

**STROUD DISTRICT COUNCIL**  
**COUNCIL**

**AGENDA  
ITEM NO**

**24 JANUARY 2019**

**6civ**

Strategy and Resources Committee – 17 January 2019

<b>Report Title</b>	<b>STROUD DISTRICT COUNCIL CAPITAL STRATEGY</b>
<b>Purpose of Report</b>	To approve the Council's new Capital Strategy.
<b>Decision(s)</b>	<b>The Committee RECOMMENDS to Council:</b>  a) <b>To approve the Capital Strategy at Appendix A.</b>  b) <b>To grant the S151 Officer Delegated Powers to re-profile capital budgets in consultation with the relevant service Committee chairs.</b>
<b>Consultation and Feedback</b>	<ul style="list-style-type: none"> <li>• Officer Consultation Meetings</li> <li>• Member workshops</li> </ul>
<b>Financial Implications and Risk Assessment</b>	<p>There are no direct financial implications arising from this report. The Capital Strategy sets out the Council's approach to planning and monitoring capital expenditure including its appetite to risk.</p> <p>Andrew Cummings - Head of Finance &amp; Section 151 Officer Email: <a href="mailto:andrew.cummings@stroud.gov.uk">andrew.cummings@stroud.gov.uk</a></p>
<b>Legal Implications</b>	<p>This report sets out the proposed new Capital Strategy for 2019/23 and the committee needs to be satisfied with the proposals relying on professional financial advice, and any further guidance advised at committee. The proposed additional s151 Officer Delegated Powers can be inserted into the Constitution immediately following approval by Council.</p> <p>Nicola Swan, Interim Head of Legal &amp; Monitoring Officer Email: <a href="mailto:nicola.swan@stroud.gov.uk">nicola.swan@stroud.gov.uk</a></p>
<b>Report Author</b>	Andrew Cummings – Head of Finance & Section 151 Officer Email: <a href="mailto:andrew.cummings@stroud.gov.uk">andrew.cummings@stroud.gov.uk</a>
<b>Options</b>	The Council must have a Capital Strategy by March 31st 2019. The Committee may make changes to the presented strategy.
<b>Performance Management Follow Up</b>	Budget Monitoring reporting during 2019/20. Capital Budget Setting 2020/21
<b>Background Papers/ Appendix</b>	CIPFA Prudential Code 2018 Appendix A – Stroud District Council Capital Strategy

## **1. Introduction and Background**

- 1.1 Under the Local Government Act 2003 the Council should have regard to the CIPFA Prudential Code. In 2018 this code was revised to include a requirement for every local authority to produce a “Capital Strategy”
- 1.2 Stroud District Council does not have a pre-existing Capital Strategy and previous Internal Audit recommendations have highlighted the need to produce one.
- 1.3 The Guidance notes to the Prudential Code state that “The purpose of the capital strategy is to tell a story that gives a clear and concise view of how a local authority determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite”.
- 1.4 This document should be reviewed at least annually and must be considered a “live” document to be used throughout the financial year.

## **2. THE CAPITAL STRATEGY**

- 2.1 The proposed Capital Strategy is attached at Appendix A. It sets out the Council’s principles on how the Capital Programme is put together, how Capital expenditure can be financed and how the Council approaches and manages the risks related to the Capital Programme.
- 2.2 The Capital Strategy is split into four main sections to enable the reader of the strategy to clearly see the main issues as they are presented.
- 2.3 Section one sets out the basics of Capital Expenditure and the general principles which the Council will follow in its capital programme. The principles are as follows;
  - Capital Investment is a vital tool in delivering strategic priorities
  - The capital programme will include only those schemes which assist in delivering a Council priority or commercial returns
  - The Council will consider schemes purely to generate a commercial return, as part of the budget strategy to close the gap between expenditure and resources
  - The evaluation of capital schemes for inclusion on the programme will follow an agreed process which allows scrutiny whilst not limiting innovation and adaptability
  - The funding of the capital programme must be considered alongside the revenue budget and balance sheet position as part of the Council’s integrated financial planning
  - Capital projects will be monitored and evaluated, both during and after their completion, to ensure their efficient progress and that any lessons learnt can be transferred to other Council schemes

- 2.4 It is a requirement of the Capital Strategy that it must state whether the Council undertakes capital investment for a commercial return and how dependant the current revenue budget is on such investment. Within Section One it is set out that the Council will consider such investments should the opportunity arise. To not make that statement would limit the Council's ability to respond to such opportunities. The current MTFP has no reliance on income from previous capital expenditure where income generation was the only objective so the current risk exposure is nil.
- 2.5 Section two shows how the Council will select, approve and monitor capital schemes. There is currently no formalised agreed process for this in the Council so this section sets out the process by which future capital programmes will be established.
- 2.6 Section three covers the different source of funding for Capital Projects and the principles that will be followed in applying them. This includes the Council's policy on new borrowing setting out that the Council must consider the interest and MRP implications of any new borrowing.
- 2.7 Section Four links to existing Council policies on risk and treasury management. It also includes an analysis of the skills and knowledge within the organisation.
- 2.8 As Chief Financial Officer I am satisfied that the existing Capital programme of the Council is both deliverable and affordability within our current financial position. The Strategy sets out how this programme can be reviewed in future years to enhance the outcomes of capital expenditure and to best manage risk within the programme. I am satisfied that the arrangements for managing risk are robust.

### **3. Profiling of Capital Expenditure**

- 3.1 The Capital Strategy sets out the Council's policy on capital projects which span multiple years. In summary when approving a capital programme the Council sets out an approved budget and estimated end date. The nature of capital projects is that it may be necessary, for financial or other reasons, to alter the profile of expenditure across the other years of the project.
- 3.2 It is recommended that approval for re-profiling of capital schemes, including bringing expenditure forward if necessary, be delegated to the S151 Officer. This is to ensure that the effective management of the approved capital programme is not impacted by the Civic timetable. In making such decisions the S151 Officer would consider the overall financial position of the Council and must consult the relevant committee chair.
- 3.3 If the S151 Officer exercises these delegated powers it must be reported to the next meeting of the relevant service committee and Strategy and Resources committee.

# **Stroud District Council Capital Strategy**

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## **Section 1 – Principles of the SDC Capital Strategy**

### **1. Introduction**

Welcome to the Capital Strategy for Stroud District Council. The following document sets out how the Council sets out its priorities for Capital investment including links to existing delivery plans and strategy documents. It also considers the ways in which capital expenditure may be financed, including the impact that the Strategy has on the budgets of both the General Fund and the Housing Revenue Account (HRA). The strategy will also set out the links with Treasury Management objectives and determine the authority's approach to risk in those objectives.

This document is a fundamental part of the Council's business planning process from both a financial and service perspective. It sets out a framework whereby the authority's capital resources can be effectively allocated to those projects which may help the Council achieve wider corporate objectives, protect existing assets and support financial sustainability.

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1. Capital Investment is a vital tool in delivering strategic priorities

## Principles

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2. The capital programme will include only these schemes which assist in delivering a Council priority or commercial returns

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3. The Council will consider schemes purely to generate a commercial return, as part of the budget strategy to close the gap between expenditure and resources

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4. The evaluation of capital schemes for inclusion on the programme will follow an agreed process which allows scrutiny whilst not limiting innovation and adaptability

## Capital

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5. The funding of the capital programme must be considered alongside the revenue budget and balance sheet position as part of the Council's integrated financial planning

## Strategy

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6. Capital projects will be monitored and evaluated, both during and after their completion, to ensure their efficient progress and that any lessons learnt can be transferred to other Council schemes

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## 2. Background

As part of its wider treasury management objectives the Council must have regard to the “Prudential Code for Capital Finance in Local Authorities” (henceforth to be referred to as the Prudential Code), as produced by the Chartered Institute of Public Finance & Accountancy (CIPFA). The 2018 revision of the Prudential Code introduces the requirement for authorities to produce a Capital Strategy representing as it does best practice in financial planning. This document is the first version of such a strategy for Stroud and sets out baseline practices. As the capital ambitions of the authority continue to grow the Strategy will serve as a basis for building that capital programme and can be updated as and when new priorities, schemes or methods of financing are introduced. It is a live document forming a fundamental part of the ongoing strategic planning of the Council.

## 3. Capital Expenditure

Capital Expenditure is that which is incurred on the acquisition, creation or enhancement of an asset. These assets can be tangible such as buildings or vehicles, as well as intangible such as software products or licenses. Revenue expenditure is that which is incurred on the day to day running costs of the Council.

## 4. The link between revenue and Capital

Capital and revenue expenditure are often treated as separate components of local authority budgets and funding for each is considered separately. However, it should be regarded as a vital component of successful financial planning that revenue and capital budgets are intrinsically linked. Therefore this capital strategy should be deemed to form a key part of the authority’s medium term financial planning process.

The impact of capital expenditure upon the revenue budgets of the authority must be an intrinsic part of assessing capital projects at the business case stage.

The following table sets out some of the key impacts of capital expenditure upon the revenue budget.

### Revenue Savings

- Direct Income from assets
- Reduced maintenance costs
- Savings in labour costs

### Revenue Costs

- Running costs of new assets
- Minimum Revenue Provision (loan principal)
- Interest costs from borrowing (or lost investment interest if internally borrowing)
- Revenue funding of capital programme



As an indication of the current cost of the existing capital programme, the proposed Council budget for 2019/20 includes the following sums for loan principal and interest costs.

	2019/20	2020/21	2021/22	2022/23
General Fund	£000	£000	£000	£000
MRP	981	1,041	1,141	1,141
Interest	286	286	286	286
<b>GF Total</b>	<b>1,267</b>	<b>1,327</b>	<b>1,427</b>	<b>1,427</b>
<b>Housing Revenue Account</b>				
Principal	900	1,037	1,171	1,236
Interest	3,379	3,750	3,873	3,884
<b>HRA Total</b>	<b>4,279</b>	<b>4,787</b>	<b>5,044</b>	<b>5,120</b>

## 5. The Purpose of Capital Investment

Investment through Capital Expenditure may serve a number of purposes, these can typically be classified as being related to service priorities and commercial investments.

Service priorities are those areas that the Council has identified through the Corporate Delivery Plan. Capital expenditure may be a specific component of the corporate priority itself, such as the delivery of new affordable housing within the District or investment in an asset which helps to achieve the priority, such as new leisure facilities to improve public health.

Commercial investments are those which are entered into with the explicit objectives of returning a surplus for Council and therefore improving the financial sustainability of the Council. These may include:

- Acquisition of Property to deliver a commercial return, usually through rental
- Investments in outside organisations with the view to making a return

Investments which neither deliver a financial return nor achieve a service objective for the Council should not be considered for inclusion on the Capital Programme.

## 6. What are our Council priorities?

Council objectives are set out in the Corporate Delivery Plan 2018-22 (CDP) which lists the five main priorities of the Council as:

- Help create a sustainable and vibrant economy that works for all
- Provide affordable, energy efficient homes for our diverse and changing population

- Help the community minimise its carbon footprint, adapt to climate change and recycle more
- Promote the health and wellbeing of our communities and work with others to deliver the public health agenda
- Provide value for money to our taxpayers and high quality services to our customers

The full CDP can be found at [www.stroud.gov.uk/media/682656/corporate-delivery-plan-2018-22.pdf](http://www.stroud.gov.uk/media/682656/corporate-delivery-plan-2018-22.pdf)

The CDP will be periodically reviewed and updated. As the CDP is reviewed new schemes will be evaluated against new Corporate Priorities.

The Council vision, currently “Leading a community that is making Stroud district a better place to live, work and visit for everyone”, should also be considered when planning capital projects.

## **7. Existing Capital Priorities**

The Capital Programme includes a number of high profile Capital Schemes and Priorities. These priorities are;

- New Build Housing and support for affordable homes – The provision of housing is a key element of the Corporate Delivery Plan and the capital programme reflects this. The HRA capital programme now includes a second phase of new house building. To support the provision of future new builds the capital programme now also includes a budget for the purchase of land. This is a strong example of the use of capital planning to identify assets required (land) to support the provision of a Council priority (housing).
- Regeneration of the Canal – Support for the redevelopment of the Canal is a key component of the Council’s capital programme. “Stroudwater Connected” represents the next critical phase of the canal redevelopment and the Council has already agreed capital funds of £3 million to support the project.
- Redevelopment of Brimscombe Port – Brimscombe Port is the Council’s primary mixed use regeneration scheme for the upcoming period. Successful completion of the project will produce an increase in housing supply and provision for business accommodation as well as the restoration of a historically significant inland port. Funding for the scheme is likely to be drawn from a variety of sources including Council contributions, a loan from Homes England and funding through a joint venture agreement with a delivery partner.
- Investment in ICT Infrastructure – The existing capital programme includes a sum of £1.8 million for investment in the Council’s ICT provision.

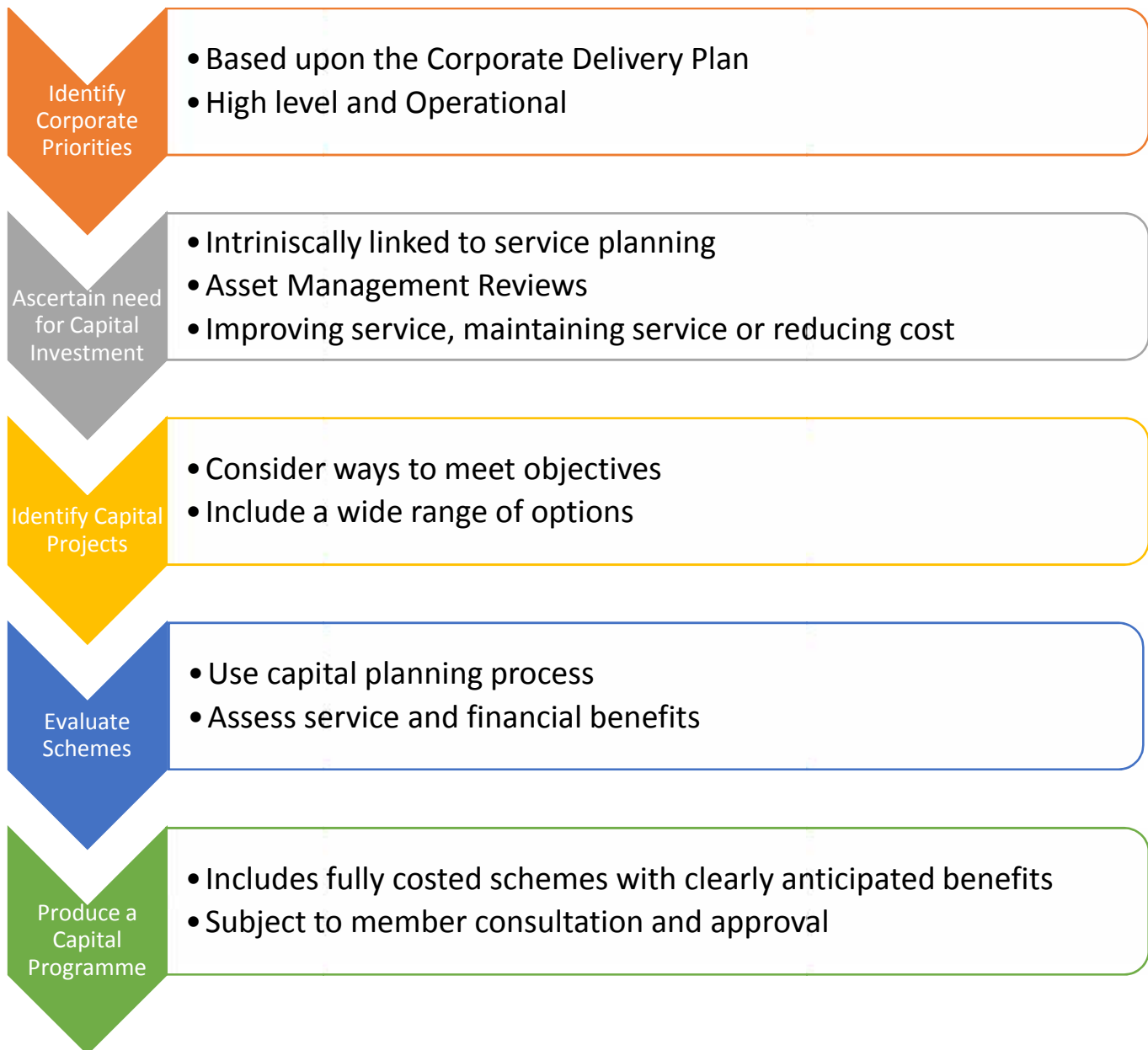
- Support waste and recycling through effective asset and fleet management – Under the terms of the Ubico contract the Council is responsible for procuring the vehicles and equipment required. It is vital that the Council plans long-term to secure the assets that are required. Failure to do so risks inefficiencies in providing the service and the financial costs of operating aging machinery.

The detail of the full district Council programme is included within the most recent set of budget reports approved by the Strategy and Resources committee. As the Capital Strategy should be considered a live document these schemes and priorities are subject to change.

### **8. Achieving priorities through capital investment.**

Capital expenditure and investment is a key tool in achieving Council priorities. Targeted investment can provide the Council with the assets it needs to deliver high quality, value for money services in accordance with the Corporate Delivery Plan. Capital investment opportunities may be targeted to deliver additional corporate priorities.

The diagram below is an illustration of the key principles and processes for initiating a capital project up to approval stage.



It should be recognised that the ideas for capital schemes could come from a wide variety of sources including officers, external stakeholders, individual members or Council committees.

## 9. Use of Commercial Investment

Stroud District Council has not historically made capital investments purely for financial return. This strategy sets out the scope by which the authority may make investments of this nature and also the governance process which covers such arrangements. Through a process of due diligence the authority must satisfy itself that it is acting within legal powers, identifying risks and mitigating them where possible and ensuring it has carried out a full sensitivity analysis of the potential financial impact of the investment.

As part of the Council's Budget Strategy and MTFP the Council will now look to reduce the impact of a decline in traditional funding sources by using commercial income from non-treasury investments to make up some of the difference. This protects front line services from the impact of funding reductions. This capital investment may take a variety of forms with investment in commercial property being something which the Council actively considers as part of this Strategy.

If the Council were to acquire property assets directly the following priorities are key.

**Security** – Assets will be considered only where there are existing strong tenants with a minimum of 10 years of lease remaining.

**Return**- Rental income should be maximised whilst at the same time management costs should be as low as possible.

**Local impact** – Where possible investing in Stroud and Gloucestershire to boost the local economy and provide regeneration opportunities.

The Council is aware and accepts that investments of this type are likely to be of higher risk than traditional investments and so must be subject to an enhanced level of scrutiny. The decision making body for such investments will be Strategy and Resources Committee which will receive recommendations presented jointly by the Head of Property Services and the S151 Officer.

Such recommendations will include

- Analysis of costs/revenue streams
- Details of lease arrangements
- Independent valuation and market advice
- All necessary legal due diligence
- The impact on revenue budgets
- Risk analysis including sensitivity analysis

If the authority begins to invest in commercial schemes additional revenue resources will be required to provide capacity to operate a portfolio. These costs will be funded by the income generated by the commercial investments.

The Council currently has no capital investments purely for income generating purposes.

The only element of the current General Fund MTFP dependant on lettings income is the business units at Littlecombe. The income targets from these units make up less than 0.5% of the Council's revenue budgets and therefore the risk can be considered to be minimal at this stage.

## **10. Asset Management**

Asset Management is the process by which the authority consider whether its assets are appropriate to deliver the high quality services demanded by residents. This process may identify a number of different outcomes for assets including;

- Change in use to meet the demands of a service
- Investment is required to improve the condition of an asset
- A new asset is required to better meet the Council priorities
- The need to dispose of the asset to realise its value in monetary terms

The Council will use active asset management to consider both its current asset base and its future asset base. The capital programme will be used to bridge the gap to ensure that the authority has sufficient assets in the long term.

The current capital programme does not include any allowance for backlog maintenance. This should be considered in future revisions to the capital programme as part of the asset management process.

The Council has an existing Corporate Asset Management Strategy and the principles contained within that document are those which are to be used in the asset management process.

### **11. Capital Disposals**

The asset management process may determine that the value of an asset is best realised through disposal. Sale of assets should be through an open market process to determine the best value.

Cash received from a sale of a property is a capital receipt. The use of these funds is restricted to purchasing new assets or repayment of existing debt. Decisions as to the use of Capital Receipts are to be made by Council after receiving advice from Strategy and Resources Committee and the Section 151 Officer. The Council will not make decisions about the ring-fencing of capital receipts before amounts are known and the use of such receipts has been considered in the light of the Council's overall financial position.

The existing General Fund capital programme is not dependant on a planned programme of capital receipts.

The HRA capital programme includes assumptions on levels of right to buy receipts as well as other capital receipts.

### **12. Multi-Year Capital Projects**

Capital projects deliver assets which will provide services and/or income to the Council for a number of years. As a result of the significance and complexity of a number of these projects they may take a number of years to plan and deliver.

When setting the Capital Programme Council will approve the schemes to be included, the budget for their delivery and the timescale in which they are to be achieved. Unless schemes have clearly defined development and delivery phases with separate objectives, budgets and timescales Council should be asked to approve a budget to cover the whole of

the project being delivered. Approval of the entire budget at the point of inception gives certainty for the project and assists officers in ensuring delivery.

The budget for approval will include an expected cash flow projection showing how much of the anticipated project budget will be incurred in each year of the Capital Programme. Any variations in timing of cash flows between years will be reported as part of the budget monitoring process. This should be regarded as part of the normal development of a capital project.

The Section 151 Officer will use delegated powers to re-profile capital expenditure between years after consideration of the Council's overall financial position.

Changes in the profile of a capital project which require additional money added to the overall budget will be reported to members.

### **13. Use of capitalisation flexibilities.**

Regulations around the flexible use of capital receipts allow the authority to use new capital receipts to fund the revenue costs of Council re-structuring which will generate savings in future years. This is subject to the Council approval of a policy on the flexible use of capital receipts. The Council currently has sufficient revenue reserves to meet the costs of its Workforce Plan and therefore there is no proposal to make use of these flexibilities.

## Section 2 – Selecting, Approving and Monitoring Capital Schemes

### 14. The Importance of Capital Business Cases

The processes described in the following section are to be regarded as the authority's formal procedures for setting and monitoring capital projects. This process has been developed to ensure that the Council's capital programme contains schemes which are in line with objectives, meet its asset management requirements and are both affordable and deliverable. This process will give elected members confidence that decisions they are being asked to make regarding the capital programme have been based on a sound system of decision making.

All capital schemes to be considered in the capital programme must have been the subject of an evaluation process including a business case to ensure the Council can target its capital resources effectively.

### 15. Information to be considered in Capital Decision Making

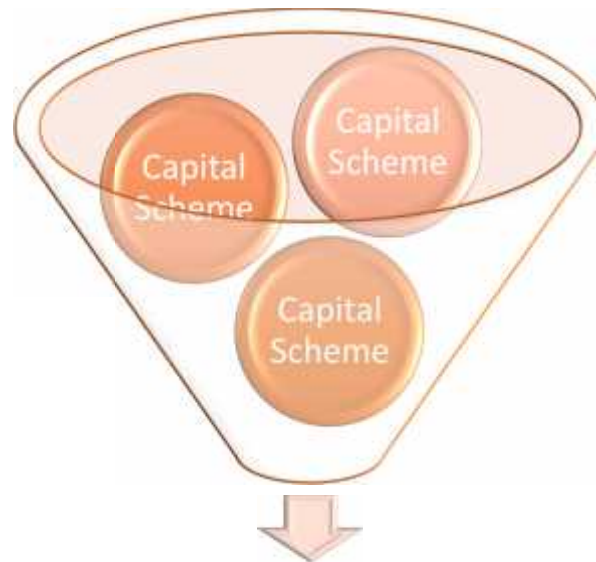
When making decisions as to which schemes are included on the capital programme the presented business case must include information on these main factors.

- Financials – All anticipated costs and potential revenue streams must be set out. This should include risk analysis to show factors which may impact upon those numbers and where appropriate sensitivity analysis to show potential future scenarios.
- Strategic Objectives – As discussed capital schemes must meet Council priorities and the ability of a scheme to impact upon objectives must be clearly demonstrated. This should include the wider social and environmental impact of the capital project. This must be accompanied by evidence supporting the conclusions made.
- Capacity - All capital schemes, even those funded by external sources, require officers within the Council to implement them and this must be considered as part of the appraisal process. Where a project requires the procuring of additional resource to deliver the scheme this detail must be included in the financial analysis.
- Deliverability - The success of capital projects depends not just on the financial and non-financial resources of the District Council. External factors which impact on the deliverability of the project should also be considered as part of the planning process.



The purpose of this evaluation process is effectively to act like the image below.

Ideas for a range of capital schemes should be considered and it is those which best fit the strategic vision of the Council within the financial parameters available which make it onto the Capital Programme.



SDC Capital Programme

## 16. Governance of the Capital Programme

This strategy sets out the governance relationship relating to the capital programme and the respective role of Members and Officers in relation to the decision making process. The roles of the various groups is as follows.

Decision making on the capital programme is likely to be an iterative and often circular process with information flowing both ways between these respective groups.

As an example the following timescale may be followed for producing the capital programme during the main budget setting process.

Apr – Jun – Officers produce list of new capital project ideas

July – Corporate team assess those to require business cases

September – November – Investment and Development Panel work with Officers to select schemes and produce a capital programme.

December – Capital Programme incorporated within overall Council budget

January – Budget approved by Strategy and Resources Committee and Council.

#### Strategy and Resources Committee

- Formally agrees the capital programme
- Receives budget monitoring reports covering financial and non-financial elements of capital schemes
- Approves commercial capital investments

#### Investment and Development Panel

- Informally reviews business cases
- Allows panel a chance to comment on capital schemes before formal approval process

#### Corporate Team

- Reviews Business Cases submitted
- Performs initial sift of viable schemes
- Approves proposed list of capital schemes
- Discussions will include Chief Exec, Directors, S151 Officer and Head of Property Services

#### Service Managers / Heads of Service

- Identify priorities and opportunities for capital investment
- Act as, or appoint, project managers to lead on schemes and complete outline business cases

### 17. In-Year Capital Decisions

Selecting projects to go onto the Capital Programme must remain possible outside of the usual capital budget setting process. The authority needs the flexibility to take advantage of schemes which present themselves at any stage during the year.

Capital schemes presented in year should go through the same appraisal process as schemes considered at budget setting time. The business case must indicate whether they are self-financing (through an external grant or savings/income which meet borrowing costs) or require the commitment of Council resources.

In rare cases there may be insufficient time for a capital purchase to go through the full Committee cycle, such as in the case of an opportunity land purchase. In these instances where it is above delegated powers of officers the decision will be made by the Section 151 Officer and Head of Paid Service, in consultation with the Chair of Strategy and Resources Committee. This only applies where there is an existing budget approved by full Council which may be used.

Capital schemes fully funded by external grants should not automatically be included on the capital programme without a process of due consideration as even fully funded schemes have a cost in relation to officer time.

### **18. Monitoring Capital Projects**

Effective monitoring of projects is a vital element of good capital governance.

Capital projects are often significant not only in terms of financial resources required but in terms of organisational capacity, impact upon Service delivery and reputational risk. It is therefore vital that there is sufficient monitoring carried out upon schemes to allow stakeholders to be informed of progress and for members and officers to make decisions as required.

In order to meet these requirements the Corporate Team will receive a monitoring report showing the current spend against capital projects at the end of each financial quarter, with an outturn report at year-end. Corporate Team may then invite project managers for schemes with variances deemed to be significant, either financially or in terms of project progress, to attend the meeting to present a progress report.

Service Committees will receive information on the progress of capital projects as part of the finance budget monitoring reports already received. Committees may also add specific projects to their work plan should they wish to scrutinise projects in depth.

Schemes requiring additional funding to be committed by the District Council as a result of either changes in cost estimate or extensions of scope will be the subject of a report to, and decision by, both Strategy and Resources Committee and Council. It should be regarded as a key element of a well-managed capital programme

### **19. Post Project Evaluation**

All Capital Projects must be the subject of a post project evaluation. This must be completed by the Project Manager. This should not be regarded as an onerous process but simply the final stage of good project management. Key findings will be reported to the relevant service Committee. A Corporate Register of completed projects and listed key lessons is to be maintained and managers planning new projects must have due regard for any lessons previously learnt. As part of the year-end closedown process the finance team will request a copy of the completed post project evaluation for all projects which have completed in year.

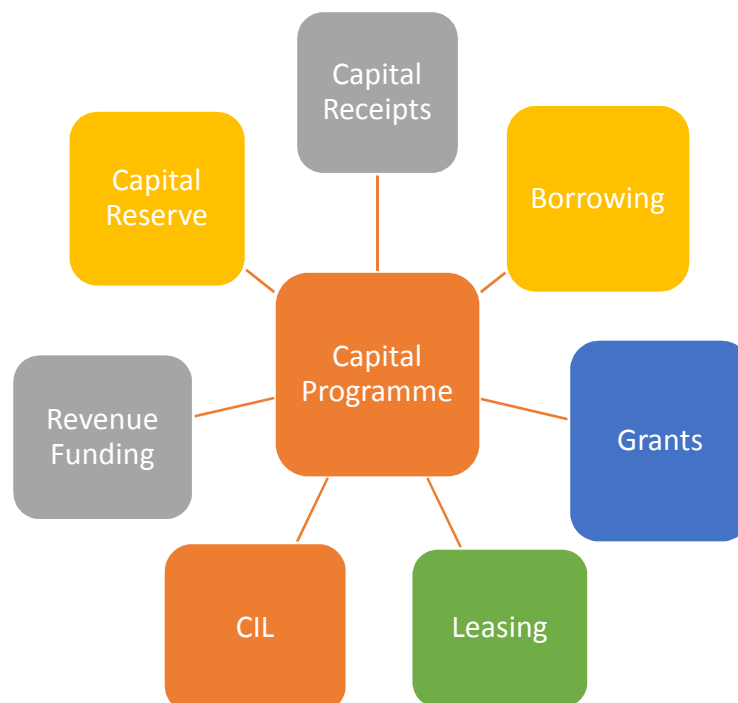
## Section 3- Financing the Capital Programme

### 20. Capital Funding

There are a number of distinct sources of funding which can be utilised to finance capital expenditure. Some funding sources are ring fenced and can only be used for Housing Revenue Account capital expenditure, or a particular capital project. Consideration of funding must be made when projects are at the planning stage. No capital project will be put forward without funding having been identified to complete the project. Where capital schemes are in multiple phases, perhaps requiring an initial development phase to ensure funding for the final phases, this will be considered as part of the planning stage and clearly reported.

Capital funding cannot be used to fund revenue costs which may arise from a capital scheme such as consultant's costs on feasibility before a project is identified.

The possible options for Capital Financing are shown in the table diagram below followed by a clarification of the characteristic and potential usage of each one.



## **21. SDC Resources**

### **Capital Receipts**

The sale of assets with a value of more than £20,000 generates income known as capital receipts. Legislation requires these to be spent on either new capital investment or the repayment of existing debt. The government is allowing some flexibility in the use of capital receipts up until 31 March 2022 to fund revenue costs of transformation projects where these are expected to generate revenue savings in future years (See Section 13).

HRA Right to Buy compulsory sale of council houses generate receipts that may be retained to cover the cost of transacting the sales and to cover outstanding debt on the property sold, but a proportion of the remainder must be surrendered to Central Government.

All other HRA capital receipts may be retained provided they are spent on affordable housing, regeneration or paying off housing debt.

General Fund capital receipts can be retained in full. These can arise from the sale of land and buildings, vehicles, plant and equipment, and also through the repayment of loans or grants.

An active asset management planning process is needed to review the asset requirements of the Council and therefore to identify surplus assets which may be sold to generate capital receipts.

### **Capital Reserve**

Reserves are set aside from revenue resources and earmarked for particular purposes. The capital reserve is earmarked to be used to finance properly authorised capital schemes. At any one time, some or all of the capital reserve will be earmarked to finance part of the current year and future years' capital programme.

### **Leasing**

One way of acquiring new assets is to lease. This is commonly used to procure lower value assets that may be below the £20,000 de minimus level for treating as capital expenditure, for example small vehicles or photocopiers. The cost of leasing should always be compared with other means of financing, in recent years it has not been the most cost effective source of capital funding.

### **Prudential Borrowing**

The Council is able to borrow money on the money market or from the Public Works Loans Board (PWLB) to fund capital schemes. A preferential certainty rate of interest is allocated

to Councils who apply for it, and it is the policy of this Council to take advantage of the certainty rate each year.

For all schemes initially funded from borrowing, the Council will have to fund the repayment and interest costs as there is no longer any central government “supported borrowing” allocations and related revenue support.

The Council is only able to borrow for “unsupported borrowing” (also known as Prudential Borrowing) under the guidance contained in the CIPFA Prudential Code whereby, in summary, the Council is required to ensure that all borrowing is both prudent and affordable. All schemes funded from prudential borrowing are approved by full Council. As part of the Treasury Management Strategy each year full Council approves a limit for affordable borrowing and capital schemes will be considered in the light of that limit.

## **22. External Funding**

### **Capital Grant from Government or Government Agency**

Central government and government agencies provide capital grant funding that can be either ring fenced or non-ring fenced. Examples of ring fenced grants that the Council has received are disabled facilities grants (DFG’s) and Heritage Lottery Fund (HLF) canal project funding.

### **Community Infrastructure Levy (CIL)**

Any monies received from developers for infrastructure from the Community Infrastructure Levy will not be allocated to a specific service but will be allocated under the CIL arrangements (“the Regulation 123 List”) in line with Council’s capital scheme priorities.

The process for allocating CIL funds will be in accordance with the process agreed by Strategy and Resources Committee.

### **Section 106 Agreements**

Developer consents may attract Section 106 funding to spend on a particular asset or site as an alternative to CIL.

### **Capital contributions from partner organisation**

When capital projects are devised it is open for project managers to invite funding from a range of partner organisations. Partner organisations in recent years have included Gloucestershire County Council, Stroud Town Council, Cotswold Canals Trust and Friends of the Cowle Museum.

**Revenue contributions** Services who are leading a capital project may make savings within their revenue budgets during a particular year and in some circumstances use that saving to part-fund a capital project.

### **23. Policy on use of Capital Funding**

The Council will look to use external funding sources where possible to meet the funding requirements of its capital programme.

Where the use of SDC resources are required the authority will look to utilise reserves, revenue funding or capital receipts as these create no long term revenue cost implications on the Council.

Borrowing will be used as the last possible source of funding and should be restricted only to those schemes which generate sufficient savings or income to meet the costs of interest and the Minimum Revenue Provision.

Any borrowing incurred to support the provision of new build housing within the Housing Revenue Account must be demonstrated to be affordable over a period of 30 years.

**Major Sources of Funding for the Capital Programme – Risks and Restrictions**

General fund Receipts	HRA Receipts	Capital Reserve	Revenue Funding	Borrowing	Grant funding / S106
<ul style="list-style-type: none"> <li>• Restrictions - Used for capital expenditure or debt repayment only</li> <li>• Risks - Can only be used once</li> </ul>	<ul style="list-style-type: none"> <li>• May only be used on the HRA</li> </ul>	<ul style="list-style-type: none"> <li>• Restrictions - None. Also usable on revenue expenditure</li> <li>• Risks - Can only be used once. Decision required as to best use</li> </ul>	<ul style="list-style-type: none"> <li>• Restrictions - None</li> <li>• Risks - Decision required as to best use</li> </ul>	<ul style="list-style-type: none"> <li>• Restrictions - For capital expenditure only. Must be within affordable limit set by Council</li> <li>• Risks - Creates an ongoing MRP and interest liability over the life of the asset</li> </ul>	<ul style="list-style-type: none"> <li>• Restriction - Dependant on grant conditions</li> <li>• Risks - Objectives set out by third party. Not in line with SDC priorities.</li> </ul>



## 24. Relationship between Capital Strategy and Treasury Management

Treasury management refers to the processes of managing and reporting on the Council's performance in matters of investment and borrowing.

The Council's policy on Treasury Management has numerous links to the Capital Strategy. It is not intended that this Strategy replace the reporting requirements of the Treasury Management Strategy and includes a summary of the major points of that strategy and associated governance processes.

Key Treasury decisions are the responsibility of full Council and are contained within the Treasury Management Strategy.

These include

- Approved limits on borrowing
- Limits for investment types and counterparty limits
- Planned capital expenditure
- Estimates for the future Capital Financing Requirement
- Policy on the Minimum Revenue Provision

Detailed discussion on these matters is delegated to the Audit and Standards Committee who then make recommendations on to full Council.

The key impact of a capital programme using borrowing is the creation of a "Capital Financing Requirement" (CFR). The CFR represents the need to borrow external funds as a result of expenditure funded through borrowing. Having a CFR creates the need for a Minimum Revenue Provision (MRP), a sum to be put to one side each year from the General Fund for repayment of debt.

The Council's MRP policy is to make provision for the repayment of debt equally over the life of the asset that the borrowing relates to.

The correct projections of General Fund MRP are shown in the table below.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Opening CFR	16,622	15,967	15,890	17,912	18,243
Borrowing	636	904	3,063	1,472	2,217
Budgeted MRP	(1,291)	(981)	(1,041)	(1,141)	(1,141)
Closing CFR	<b>15,967</b>	<b>15,890</b>	<b>17,912</b>	<b>18,243</b>	<b>19,319</b>

The Capital Budget approved in February 2018 sets out the following limits for borrowing. These will be revised by as part of the Treasury Management Strategy to be considered by Council in February 2019, in light of the HRA new build programme.

	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)
Authorised Debt Limit	130	130	130

The Audit and Standards Committee receive at a minimum a mid-year monitoring report for Treasury management and an end of year outturn report. Where circumstances require, such as a material fall in the value of investments, a report would be prepared and presented to the next meeting of the Committee by the S151 Officer.

## Section 4- Risk Management

### 25. Embedding Risk Management in the Capital Programme

The Capital Strategy must be considered alongside the principles of risk management. Risks are inevitable within a capital programme, as with all aspects of Council operations, and effective management of risk is a vital part of the capital strategy.

The Council has a pre-existing “Risk Management Policy Statement & Strategy” which sets out the authority’s approach to risk and risk management. All principles included within that document should be considered as embedded within the Capital Strategy.

For the purposes of clarity the Risk Management Policy Statement is repeated here

The Council is committed to securing **effective risk management** as part of its responsibility to deliver effective public services within its district.

It acknowledges that effective risk management **helps strengthen its capacity and ability to efficiently meet its corporate priorities and core business.**

In managing its risks, SDC commits to:

(a) Operate in a **culture of creativity and innovation, rather than risk avoidance;**  
and

(b) Act consistently within recognised best practice to **identify, evaluate and secure the proportionate control of its risks.**

The types of risk the authority is exposed to in the Capital Programme are summarised below;

- Financial Risk – The risk of significant cost overruns or commercial investments not performing as expected. The authority has a low appetite for this risk as it would impact upon available resources. Mitigation will be in the form of close scrutiny of capital spending through the budget monitoring process.

- Strategic Risk – The risk of not delivering key Council priorities or projects. Mitigation will be in the form of careful selection and planning of capital projects before commencement and project managers reviewing project progress and taking corrective action where necessary. Major changes in the outcomes of schemes will be reported to the appropriate Committee.
- Governance risk – The risk of capital spending decisions not being appropriately considered and decisions not being made at the correct level. Mitigation is the governance principles contained within the capital strategy.
- Resourcing risk – The risk that insufficient funds are available to fund the capital programme or that the incorrect type of funds is applied to capital projects. This is mitigated by the financing of capital projects being reviewed by the S151 Officer as part of the budget setting and the outturn.

## **26. Knowledge and Skills within the organisation**

The Capital Programme is developed and monitored within the finance team by professionally qualified accountants who are required to undertake Continuing Professional Development to ensure their knowledge remains relevant. They have many years of experience in managing local authority capital programmes, including commercial investments.

The Property Services team has officers of multiple disciplines who are experienced at leading capital projects, managing the Council's property portfolio and working within the local property market. They have experience of dealing with acquisitions, disposals, new commercial and residential development and redevelopment of brownfield sites. The team of Chartered Surveyors are required to undertake Continuing Professional Development to retain their membership of the RICS.

Legal Services will be provided by the Council's in-house legal team who will form a key part of the decision making around Capital projects. All solicitors are required to complete an annual Statement of Competence to the regulatory body to ensure any professional training needs are identified and addressed.

Where necessary external advice may be sought for all types of financial, property and legal advice. These costs, or at least appropriate estimates, will be included in the business cases of capital schemes.

Officers will work with members to ensure that training needs for elected members are appropriately identified. As a minimum annual training will be provided around the Treasury Management Strategy.