APPENDIX H(iii)

The Capital Strategy 2021/22

Purpose of the Capital Strategy

1 The Capital Strategy sets out how the Council will manage the investment and financing of capital resources to contribute towards the achievement of its key objectives and priorities. This includes the appraisal process for determining investment decisions and the process for identifying and prioritising funding requirements.

2 The Capital Strategy is a framework by which capital expenditure decisions are made. It is required under the Prudential Code as a measure of good governance.

3 The objectives of the Capital Strategy are to:

- Prioritise and deploy capital resources in advancement of corporate objectives;
- Support service plans;
- Look for opportunities for cross-cutting and joined up investment;
- Invest in assets that reflect the visions and aspirations of local people in service delivery; and
- Manage investment and the Council's property and other assets effectively and efficiently.

4 The strategy considers all aspects of the Council's capital expenditure and forms part of the Council's integrated revenue, capital and balance sheet planning.

5 The strategy covers capital expenditure, capital financing and asset management and is one of the Council's key strategies. It also gives an overview of how risk is managed and the implications for future financial sustainability. It also provides a set of objectives and a framework, within the CIPFA Codes and statutory legislation, by which new capital projects are evaluated and investment decisions made, whilst ensuring that funding is targeted towards meeting corporate priorities.

6 The Capital Strategy:

- States the Council's processes for project initiation, deciding on the prioritisation of capital projects and monitoring and evaluating schemes;

- Takes account of significant revenue implications;
- Provides a framework for the management and monitoring of the capital programme;
- Identifies funding streams and provides a basis to inform bidding for additional capital resources (e.g. government initiatives); and
- Informs the corporate review of existing properties.

Project Initiation

7 Capital projects are subject to a robust justification process, bringing together a clear business case with suficient detailed costings to ensure that transparent decisions can be taken. Proposals are given independent oversight and review of the project in terms of validation arrangements, estimated figures and project milestones. Business cases are prepared in accordance with good project management principles.

8 A formal process is drawn up to ensure that projects are subject to thorough oversight for the duration of the scheme. Project management sits with the initiating team or department and there are clearly defined areas of responsibility for each task within the project.

9 For larger projects where feasibility is less certain, more robust business cases are prepared before bids for funds are made. This includes undertaking all preparatory work to fully understand the requirements of a project before a budget is sought. There must be a clear link between budgets and service plans.

Prioritisation of capital projects

10 Capital projects will be assessed for:

- Strategic fit – corporate objectives are being met by the expenditure;
- Identified need – e.g. essential repairs and maintenance of existing assets;
- Achievability – this may include alternatives to direct expenditure by the Council such as partnerships with others;
- Affordability – to ensure that total capital expenditure remains within sustainable limits;
- Practicality and deliverability;
- Revenue generation achieved from the investment; and
- Non-monetary impacts such as future economic growth, social well-being or environmental improvement.

Monitoring and evaluating schemes

11 For all capital investment the appropriate level of due diligence will be undertaken, with the extent and depth reflecting the level of risk being considered. Due diligence will include:

- Identification of the risk to both the capital sums invested and the returns;
- Understanding the potential impact on the financial sustainability of the Council if the risks come to fruition;
- Identifying assets being held for security against any potential debt or charges on assets; and
- Seeking independent and expert advice where necessary.

12 The Deputy Chief Executive and Chief Officer Finance & Trading will ensure that Members are adequately informed and understand the risks of capital investment.

13 Project proposals will be put to Council for formal approval together with funding requirements and, if successful, will form the Council's capital programme which is its plan of capital investment for future years. This ensures that the Council's overall capital strategy, governance procedures and risk appetite are fully understood by all Members.

Revenue implications

14 The revenue implications of capital investment must always be considered in investment decisions and the prioritisation of projects. These include costs and savings implications. Costs to consider include:

- Cost of borrowing (including Minimum Revenue Provision);
- Loss of investment income if reserves or useable capital receipts are deployed; and
- Running costs associated with the asset (e.g. employee salaries, heat and light, administrative support costs and future maintenance).

Savings, including benefits, to identify include:

- Any positive impact of investment and economic growth on the Council's council tax base and business rates income; and
- Capital projects that generate income, revenue savings or efficiencies.

Funding the Capital Strategy

15 Proposals for capital projects must identify the funding requirements for the timescale of the project including any revenue implications. Funding must be appropriate for the project and will come from:

- Reserves;
- Capital receipts – from the sale of assets or finance lease receipts;
- Government grants – such as disabled facilities grant funding;
- Third party grants and contributions;
- Community Infrastructure Levy;
- Revenue contributions;
- Other developer contributions; and
- External borrowing.

16 The Secretary of State believes that individual local authorities are best placed to decide which projects will be most effective for their area. The key criteria to use when deciding whether expenditure can be funded by the increased flexible use of capital receipts is that it is forecast to generate ongoing savings.

Borrowing

17 The Council's approach to borrowing is set out in its Treasury Management Strategy Statement. The Council may consider internal or external borrowing. Prior to undertaking any external borrowing, affordability, the maturity profile of existing debt, interest rate and refinancing risk and the borrowing source should be given due consideration.

18 Local authorities are required to set aside some of their revenues as provision for debt each year of an amount considered to be 'prudent' (the Minimum Revenue Provision or MRP). Prudent provision should ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefit.

Commercial activities and investment property

19 CIPFA defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

20 With reductions in funding that the Council has faced, it is having to look at commercial activities and property investment to supplement its income and support service delivery. However, to minimise risk of potential loss of income in the longer term, it needs to ensure that any investment opportunities are based upon sound decision making that considers the future likelihood of investment income reducing. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave properties remaining vacant.

21 The detail is contained in the Council's Property Investment Strategy which documents the Council's requirements, but when making commercial investment decisions the Council will follow the following principles:

- Commercial investments will only be made to enhance the Council's asset portfolio and will be linked to delivery of the Ten Year Budget;
- Consideration will be given to the economic development potential of any investment decision;
- Expert advice will be sought to ensure that any investment decision is based upon sound market intelligence, forecasts for future investment returns and yields that offer sound investment return without risking the capital invested;
- Any borrowing linked to investment opportunities is secured upon the potential guaranteed element of the investment return so that any liability can be met from the activity undertaken; and
- Investment opportunities will always ensure that the Council's investment is protected as far as possible either through increases in capital value or from guaranteed revenue income.

22 The Property Investment Strategy makes it clear that the Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by a robust governance process. However, proportionality in respect of overall resouces will remain an important factor.

Consideration of risk

23 The capital programme and property investment strategy form an important part of the Council's strategy for deivering its overall priorities. Accordingly, it is viatl that the associated risks are mangaged actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is monitored. Risk registers are maintained at corporate and budgetary levels and are reviewed and updated on a regular basis by the Risk Management Group and the Audit Committee.

24 As far as the capital programme is concerned, risks at the corporate level could be generic, relating to a number of capital projects, although it is

possible that a single capital project could pose a corporate risk. At the budgetary level, risks in this area would relate to the funding of the capital programme and over/underspending on individual capital projects.

25 As far as the property investment stragey is concerned, the risks associated with this activity are detailed in paragraphs 20 and 21 above and are the subject of a specific section within the Strategic Risk Register.

Knowledge and skills

26 The Council has professionally qualified staff across a range of disciplines, including finance, legal and property that follow continuous professional development (CPD) and maintain knowledge and skills through attendance on courses and through regular technical updates from appropriate bodies.

27 The Council utilises the knowledge and skills of these officers when considering capital investment decisions and, where necessary, it also relies on the expert knowledge of specialist external advisors. Some of these advisors are contracted long term or are appointed on an ad-hoc basis where necessary. Link Asset Services, provide treasury management advice, including investments, borrowing and capital financing.

28 External professional advice will always be sought when considering any major commercial property investment decision.