West Suffolk Council

Capital Strategy 2019-21

CONTENTS

INTRODUCTION & PURPOSE

This Capital Strategy has been developed in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017. This is a working document, which officers will keep under review, both as the government makes clear its intended outputs for such a strategy, and as good practice is worked through amongst local authorities during 2018/19.

This Capital Strategy is intended to give a high-level overview of how capital expenditure and financing plans are decided upon and how they contribute to the delivery of the Council's Strategic Framework, Medium Term Financial Strategy and overall service delivery.

With our West Suffolk Strategic Priorities, statutory and discretionary responsibilities and increasingly complex demands on the Council's services, investment activity covers many areas over and above the normal treasury management of our cash balances and borrowing.

These investments will have a broad range of objectives ranging from "behaving commercially" investments intended to deliver a financial return, to support service delivery, alongside investments in our communities and places that have a primary objective of social change.

West Suffolk has a number of agreed strategies, frameworks, policies and guidance to support its capital and investment decisions. This strategy seeks to reference these from a single document.

Adherence to the principles of this Capital Strategy should ensure that capital expenditure and investment decisions are taken in line with the West Suffolk Strategic Framework and Medium Term Financial Strategy and take account of stewardship, value for money, prudence, sustainability and affordability. This Capital Strategy has been written in conjunction with the Council's Treasury Management Policy Statement and Investment Strategy 2018/19.

MEDIUM TERM FINANCIAL STRATEGY - CAPITAL EXPENDITURE

The summary for capital expenditure on projects for West Suffolk Council is set out within the West Suffolk Medium Term Financial Strategy (Attachment D, Appendix 2).

Project Description	2019/20 Total Budget £	2020/21 Total Budget £	2021/22 Total Budget £	2022/23 Total Budget £	Budget (Over 4 Years) £
Mildenhall Hub	9,000,000	10,284,000	0	0	**19,284,000**
Brandon Leisure Centre & GP Surgery	800,000	0	0	0	**800,000**
Private Sector Disabled Facilities Grants	900,000	900,000	900,000	900,000	**3,600,000**
Private Sector Renewal Grants	250,000	250,000	250,000	250,000	**1,000,000**
Vehicle & Plant Purchases	938,000	2,246,000	363,000	1,257,126	**4,804,126**
West Suffolk Operational Hub	2,533,177	0	0	0	**2,533,177**
Leisure Asset Management Scheme	316,000	316,000	316,000	316,000	**1,264,000**
Barley Homes	2,486,000	2,200,000	0	0	**4,686,000**
Unallocated Capital Budget	3,000,000	0	0	0	**3,000,000**
CAPITAL TOTALS:	**20,223,177**	**16,196,000**	**1,829,000**	**2,723,126**	**40,971,303**

THE PRUDENTIAL CODE

This Capital Strategy draws together the framework for capital investment decisions. The strategy for funding this investment portfolio is underpinned by the Prudential Code for Local Authority Investment, which was introduced by the Local Government Act 2003.

The Prudential Code has the following key objectives:

- That capital investment plans are affordable, prudent and sustainable;
- That treasury management decisions are taken in accordance with good professional practice; and
- That local strategic planning, asset management and proper option appraisal are supported.

To demonstrate that these objectives have been fulfilled, the Prudential Code details the indicators that must be set and monitored. These are designed to support and record local decision-making, and not to be comparative performance indicators. The Prudential Indicators are approved annually as part of the budget setting process by Council (Attachment D, Appendix 4).

TREASURY MANAGEMENT

For the purposes of this document, "Treasury Management Activities" are defined as:-

> "The management of the Local Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of the optimum performance consistent with those risks."

The West Suffolk approved Annual Treasury Management and Investment Strategy links to the Capital Strategy and programme in determining the Council's approach to borrowing and investment, including borrowing to fund capital expenditure. The Treasury Management Strategy is closely related to the Prudential Code and Prudential Indicators discussed above.

The Council has an integrated Treasury Management Strategy, and has adopted the CIPFA Code of Practice for Treasury Management in Public Services. The Treasury Management Strategy deals with borrowing and investment arising as a consequence of all the financial transactions of the authority, not exclusively those arising from capital spending.

The Treasury Management Code of Practice lays out the Treasury Management Practices (TMPs) that have been adopted by the Council and the indicators that will be used to ensure that the correct approach is taken to:

- Risk management;
- Performance measurement;
- Decision making and analysis;
- Approved instruments, methods and techniques;
- Organisation, clarity and segregation of responsibilities and dealing arrangements;
- Reporting requirements and management information arrangements;
- Budgeting, accounting and audit arrangements;
- Cash and cash flow management;
- Money laundering;
- Training and qualifications;
- Use of external service providers; and
- Corporate governance.

The detail behind each of these can be found within the Council’s approved Treasury Management Code of Practice.

ASSET MANAGEMENT

The Capital Strategy is supported by the Council's Corporate Asset Management Strategy and Plan ***(West Suffolk Strategy under development – due in summer 2019)*** which includes an objective to optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

GROWTH INVESTMENT STRATEGY

This strategy covers investments in projects that support our Strategic Framework priorities and objectives, particularly around our growth priority and fall outside of standard treasury management activities.

This strategy has been devised in order to meet the following aims:

- Ambitious vision for the towns and rural communities of West Suffolk, set out in the Strategic Framework 2018-2020;
- Delivery on capital and revenue investment to deliver our Growth Agenda;
- All our activities and duties are investments in our communities and our places, seeking to create positive returns from all we do;
- Behaving more commercially – seeking financial returns to invest in our communities; and
- Seeking blended returns across social, economic and financial investments.

This is laid out in more detail in the West Suffolk Growth Investment Strategy***.*** As part of our approach, members agreed to prepare investment plans for our places, which will be approved by Cabinet and will enable the consideration of investment opportunities in relation to the different characteristics of our market towns and rural areas.

CAPITAL EXPENDITURE GOVERNANCE FOR PROJECTS

Projects that are identified, that will support our Strategic Priorities and Medium Term Financial Strategy, are assessed against our approved Investment Framework and are required to go through an approval process prior to accessing any capital funding. This approval is subject to the Council's democratic decision making process. However, each proposal is required to go through a rigorous process of evaluation and scrutiny prior to reaching a formal council report.

The project evaluation, assessment framework and business case development stages will focus on the following areas for each proposal:

- strategic fit;
- deliverability within existing resource commitments;
- risk profile;
- added value; and
- financial return.

An opportunity will be rejected at any stage if it is not appraised by members as an appropriate investment decision. For example, it doesn't have a sufficient strategic fit or bears an imbalance between investment, risk and returns.

As projects are developed, they require production of:

- Project Initiation Document;
- Stakeholder engagement analysis;
- Risk log;
- Issues log;
- Lessons learned log; and
- Detailed project plan including delivery and decision timetable and resource requirements.

During implementation, project plans, risk registers and financial schedules are reviewed monthly, and a Project Status Report (PSR) is submitted to the Programme Office Support Team each month. Any significant variance from any component of the plan is elevated for Leadership Team review.

The overall capital programme is monitored monthly by the Leadership Team and reported to the Performance and Audit Scrutiny Committee on a quarterly basis, highlighting forecast variances to plan in terms of investment.

AFFORDABILITY

Affordability is critical in applying the Capital Strategy and assisting the decision making process when considering projects for inclusion into the Capital Programme.

All projects need to have a clear funding source with commitment for the entirety of the projects. Funding can come from:

- Capital receipts;
- Borrowing;
- Revenue Reserves;
- External Grants; or
- S106 funding.

Where external borrowing is to be used, the affordability is of greater importance as the interest costs and capital repayment of that borrowing need to be considered and included in the evaluation.

The current and projected debt and affordability position of West Suffolk Council is shown below.

	Actual 31/03/19	Budget 31/03/20	Budget 31/03/21	Budget 31/03/22
External Borrowing (Cumulative)	£4.0m	£18.5m + £34.4m Carry Forward from 2018/19	£61.8m	£83.6m
Annual Interest payable	£0.2m	£0.7m	£1.7m	£2.3m
Annual repayment cost (MRP)	£0.5m	£1.0m	£1.8m	£2.5m
Annual Interest payable as % of net revenue budget	0.3%	1.4%	3.3%	4.3%
Annual repayment cost as % of net revenue budget	0.8%	2.1%	3.5%	4.8%

The estimated borrowing related to capital spend to be carried forward from 2018/19 is included in the Budget column for 2019/20. This primarily relates to the Growth Fund investment.

The Interest Payable figures are based on the assumption that this combined borrowing will be in place by Q4 2019/20.

PROPORTIONALITY

The concept of proportionality, alongside that of affordability, is a key consideration when considering funding projects through borrowing.

The costs and risks associated with that borrowing should be looked at as part of the whole financial position of the council. Awareness of the scale and relationship with the asset base and revenue delivery is essential to informed decision making.

This relationship and trend between borrowing, asset base and yield from the investments that the council has made are laid out in the tables below. These are split by asset type.

2018/19	Borrowing £m	Borrowing as % of Long Term Assets	Annual Income £m	Income as % of Net Revenue
Industrial Units	£0.0	0%	£2.6	4.7%
Retail Units	£0.0	0%	£1.3	2.3%
Land	£0.0	0%	£1.0	1.7%
Solar Farm	£0.0	0%	£1.4	2.4%
Growth Fund	£0.0	0%	£0.2	0.3%
Other	£4.0	2%	£0.5	0.9%
TOTAL	£4.0	2%	£7.0	12.3%

2021/22	Borrowing £m	Borrowing as % of Long Term Assets	Annual Income £m	Income as % of Net Revenue
Industrial Units	£0.0	0%	£2.6	5.1%
Retail Units	£0.0	0%	£1.3	2.6%
Land	£0.0	0%	£1.0	1.9%
Solar Farm	£7.4	2.3%	£1.6	3.3%
Growth Fund	£34.5	10.8%	£2.7	5.2%
West Suffolk Operational Hub	£11.5	3.6%	£0.1	0.2%
Mildenhall Hub	£13.6	4.2%	£0.1	0.2%
Other	£14.0	4.4%	£0.9	1.7%
TOTAL	£83.6	26.1%	£10.3	20.2%

These tables show the increase in borrowing required over the life of the MTFS to fund the capital projects currently in plan. It also shows that this borrowing is still <30% of our asset base and that it will supply 20% of our ongoing annual revenue.

This position will be monitored on a regular basis and referred to when any new projects that require borrowing are proposed. This will provide key insight on the proportionality and affordability of each new project within the context of the whole portfolio and financial position of the council.

RISK MANAGEMENT

Our approach to risk, as set out in our approved risk management framework, is based on context, proportionality, judgement and evidence-based decision making that considers each capital investment project on a case by case basis and is documented at all stages, following the core principles below:

- a positive approach;
- contextual decision making;
- informed risk-taking;
- proportionality;
- decision risk vs delivery risk;
- documented decision; and
- continuous improvement.

STATEMENT OF ACCOUNTS

The capital expenditure carried out in the year is reflected in the Balance Sheet of the Statement of Accounts ensuring stewardship of assets is demonstrated.

The accurate monitoring and recording of capital expenditure ensures that this document is free from material error. The Statement of Accounts is externally audited at the end of each financial year to certify that it presents a true and fair view of the financial position of the Council.

PROCUREMENT STRATEGY

The manner in which capital monies are spent is determined by the Procurement Strategy which, along with the Contract Procedure Rules and Financial Regulations, set the framework for the supply of goods and services to the Council, and how these goods and services should best be obtained to secure value for money.