by the Police and Crime Commissioner [PCC]. Quarterly and annual reporting is provided to the Resource Board.

Senior Management are responsible for leading the capital programming process and for advising those charged with the governance on the decisions that they take... The Capital Strategy Group will cover all aspects of the existing and proposed projects and all aspects of capital financing. This will provide an overall view of the capital programme and the impact of any changes to funding sources.

All disposals of surplus land and buildings must be approved by the PCC. When making any decision to dispose of assets the PCC must have regard to the right of the Chief Constable to have unfettered access to operational assets. The PCC shall consult with the relevant governance board and notify the Chief Constable. The PCC will have regard to the views expressed by the relevant governance board and the Chief Constable but the final decisions will be a matter for the PCC.

Source: Office of the Police and Crime Commissioner for Devon and Cornwall, Capital Strategy 2020/21.

SKILLS AND TRAINING

It is important that you consider how you link the capital strategy development to your organisation's workforce planning. This will assist you with identifying skills gaps and capacity issues.

You should examine the skills available in your organisation and the internal support capacity for the capital planning process, to determine any gaps that will impact on the development of your capital strategy and the successful delivery of your capital investment plan.

You will then need to determine how you will address the identified skills and capacity gap through new recruitment, required training programmes and external support, either temporary or permanent.

Here are some points for you to consider:

- We have already discussed workforce and resource considerations in several areas of this guidance – while in this instance we are focusing on skills and training, we recognise that this is closely linked to any challenges that you have with scarce resources and reducing workforce.
- We are mindful that lack of appropriate skills and training can have serious consequences – we therefore suggest that it is appropriate for you to undertake an examination of the potential skills and training gap in your organisation and identify actions for improvement.
- Where you are able, develop a plan for appropriate recruitment, additional training and procurement of external support, whether that be temporary or permanent – the key actions that you identify can be included in your capital strategy action plan.
- Where you are unable to address important skills and training gaps, you will need to consider whether you need to delay or scale back planned activity – this will help to safeguard against costly and harmful failure.

Here are some good examples extracted from local government capital strategies:

Figure 12.9 Extract from Cornwall capital strategy

Knowledge and skills

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.

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 annually to ensure they have up to date skills and are able to make capital and treasury decisions.

The Council's property portfolio is managed by its Property Services Team within Commercial Services. The team has extensive knowledge of the Cornwall property market and experience dealing with a mix of property types and professional work including professional services, landlord and tenant, statutory valuations, acquisitions and disposals, commercial and residential property management.

The Council's asset valuations for its financial statements are assessed on an agreed five year programme covering the whole property portfolio. The Council also has internal building surveying resource to advise on construction, repair and maintenance, and statutory compliance matters across its property portfolio.

Where required, and with due diligence, the Council may also appoint external agents to advise on particular specialist matters or to access specialist expertise that may not be available 'in house.'

Source: Cornwall Council, Capital Strategy 2020/21.

Figure 12.10 Extract from Cardiff capital strategy

Prioritisation, Capacity and Skills

... To support prioritisation and to avoid slippage and potentially unanticipated additional costs, the Council will need to ensure access to sufficient skills and capacity both within the Council and externally in order to deliver the investment programme. Such capacity could be project management and development skills; technical and design skills, knowledge, availability of contractors as well as wider market factors.

Source: Cardiff Council, Capital Strategy 2020/21.

Figure 12.11 Extract from the City of Edinburgh Council capital strategy

Knowledge and Skills

The council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

... The Property function, within the Council's Resources Directorate, through which the property investment portfolio is managed, has RICS qualified surveyors working across the Division, the majority of which are also members of the Registered Valuers scheme.

In addition, use is made of external advisers and consultants that are specialists in their field, when specialist technical advice is required.

Source: The City of Edinburgh Council, Capital Strategy 2020–30.

Guidance summary

THINKING POSITIVELY ABOUT CAPITAL STRATEGY IMPROVEMENT

The intention of this capital strategy guidance is to help you learn from what has been achieved to date and to support you with the continual improvement and refresh of your capital strategies. When reviewing the 2020 capital strategies that have been published, we identified the following areas for improvement that may help you as a form of checklist:

- External influences on capital planning are not always evident: for example, government policy, regional funding and partnership opportunities.
- Influences from, and links to, internal strategies are not clear, particularly links the asset management strategy and asset management plans.
- Some mention of corporate priorities, but it is not clear that these priorities are driving capital investment.
- No indication of capital investment ambition gap, affordability gap and delivery challenges.
- Some examination of commercial strategy, but no clear links to powers applied, due diligence undertaken and risk management.
- No specific examination of risk for capital planning and weak links to corporate risk framework.
- Capital planning is over the medium term rather than the longer term.
- Capital investment tends to be concentrated in the early years of the capital programme, tailing off towards the end of the period based on core business-as-usual investment.
- Limited links to the treasury management strategy and reserves strategy.

You may also note these general points:

- Capital strategy is often a static document, which would benefit from a more dynamic approach.
- There is an understandable nervousness with expressing capital investment ambition, which can be due to not wanting to make promises that may not be met, political life cycle and/or commercial sensitivity.
- Capital slippage continues to be a significant issue.

We can see from the good practice that we have highlighted that some local government organisations are already a good way along the path of developing a tailored, meaningful and valuable capital strategy. We challenge you to consider how your organisation compares with this guidance. If you recognise your organisation in some of the good practice extracts that we have highlighted, well done for the positive progress that you have made. If you recognise that you have some way to go to achieve the improvement that this guidance prompts, then we hope that we have provided you with the building blocks for your 2021 capital strategy and beyond.

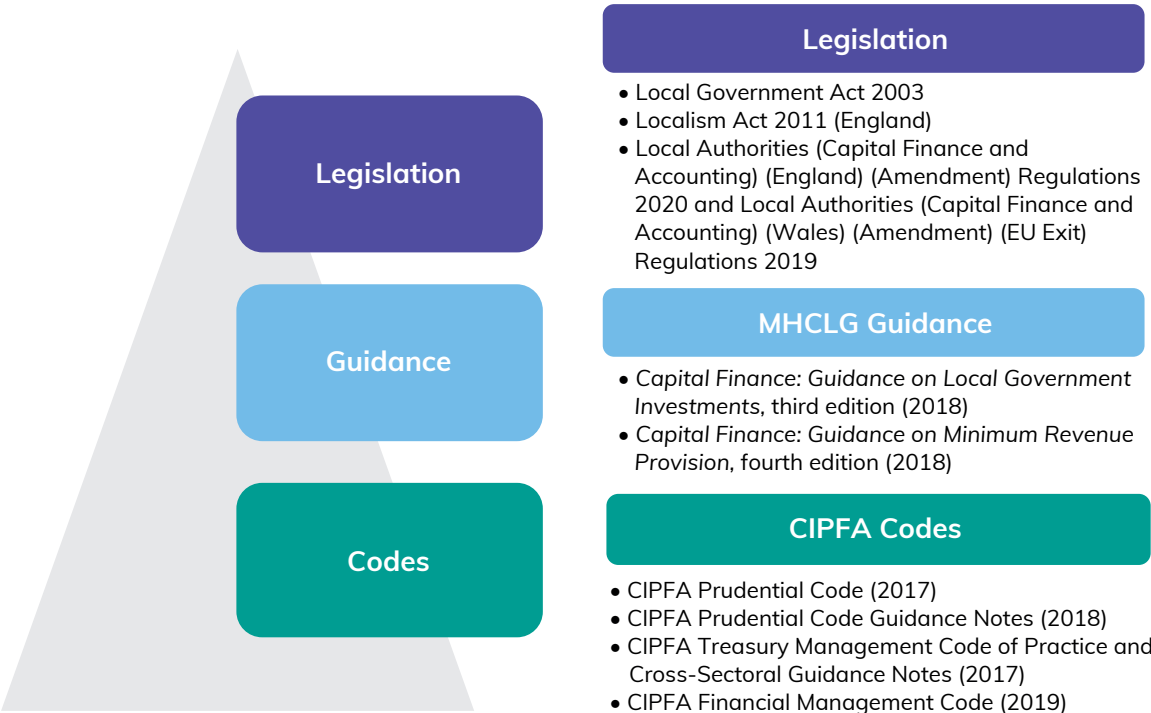
If you feel that we have missed the good practice that you have applied in your own organisation, then please let us know and share the latest version of your capital strategy. We are keen for this guidance to prompt sharing, debate and continuing improvement.

There is no intention to set out a template of headings for your organisation’s capital strategy. The order of headings in this guidance is only a suggestion. As leaders, you will determine how your capital strategy needs to be presented and how you can best express your vision, priorities and intended outcomes. We do, however, urge you to consider and address all elements, alongside the Prudential Code requirements.

CODES AND GUIDANCE

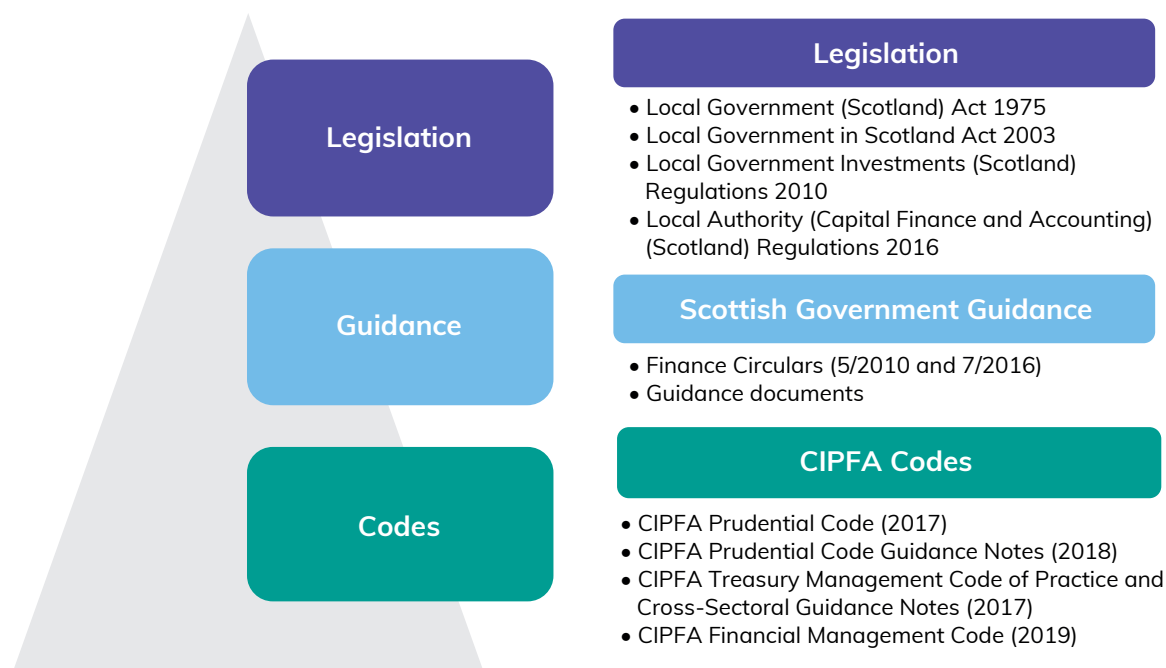
We have set out in Figure 13.1 the relevant legislation, guidance and codes for English and Welsh local government organisations.

Figure 13.1



We have set out in Figure 13.2 the relevant legislation, guidance and codes for Scottish local government organisations.

Figure 13.2





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04/2021

Corporate Policy & Resources Committee



19 January 2022

Title	Capital & Revenue Reserves Strategy
Purpose of the report	To note and make a recommendation to Council
Report Author	Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable Housing Recovery Environment Service Delivery
Recommendations	<p>Committee is asked to note:</p> <ul style="list-style-type: none"> • that the Council approved fifty year sinking fund reserves policy has been adhered to over the last five years and continues to strengthen our earmarked reserves position. • that by successfully implementing the above policy, Spelthorne Borough Council has the highest ratio of usable revenue reserves to Net Revenue Expenditure (NRE) of any district or borough, council in England • that subject to Council approval, the Outline Budget workings indicate that we will have to withdraw funds from our rent equalisation reserve (sinking funds) and this will achieve broadly a breakeven situation, i.e., the same amount of money will be withdrawn as paid in during 2022/23. • that due to the successful redevelopment of the West Wing for affordable rental units, we are looking into the feasibility of moving the council offices to take advantage of the new Hybrid working era and redevelop the remaining two wings to generate much need capital receipts. • that Council remains on track to builds its reserves and protect services and the residents of the Borough. • that officers will review and update the 50-year sinking fund strategy, with a particular focus on the next five years for Council approval as part of the 2023-24 budget setting process.
Reason for Recommendation	Effective and sustainable use of reserves is a key element of the Council's Medium Term Financial Strategy

1. Key issues

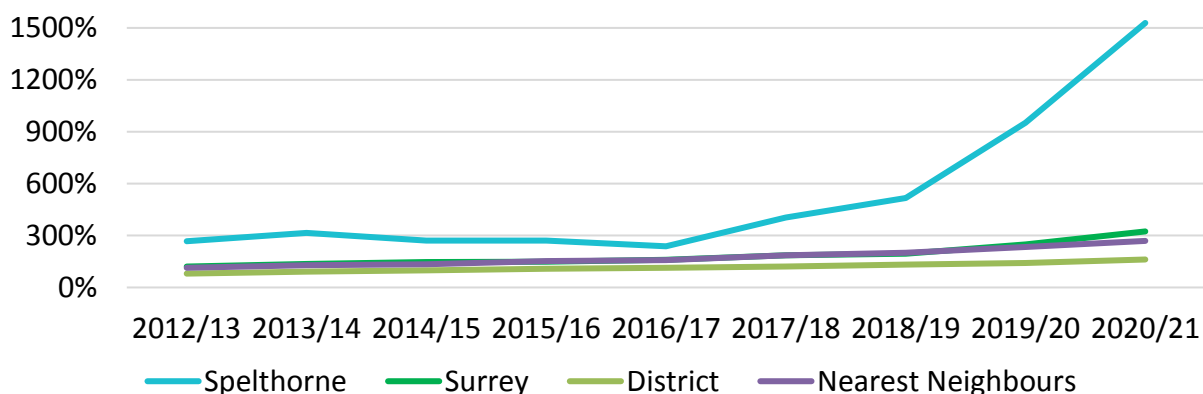
- 1.1 Our continued strong performance from our investment property portfolio and adherence to our 50 year sinking fund policy of using some of the net contribution to fund services and regeneration programmes (today) and some to put into earmarked reserves (tomorrow), such as rent equalisation reserve (sinking funds) has put Spelthorne Borough Council in a strong position.
- 1.2 As shown in our unaudited accounts for the year ended 31 March 2021, where Council's approved Earmarked Revenue Reserves (ERR) were £79.5m.
- 1.3 Including in the above figure, was an amount of £26.9m, which relates to COVID-19 support Government Grants received before 31 March 2022, that were paid out to business and individuals after 1 April 2022 and therefore, it has artificially inflated our Earmarked Revenue Reserves at the year end, it will distort closing year balances and make both past and future benchmarking and analysis exercises more difficult to interrupt due to the material impact of this sum on our total reserves. (This impacts on all Councils).
- 1.4 Adjusting for this element the Council's underlying (cash backed) ERR as at 31 March 2021 are £52.6m (As shown in Appendix D) and shows a modest (but still significant) increase of £8.4m from the previous year, when comparing like with like.
- 1.5 The increase in reserves is due mainly to our adherence to the 50 year sinking fund reserves policy, which is coming to the end of its first five-year cycle and will need to be updated for 2023/24.
- 1.6 The approved ERR can only be utilised for the purposes they were established for, for example, revenue grants unapplied, relates to monies received from Central Government and other third parties that must be spent on a specific project, usually with a deadline and after the deadline any unapplied grants for that purpose are returned to the provider.
- 1.7 A strong performance from our investment property strategy over the last five years, which has generated over £10m per annum to support our services and assist with the regeneration of communities, is only part of our good news story. Whilst we have been put into a strong position, we can't be complacent and Council still needs to have a strong and clear medium term reserves strategy, together with regular monitoring of our reserves, as without one, Spelthorne Borough Council could see its reserves, like those of Croydon Council reduce to critical levels in a relatively short number of years, based on discussions of events that led up to their demise with our external advisors.
- 1.8 Noting that an essential use of our earmarked reserves will be the transfers to and when required transfers from our rent equalisation reserve (sinking funds), to equalise our rental income streams as required.
- 1.9 Therefore, it is critical that the Council implements a strong reserves strategy that continues to strengthen our financial position and protects future service delivery and regeneration projects, which will include using funding from the rent equalisation reserves (sinking fund) as indicated in the 2022/23 Outline

Budget report, as we buy time to invest in and deliver our transformation projects.

2. Background and keys risks

- 2.1 To assist Councillors, there are three appendices attached to the report that cover:
- (a) Appendix A - an introduction to reserves.
 - (b) Appendix B – the background and purpose to Spelthorne Borough Council's reserves
 - (c) Appendix C – the management of our reserves
- 2.2 Many Councillors will have heard of some of the issues facing other councils in respect of their failure to make adequate provision for Minimum Revenue Provision (MRP). Spelthorne officers took a prudent approach and ensured that as part of the annual Budget recommendation to Council, that we agree the full provision for MRP, and are therefore our finances and reserves are not adversely impacted by this issue. The MRP is then applied annually to ensure we gradually pay down the Council's debt on a year-by-year basis.
- 2.3 Throughout the year, officers in the Finance team, regularly attend external meetings and presentations with our Treasury Management Advisers, Central Government, Local Government Association, Chartered Institute of Public Finance and Accountancy (CIPFA) and LGImprove who benchmark and provide feedback on our performance against other Councils. This benchmarking has highlighted that Spelthorne, as part of its risk mitigation strategy for its investment assets, now has the highest ratio of usable revenue reserves to Net Revenue Expenditure (NRE) of any district or borough council in England, as shown in the graph below:

URR as % of NRE: 31/03/13 to 31/03/21 compared with County and all districts average

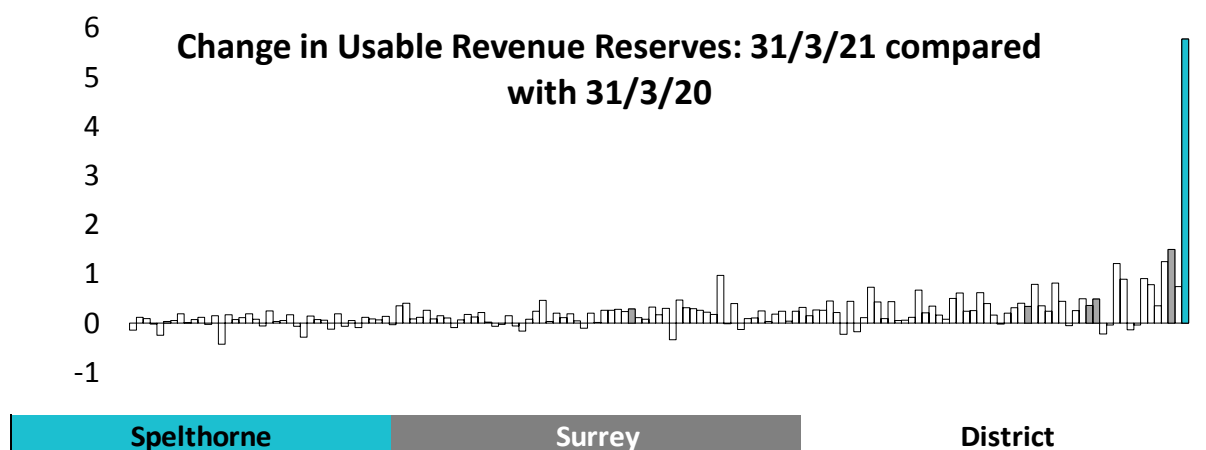


- 2.4 It needs to be remembered that the Councils' approved Revenue Reserves, including the sinking funds reserves are earmarked and set aside for specific purposes and cannot be used for any other purpose.
- 2.5 One of the key messages received is that because of a prudent approach by Council over the last few years, we have managed to grow and build resilience into our useable reserves, which has allowed the Council to generate additional interest income to support our services.

***Useable Revenue Reserves (ERR) from 2012/13 to 2020/21:
Spelthorne***

£000s	2016/17	2017/18	2018/19	2019/20	2020/21
General Fund Balance	951	1,000	1,000	1,221	2,176
Earmarked Reserves	10,102	17,802	23,053	43,006	79,503
Usable Revenue Reserves	11,053	18,802	24,053	44,227	81,679

- 2.6 This is a positive situation. Council can be assured that it is meeting its Value for Money requirement for the external audit review of its arrangements, it is striking a sensible balance between providing support for services (today) and protecting the future (tomorrow) by ensuring that sufficient funds are put away into earmarked reserves for specific future use.
- 2.7 The current Council approved 50 year sinking fund reserves policy is in its infancy and whilst it is on course to deliver its objectives for the Council, the Borough and its residents, we cannot become complacent, as there are many challenges for us to resolve, particularly in the short term, i.e., over the next two to five years, some of which are highlighted below, so that our reserves strategy remains fit for purpose.
- 2.8 To assist Officers to advise Council and to fully understand the situation, we have requested that a bench marking exercise be carried out comparing the top 25 Councils who have the largest borrowing, as the current benchmarking exercises compare all Councils in the UK, which is distorting our view as seen with the diagram below, which shows the change in useable revenue reserves from 31 March 2020 to 31 March 2021, (noting the warning given in 1.1 above) with Spelthorne Borough Council highlighted in blue at the far right of the bar chart and other Surrey Districts and Boroughs shown by the grey bars.



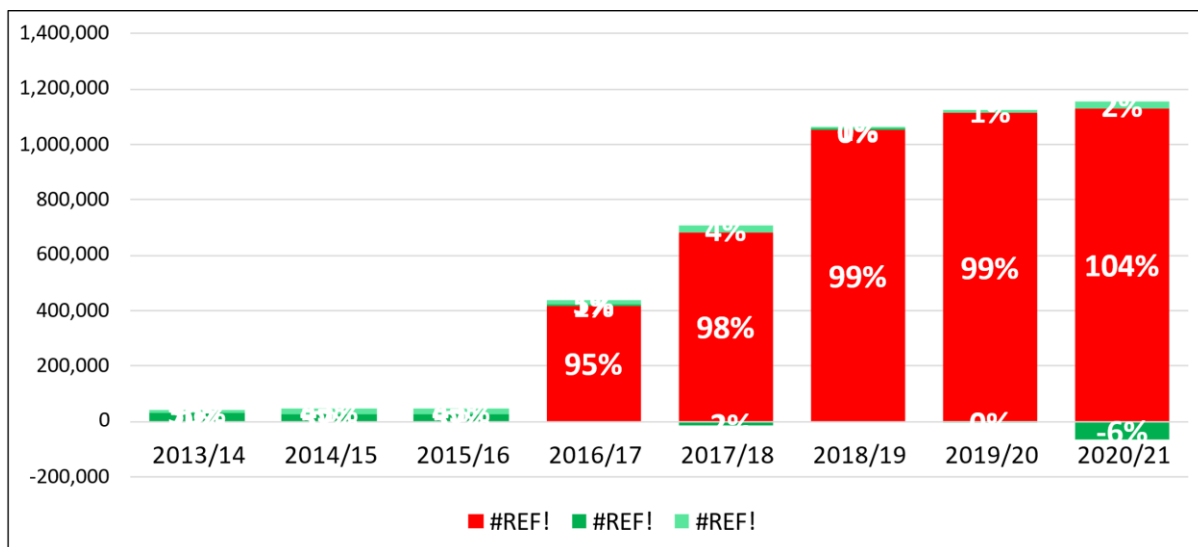
- 2.9 The next item on our agenda is property valuations, and as Councillors are aware the property market is experiencing short term valuation fluctuations, both upward and downward, because of the COVID- 19 pandemic, which means that we must take a medium to long term view on our property portfolio, particularly as the current Capital Strategy highlights that we have

no intention to sell any of our property portfolio, to third parties. (Noting we will transfer properties to Knowle Green Estates Ltd., our wholly owned subsidiary at cost).

- 2.10 The COVID-19 pandemic is influencing valuations in several ways:
- (a) Our tenants financial standing may have changed, positively in the case of IT sector, negatively in others, such as hospitality.
 - (b) Tenants rightsizing as hybrid working means they no longer require large office premises
 - (c) Business failures
 - (d) Incentives provided to new tenants
 - (e) Approved changes in leases
 - (f) Uncertainty about the future
- 2.11 At the 31 March 2021, our property portfolio reduced in value by £51m. This represents a paper loss and based on the upward trend in commercial investment properties experienced over the last 300 years, we expect to see this upward trend return over the next three to five years and reverse these short-term paper losses to overall paper gains.
- 2.12 As well as impacting on the valuation figures, COVID-19 will continue to impact on our services, over the next few years, as highlighted during the budget briefing session with Councillors in November 2021, so we are not 'out of the woods' yet and are facing challenges over the next four years around:
- (a) Shortage of both labour and materials for our capital projects.
 - (b) Reduced fees and charges, including car parks.
 - (c) Reduced funding from Business Rates.
 - (d) Uncertainty due to new COVID-19 variants.
- 2.13 Our next area for officers to monitor closely is our Capital Finance Requirement (CFR) because of the aggregate value of our borrowings to the aggregate value of our property portfolio
- 2.14 The CFR is a measure of the Council's financial health, as shown in the chart below

£000s	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Fin. Requirement	0	0	0	416,250	681,984	1,051,121	1,116,100	1,128,532
Capital Adjustment Acc.	28,234	26,987	26,897	2,377	-12,617	871	-2,857	-66,215
Revaluation Reserve	12,095	20,766	20,094	20,538	25,054	10,698	10,754	24,005
Balance Sheet Capital Assets	40,329	47,753	46,991	439,165	694,421	1,062,690	1,123,997	1,086,322

Capital Health: CFR, CAA, and RR at Spelthorne from 2013/14 to 2020/21



- 2.15 The CFR shows that in 2020/21, because of the paper losses on our property portfolio, are funding 104% of our assets and officers will need to monitor this variable carefully over the next two to five years and liaise with Councillors.
- 2.16 What the impact of 104% CFR means is that book value of our properties is lower than the aggregate of our total borrowings and if we sold all our properties and achieved the valuations quoted Council will have an excess of borrowing to repay, therefore it is an important variable to monitor.
- 2.17 The reality is that Spelthorne Borough Council would be unlikely to sell all its investment properties in one year, going for a planned disposal rather than a forced sale. (The Capital Strategy for 2022/2027 will deal with this in more detail).
- 2.18 As indicated in the past, the Council is in this for the long term and whilst our rental income continues to be maintained, we will be able to prudently manage our finances over the coming years and at present, Council is on track to deliver its long-term strategy for reserves and sinking funds
- 2.19 Our 2022/23 budget modelling is showing that our net rental income is holding up, improving considerably after the recent rental increases, and we need to ensure that the Charter Building obtains more tenants over the next 18 months, as highlighted in the recent report submitted to the Development Subcommittee 10 January.
- 2.20 Again, we cannot take everything for granted and as the pandemic drags on, this could put even more financial pressures on businesses, which could lead to an increase in company liquidations and because of this challenge, officers recommend a cautious approach through the next twenty-four months to enable the Council to see clearly the revised financial landscape.
- 2.21 **Knowle Green Estates Ltd. (KGE)**, the Council, as sole shareholder has yet to provide a clear long-term strategy on how to utilise the contributions that will flow from KGE or how to extract this money in a tax efficient way, to contribute towards the financial stability of the Council.
- 2.22 The current plan was to provide a significant number of affordable and keyworker rental housing, to support the current funding strategy and a notional equity investment £1 and the rest in loan finance, rather than a

substantial equity investment and smaller loans, which would reduce our useable earmarked reserves.

- 2.23 Should Council consider changing the balance of units to include Private Rental residential units, the funding model would change significantly, due to State Aid implications and therefore this would require a substantial equity investment of several million pounds, to enable KGE to meet its debts as they fall due in the normal course of business. (Noting that an investment of this type would require the Council to physically transfer the funds in return for equity share capital)
- 2.24 Based upon the projections prepared for Cabinet and Council in February and March 2021, indications were that KGE could contribute approximately £100m towards funding Council services, over the next 50 years.
- 2.25 Council has a range of options for dealing with the cash surpluses in KGE and it could decide to leave the funds in KGE to enable it to build more housing stock in the Borough (this would incur Corporation Tax and in 2023/24 the main rates rise to 25%) or the Council could receive between £500k to £2m per annum in management charges and loan interest arbitrage to support its services in the Borough, once all the properties, in the current delivery pipeline, are transferred and fully occupied from 2025/26.
- 2.26 Noting that due to the current delays on obtaining planning permission on some of these development properties earmarked for KGE, not only is the Council incurring additional monthly costs of £100k, but it could also reduce the positive aggregate projected cashflow by over 25% and delay the occupancy by between 2 and 5 years, i.e., between 2027/28 and 2030/31.
- 2.27 This could exasperate the short-term challenges in funding highlighted in the 2022/23 Budget Briefing given to Councillors in November 2021, to support services across the Borough, which could lead to increased Council tax, reduced services, redundancies, or a mix of all these options, particularly if the number of apartments to be built is significantly reduced, from the 663 originally planned for.
- 2.28 Climate change is another area that is going to create a challenge for the Council, as we explore how to reduce our carbon footprint, we are on track to spend over £4m building our new leisure centre to be the first Council fully mixed dry and wet leisure centre to be fully compliant with Passivhaus standards, another first for Spelthorne Borough Council and the UK.
- 2.29 The successful development of the West Wing at our Knowle Green offices, where we have made an additional 25 new apartments available for key workers, young families, and some physically impaired residents of the Borough, has provided the Council with the option of moving premises and redeveloping the remaining two wings and generating much needed capital receipts to fund our Capital Programme.
- 2.30 The final item is that as shown in appendix D – forecast useable reserves, in particular the revenue element, are all approved earmarked reserves, meaning as shown in Appendix A 1.4(b) that these are Council approved reserves, set aside for a specific purpose, i.e., there are currently no unallocated funds for Council to utilise to fund any budget gaps in 2022/23.
- 2.31 These represent the main challenges and items for Council when considering the reserves and sinking fund strategy for 2022/23.

3. Options analysis and proposal

- 3.1 Officers considered a wide range of proposals for the utilisation of the Council's reserves, and considering the challenges and issues highlighted in section 2 above:
- (a) Limited bench marking of like for like councils
 - (b) Short term paper fluctuations in property valuations
 - (c) Higher than expected borrowing to property valuations ratios in the short term
 - (d) Financial pressure on local businesses due to the continued pandemic and the impact on our rental properties
 - (e) The requirement for a clear Council led financial strategy for KGE
 - (f) Apart from the General Fund balance, all our revenue reserves are earmarked and cannot be used for any other purpose.
 - (g) COVID-19
- 3.2 Officers are recommending that Council continue with the current strategy for reserves and sinking funds as shown in the 2022/23 budget until a full review of our reserves is carried out by 15 March 2022

4. Financial implications

- 4.1 Appendix D shows our earmarked revenue position: actual as at 31 March 2021; and the forecast position for the three years to 31 March 2024, subject to any changes made during the budgeting process for 2022/23 by Council.
- 4.2 Noting that subject to Council approval of the 2022/23 Budget at their February 2022 meeting we are looking to utilise the earmarked reserves as follows:
- (a) £150k from the Bronze Field Reserve to fund the proposed public realm enhancements (capital) to the River Ash Boardwalk
 - (b) £100k from the NNDR Reserve to fund the extension of two temporary posts (Revenue) within the Economic Development Team
- 4.3 The Council is continuing with its 50-year sinking fund policy for 2022/23.
- 4.4 The Outline Budget workings indicate that there will be a need to utilise the rent equalisation reserves (sinking funds) for 2022/23 and possible 2023/24, which new will address next year. The forecast indicates a breakeven position, i.e., the same money is drawn out and was paid in during the year.
- 4.5 Officers will be carrying out a reviewing Council policy on the sinking funds and the wider reserves position, including KGE, the adequacy of our General Fund Reserve and how our Reserves, particularly the Asset Improvement Reserve might be used to assist Council to meet any future deficits over the next 5 years without jeopardising the financial stability of the Council, as part of the 2023/24 budget setting process.

5. Other considerations

- 5.1 Included in section 2 above.

6. Equality and Diversity

- 6.1 Detail how the recommended proposals will impact equality and diversity and mitigation measures being taken.
- 7. Sustainability/Climate Change Implications**
- 7.1 Included in 2022/23 budget setting proposals.
- 8. Timetable for implementation**
- 8.1 Implemented as part of the 2022/23 budget setting process.
- 8.2 Review of sinking funds for the five years to 2028/29 to be carried out as part of the 2023/24 budget setting cycle.

Background papers: None

Appendices:

Appendix A – Introduction to reserves

Appendix B – Background and purpose to Spelthorne Borough Council's reserves.

Appendix C – Management of Reserves

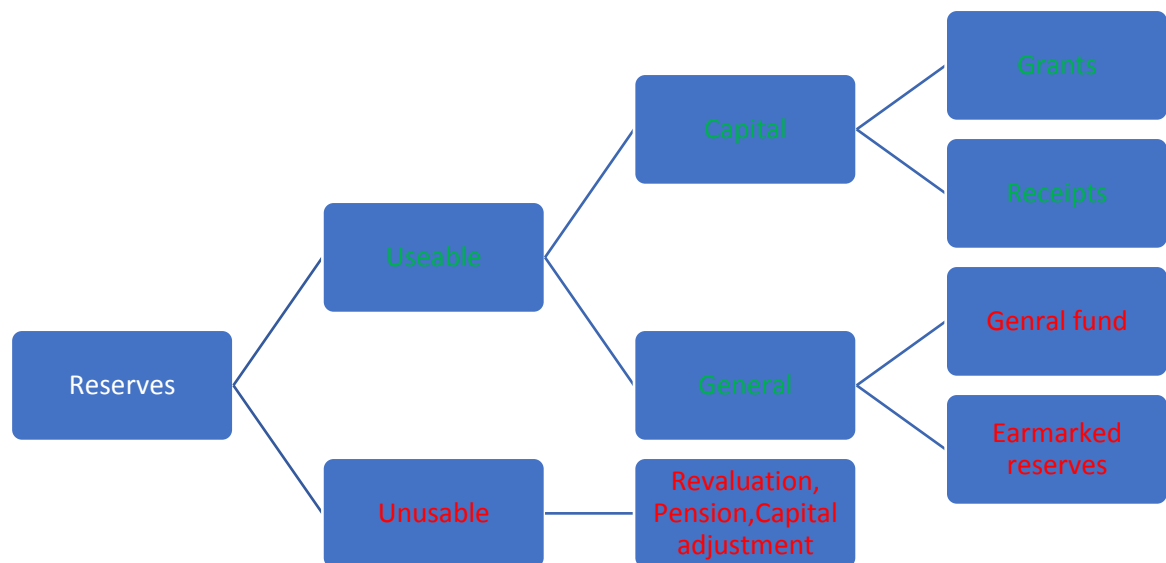
Appendix D – Earmarked Revenue Reserves (ERR) at 31 March 2021 (Actual) and 2022, 2023 and 2024 (Forecast)

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Appendix A – 2022/23 Capital & Revenue Reserves Strategy Report – definitions

1. Overview, background, strategic context, purpose and management

- 1.1 The Council manage its money by dividing it between two types of reserves - useable reserves and unusable reserves (an explanation of these terms can be found below).
- 1.2 Managing our money in this way means that we can budget successfully for what we need to deliver services now whilst building up funds that will grow over time for a specific purpose or to protect services in the future.
- 1.3 The chart and explanations below illustrate how those reserves are split.



- 1.4 **Useable reserves:** This is money that each council has set aside to provide services such as rubbish collection and for its day to day running. Useable reserves are made up of two further pots known as the 'general fund' and 'capital reserves'. These two useable reserves are in turn made up of other pots of money.
 - (a) **General Fund balance:** This is a contingency fund - money set aside for emergencies or to cover any unexpected costs that may occur during the year, such as unexpected repairs.
 - (b) **Earmarked reserves:** This is money that has been set aside by Council for a particular purpose, such as buying or repairing equipment or the maintenance of public parks or buildings or equalising over time a particular income stream.
 - (c) **Capital receipts:** This is the name given to the income received when assets are sold (such as land or buildings) in Spelthorne BC, these receipts will include the monies received from KGE. Capital receipts can only be used to buy or fund capital expenditure. Capital expenditure is the money spent on buying assets that have a lasting value. These assets could be land, buildings or large pieces of equipment such as refuse vehicles.

Appendix A – 2022/23 Capital & Revenue Reserves Strategy Report

– definitions

- (d) **Capital grants:** Capital grants are sums of money given to councils by the government. This money can only be used as capital expenditure, in other words this money can only be used to buy assets of lasting value.
- 1.5 **Unusable reserves:** The unusable reserves contain funds that cannot be used to provide services or used for day to day running costs. These reserves are required by the accounting and statutory regulations the Council follows and enable proper accounting practice to be applied and then reversed out to ensure no impact on council tax bottom line. The unusable reserves hold funds that have 'unrealised gains or losses'. This means that we have assets such as buildings whose value changes over time. There may also be commitments linked to these assets such as loans or maintenance needs. The funds held in the unusable reserves fund can only be unlocked and turned into usable money if the assets are sold.
- 1.6 Reserves play an important part in the Council's medium-term financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience.
- 1.7 The Council holds reserves to mitigate future risks, such as increased demand and costs; to help absorb the costs of future liabilities; and to enable the Council to resource policy developments and initiatives without a disruptive impact on Council Tax.
- 1.8 Capital reserves play a crucial role in funding the Council's Capital Strategy. The Capital Receipts Reserve are used to create capacity to meet future capital investment.
- 1.9 The Council relies on interest earned through holding reserves to support its general revenue spending plans.
- 1.10 Reserves are one-off money. The Council aims to avoid using reserves to meet ongoing financial commitments other than as part of a sustainable budget plan.
- 1.11 The Council has to balance the opportunity cost of holding reserves in terms of Council Tax against the importance of interest earning and long-term future planning.

Appendix B – Background and Purpose to Spelthorne Borough Council’s Reserves

1.1 Background

- (a) Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a Budget Requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting the Budget Requirement each February.
- (b) Reserves are an important part of the Council’s financial strategy and are held to create long-term budgetary stability. They enable the Council to manage change without undue impact on the Council Tax and are a key element of its strong financial standing and resilience. The Chartered Institute of Public Finance and Accountancy (CIPFA) monitors trends in movements in reserves as part of its Resilience Index. In recent years the Council has been steadily increasing the level of its reserves, particularly its Sinking Funds. The Council’s key sources of funding face an uncertain future and the Council therefore holds earmarked reserves and a working balance in order to mitigate future financial risks.
- (c) Earmarked reserves are reviewed annually as part of the budget process, to determine whether the original purpose for the creation of the reserve still exists and whether the reserves should be released in full or in part. Particular attention is paid in the annual review to those reserves whose balances have not moved over a three-year period.
- (d) The Council’s overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management.
- (e) The Council currently maintains:
 - i) · a General Fund general reserve.
 - ii) · various earmarked general reserves.
 - iii) · a Capital Grants reserve; and
 - iv) · a Capital Receipts reserve.
- (f) Additionally, the Council is required to maintain unusable reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.
- (g) The level of the general reserve is a matter for the Council to determine having had regard to the advice of the Chief Finance (S151) Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It

Appendix B – Background and Purpose to Spelthorne Borough Council's Reserves

will also take account of the extent to which specific risks are supported through earmarked reserves.

- (h) In principle, only the income derived from the investment of reserve funds should be available to support recurring spending.

1.2 **Purpose**

1.3 Reserves are therefore held for the following purposes, some of which may overlap and include:

- (a) Providing a working balance i.e. the General Fund general reserves.
- (b) Smoothing the impact of uneven expenditure profiles between years e.g. local elections, structural building maintenance and carrying forward expenditure between years.
- (c) Holding funds for future spending plans e.g. Capital Expenditure Reserve, and for the renewal of operational assets e.g. repairs and renewal, and Information Technology renewal.
- (d) Meeting future costs and liabilities where an accounting 'provision' cannot be justified.
- (e) Meeting future costs and liabilities to cushion the effect on services e.g. The Insurance Reserve for self-funded liabilities arising from insurance claims.
- (f) To provide resilience against future risks.
- (g) To create policy capacity in a context of forecast declining future external resources e.g. COVID-19 Resilience Reserve

1.4 All earmarked reserves are held for a specific purpose. This, together with a summary on the movement on each reserve, is published annually, to accompany the annual Statement of Accounts.

1.5 The use of some reserves is limited by regulation e.g. the Collection Fund balance must be set against Council Tax levels

1.6 As part of the Annual Budget, Treasury Management Strategy and the Capital Strategy setting process, Officers will review the reserves and apply reserves as part of the Capital Financing Requirement (CFR), typically, using Capital Receipts, Capital Grants or contributions from revenue in the first instance. (The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue)

Appendix C – Management of reserves

- 1.1 All reserves are reviewed as part of the budget preparation, financial management and closing processes. The Council will consider a report from the S151 Officer on the adequacy of the reserves in the annual budget-setting process. The report will contain estimates of reserves where necessary. The Cabinet will consider actual reserves when approving the statement of accounts each year.
- 1.2 The following matters apply to our major useable reserves as restated:
 - (a) The General Fund working balance will not fall below £1.25 million without the approval of The Council.
 - (b) The Asset Improvement Reserve is applied to meet future costs of improving or maintaining our properties.
 - (c) The Rent Equalisation Reserve (Sinking Funds) is available to cover rent free periods for incoming tenants, voids and defaults.
 - (d) The Business Rates Equalisation Reserve is available to smooth out the irregularity of business rates income retained
 - (e) The Interest Equalisation Reserve is available to smooth out interest rate fluctuations in volatile market conditions.
 - (f) There are several minor reserves that are still required going forward, i.e., Youth Council and Social Housing Initiative as they are currently still required.
- 1.3 The Council will review the Reserves Policy on an annual basis as part of the budget setting process and from time to time may restructure its reserves to meet its future needs and plans.

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Appendix D – Earmarked Useable Reserves for the four years ended 31 March 2024

	2020/21	2021/22	2022/23	2023/24
	Actual	Forecast	Forecast	Forecast
Asset Improvement Reserve	3,423,463	3,420,858	3,270,858	3,270,858
Housing Initiatives Fund	2,135,750	2,135,750	2,135,750	2,135,750
Interest Equalisation Reserve	493,454	493,454	493,454	493,454
New Schemes Revenue Projects	1,220,817	1,220,817	1,220,817	1,220,817
Rent Equalisation Reserve	28,987,156	28,987,156	34,475,156	39,268,156
Environmental Impact Reserve	248,965	248,965	248,965	248,965
Contribution from developers	8,730,300	8,730,300	8,730,300	8,730,300
Business Rates Equalisation	4,700,781	4,700,781	4,700,781	4,700,781
Youth Council	19,814	19,814	19,814	19,814
Revenue grants unapplied	2,635,548	2,635,548	2,635,548	2,635,548
	£52,596,048	£52,593,443	£57,931,443	£62,724,443

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Corporate Policy and Resources Committee

19 January 2022



Title	Supplementary Pay Award 2021/22
Purpose of the report	To make a recommendation to Council
Report Author	Debbie O'Sullivan/Angela Tooth, Human Resources Managers
Ward(s) Affected	Not applicable
Exempt	No
Exemption Reason	Not applicable
Corporate Priority	This item is not in the current list of Corporate Priorities but still requires a Committee/Council decision.
Recommendations	Committee is asked to: Recommend to Council that the preferred option (Option A) of the 2021/22 supplementary pay award or other option is approved.
Reason for Recommendation	As a result of moving to local pay on 1 April 2019, pay awards are to be decided by full Council. Under the Collective Agreement between the Council and UNISON, the Council will give due regard to the National Pay Award. The supplementary pay award is proposed to at least meet the current NJC national pay award offer of 1.75% for all staff.

1. Key issues

- 1.1 With effect from 1 April 2019, Spelthorne Borough Council became a local pay and local terms and conditions employer. Pay awards are to be decided by full Council and Corporate Policy and Resources Committee are asked to recommend to Council a supplement 2021/22 pay award.
- 1.2 The 2021/22 pay award, effective from 1 April 2021, was agreed in early February 2021 as follows:
 - 1.2.1 0.75% to all scale points including personal salaries and apprentices
 - 1.2.2 An additional 0.25% for scales 1 to 3

- 1.2.3 A one off, non-consolidated payment of £100 (gross) to all staff (excluding casual workers)
- 1.2.4 The deletion of scale points 8 and 9 from Scale 1
- 1.2 The above provided a higher increase for those posts in the “lower grades”. For 2021/22, scales 1 to 3 were included in this definition.
- 1.3 Clause 1.1 of the Collective Agreement between Spelthorne Borough Council and UNISON states the following:

“1.1 Spelthorne will give due regard to the NJC, JNC and JNC for Chief Executives National Pay Award.”

- 1.3 The 2021/22 national pay award has not yet been finalised. A full and final offer of 1.75% to the majority of NJC pay points was made by the employers which has not been accepted by the unions. Balloting has taken place in relation to strike action but this will not affect Spelthorne Borough Council staff.
- 1.4 Meetings have been held between Management Team and UNISON under the Collective Agreement to discuss the national pay award offer. It has been accepted by both parties to work with the final national offer of 1.75% when considering point 1.1 of the Collective Agreement as it is unknown when the national award will be concluded and the national employers have indicated that they have made their full and final offer.
- 1.5 The proposals have been subject to consultation and negotiation, within the limits of the Collective Agreement between the Chief Executive, Deputy Chief Executive, Human Resources and UNISON.
- 1.6 Clause 1.4 of the Collective Agreement, Mechanism and timetable for deciding pay awards states:

“UNISON may make representations to Corporate Policy and Resources Committee when they consider the budget for the following year. The Corporate Policy and Resources Committee will consider any pay submission/representation from UNISON before they make a recommendation to Council for the Local Pay Award for the following year.”

- 1.7 UNISON may choose to make their own submission/representation to Corporate Policy and Resources Committee.
- 1.8 This explains the main criteria upon which the decision is to be based.

2. Options analysis and proposal

- 2.1 In order to remain competitive and retain staff the following options are proposed.

2.1.1 Option A – Preferred option

1% to all scale points including personal salaries and apprentices (excluding those staff whose terms of secondment does not qualify for a pay award).

This means that overall for 2021/22 scale points 1 to 3 will have received a 2% pay review for 2021/22, which is higher than the current national offer and all other scale points and relevant personal salaries will have received 1.75%.

This maintains the 0.25% differential between scales 1-3 and all other scales.

UNISON are supportive of this option as they are mindful that a higher award to lower scales will result in compression issues between scales.

2.1.2 Option B

As Option A, plus a one off non-consolidated payment of £100 (gross) per employee (excluding casual workers) up to and including Scale 4.

Consideration would need to be given on the reason for this payment to scales 1 to 4.

This will heighten bottom loading but will be on a one off basis. UNISON are aware of the challenges of bottom loading pay scales and the impact reducing monetary differences between grades can have on morale, retention and recruitment together with recognition of the different grade responsibilities.

2.1.3 Option C

As Option A, plus setting aside a one off payment of up to £20,000 to be placed into the Spelthorne Assistance Fund for Employees (SAFE) which is available to all employees who may be experiencing financial hardship and who can confidentially apply for support. Support is open for all (subject to criteria) and does not restrict any employee from applying. Voluntary Support North Surrey (VSNS) who previously administered the fund on behalf of Spelthorne Borough Council have stated they no longer wish to continue providing this support. A new provider would need to be appointed as this should remain independent from the Council. It should be noted that it may be challenging to source a provider willing to administer as this is a niche area plus there will be an administrative fee.

3. Financial implications

3.1 Option A - the incremental cost is £191,530 and is within the headroom in the medium term financial strategy/outline budget assumptions. The uplift can be treated as a supplementary Revenue estimate for 2021-22 which can be covered by the projected net overall Revenue underspend for 2021-22.

3.2 Options B or C – the one off cost can be covered from the additional one off head room generated by the New Homes Bonus grant.

4. Other considerations

4.1 The pay award is to be made to all staff – apart from those whose terms of secondment does not qualify for a pay award.

4.2 If agreed, the increase will be applied to certain allowances that are increased annually in line with any pay award. This is covered within the budget.

4.3 Consideration needs to be given on the effect of a higher incremental increase to lower scales as this will cause compression issues between scales and provide little differential between one grade and the next. Posts are graded according to the complexity of work, range of responsibilities and the skills and experience required

to undertake them. Reducing the differential may effectively “downgrade” the next scale up. Scales 1-3 have received a higher incremental increase and the above proposals do not reduce the differentials that are currently in place, this in turn may make it increasingly difficult to promote into roles just above these scales (for example refuse vehicle drivers).

Protecting organisational resilience

- 4.4 From a business need perspective, the organisation is finding it more difficult to recruit and retain managers and key professional roles than for the lower grades. If the organisation is unable to retain key professional staff and managers (we are shortly about to lose a few key managers), it will impact on the Council's ability to deliver services to its residents and may also affect staff morale and well being. It should be noted that the latest Consumer Prices Index measure of inflation is 5.1% and is projected to rise to more than 6% in the coming months. We need to be mindful of the direct and indirect costs (including service discontinuity) associated with vacant posts and recruiting to posts and the hidden cost of induction and training associated with new recruitment. We are particularly aware of the difficulties some services are continually encountering when trying to recruit key qualified staff and these are often in front line services. As an example, Environmental Health has been unsuccessful in recruiting Senior/Environmental Health Officers and went out to advert on 3 separate occasions for 2 vacancies over the last 12 months. Internally, the hourly rates for these roles range from £16.17 per hour to £24.74 per hour but they are currently having to pay agency personnel / contractors between £55 to £60 per hour. This is resulting in a potential additional spend of over £1000 per week for each full- time vacant role. In other areas such as Building Control, the hourly agency rate for an experienced Building Control Officers is also between £55-£60 per hour, plus expenses. This compares with the internal hourly rate paid to staff of between £16.17 - £27.96 per hour.

5. Equality and Diversity

- 5.1 This supplementary pay award is applicable to all scales including personal salaries and apprentices.

6. Sustainability/Climate Change Implications

- 6.1 None.

7. Timetable for implementation

- 7.1 The pay award will, if approved, will be implemented in March 2022 and backdated to 1 April 2021.

Background papers: There are none.

Appendices: There are none