



# **Capital Strategy 2022 to 2023**



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## **INTRODUCTION AND PURPOSE**

West Suffolk Council's main vision is to be ambitious in supporting and investing in our West Suffolk communities, business and the environment, to encourage and manage growth in prosperity and quality of life for all.

Our energies and resources will therefore be continued to be focused on the following strategic priorities:

- Growth in West Suffolk's economy for the benefit of all out residents and UK plc
- Resilient families and communities that are healthy and active
- Increased and improved provision of appropriate housing in West Suffolk in both our towns and rural areas

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.

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 2022 to 2023.

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. An update of the CIPFA Prudential Code was released in December 2021, and this will be worked through with any changes required to the Capital Strategy to be added in during the course of the 2022 to 2023.

# Capital Expenditure

## Capital Programme

As part of the annual budget setting process, the Council sets its capital programme for the next ten years. This process is done in conjunction with service areas and takes into account both service plans and the overall council strategic plan.

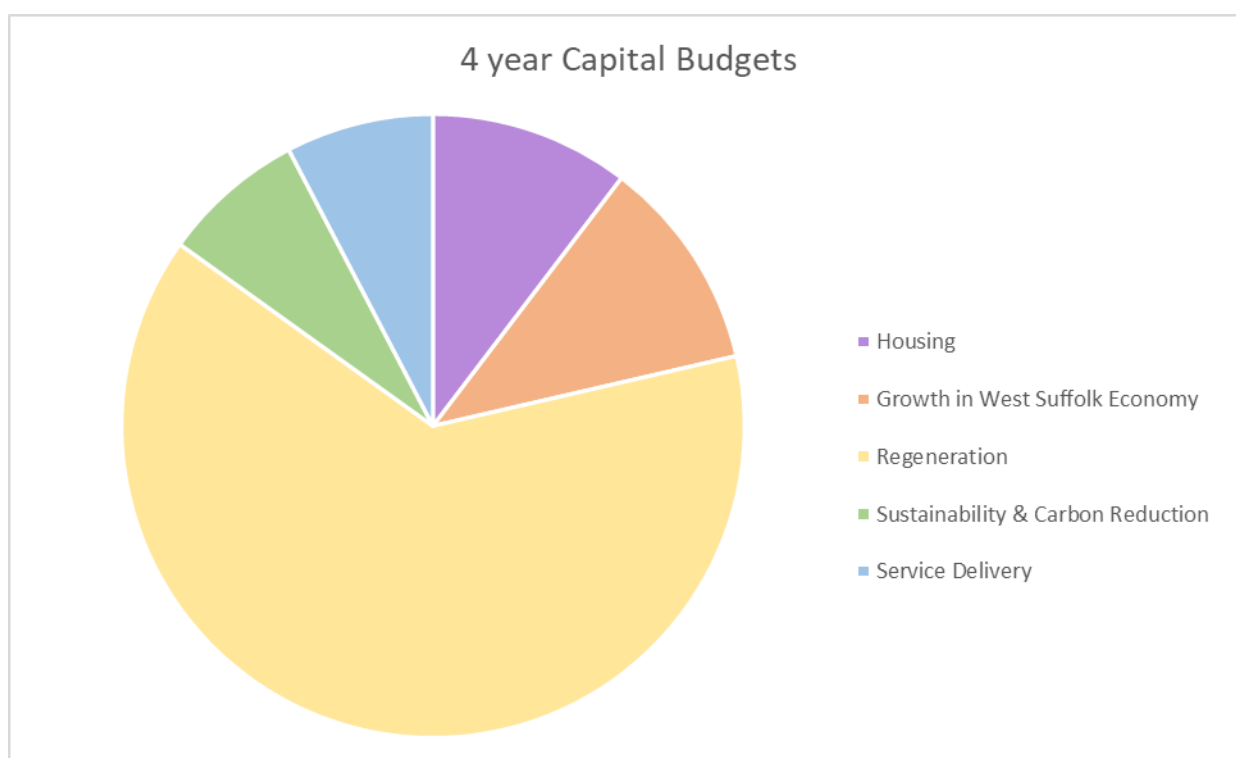
The detail of planned capital expenditure for West Suffolk Council over the next ten years is set out within the West Suffolk Medium Term Financial Strategy (Attachment D, Appendix 2). The below table gives details of planned capital expenditure over the next four years.

	2022 to 2023	2023 to 2024	2024 to 2025	2025 to 2026	Total Budget (Over 4 Years)
Project Description	Total Budget	Total Budget	Total Budget	Total Budget	
<b>Resources &amp; Property</b>					
Western Way Development - Report no: COU/WS/21/007	4,000,000	35,500,000	38,800,000	11,375,000	89,675,000
This is the last modelling sum for a phase 1 scheme (£91.275m - £1.6m of this is in 2021 to 2022) reported to Council in June 2021. However, staying within the agreed overall cap of £139.9m, the actual capital sum may vary depending on the scale of the final scheme and the outturn of market testing because the final approval of the business case by Council required a break-even position in the revenue model over the whole life of the scheme.					
<b>Asset Management Plan - Property</b>					
Property Asset Management Plan	1,543,000	1,118,500	1,612,000	1,000,000	5,273,500
Net Zero Plan - Asset Management Investment	340,000	1,000,000	1,000,000	500,000	2,840,000
<b>Planning &amp; Regulatory</b>					
Private Sector Disabled Facilities Grants	1,947,044	900,000	900,000	900,000	4,647,044
Net Zero Plan / Community Energy Solar Investment	1,750,000	1,750,000	1,750,000	1,250,000	6,500,000
<b>Operations</b>					
Car Parking Improvements	960,000	50,000	50,000		1,060,000
Vehicle & Plant Purchases	1,388,000	882,000	535,000	370,000	3,175,000
Net Zero Plan - Electric Vehicle Fleet Investment	325,000	325,000	510,000		1,160,000
<b>Asset Management Plan - Leisure</b>					
Leisure Asset Management Scheme	402,811	320,000	300,000	300,000	1,322,811
<b>Growth</b>					
Barley Homes Investment Facility - Report no: CAB/WS/20/079	9,980,500				9,980,500
High Street Haverhill Improvements (under review for allocation to initiatives)	693,000				693,000
Investing in our Growth Agenda (Available for projects under the Investing in our Growth Agenda Strategy), Originally a total fund of £40 million - funding has subsequently been allocated to projects such as Barley Homes	4,319,027				4,319,027
Haverhill Research Park - Loan Facility Balance - Report no: CAB/JT/19/007	586,818				586,818
Renovation of 17/18 Cornhill, Bury St Edmunds - Report no: CAB/SE/18/027	1,335,758				1,335,758
Incubation Units, Suffolk Business Park - Report no: CAB/WS/21/052	8,650,000				8,650,000
<b>CAPITAL TOTALS:</b>	<b>38,220,958</b>	<b>41,845,500</b>	<b>45,457,000</b>	<b>15,695,000</b>	<b>141,218,458</b>

The budget presented for approval for the years 2022 to 2023 to 2025 to 2026 totals £141 million. This also sets out the annual corporate investment being sponsored by each directorate within West Suffolk. This shows where organisational leadership and accountability for delivering our capital investment portfolio are located across the Council.

The rolling nature of our capital programme allows the Council the opportunity to consider new and additional investment into new projects which deliver it's organisational and political objectives.

The chart below details the areas of capital budget over the next four years. Regeneration is the largest area due to the inclusion of the Western Way Development. Details of the main capital expenditure items are below.



**Western Way Development**

The Western Way Development (WWD) is part of a network of existing or planned community hub projects across the whole West Suffolk area being delivered by partners in the public, charity and community sectors. As well as delivering new employment space, it aims to integrate council and government services, the NHS, leisure facilities, an advice centre, third sector organisations and both community and education services on a single site to create better outcomes and save money. The project also offers a significant opportunity to deliver the Council's decarbonisation objectives.

**17/18 Cornhill**

The redevelopment of 17/18 Cornhill in Bury St Edmunds is improving one of the main thoroughfares in the town centre whilst also providing new retail opportunities and residential units.

## Barley Homes

Barley Homes Ltd is the Council's wholly owned Housing Company, which aims to develop housing for sale in the West Suffolk area. As a principle, it is expected that the sites Barley Homes develop should seek to be compliant with the Council's planning policies in ensuring affordable housing is delivered and commitments to the wider public sector (such as education contributions) are met.

## Incubation Units, Suffolk Business Park

The development of 40,000 sq ft of start-up / incubation space for companies mainly in the advanced manufacturing and engineering (AME) sector and its supply chain. This will deliver on the Council's original vision for the employment allocation at Suffolk Business Park.

## Financing of Capital Expenditure

The total value of the capital programme over the next four years is approximately £141.22 million. The table below details how this expenditure will be funded, through a combination of grants and contributions, earmarked revenue reserves, useable capital receipts and external borrowing.

	2022 to 2023 millions	2023 to 2024 millions	2024 to 2025 millions	2025 to 2026 millions	Total millions
<b>Gross capital expenditure</b>	<b>£38.22</b>	<b>£41.85</b>	<b>£45.46</b>	<b>£15.69</b>	<b>£141.22</b>
<b>Funded by:</b>					
Grants and contributions	£2.64	£0.90	£0.90	£0.90	£5.34
Earmarked revenue reserves	£4.42	£2.70	£2.50	£1.67	£11.28
Capital receipts reserve	£4.77	£0.00	£0.00	£0.00	£4.77
Borrowing	£26.39	£38.25	£42.06	£13.12	£119.83
<b>Total</b>	<b>£38.22</b>	<b>£41.85</b>	<b>£45.46</b>	<b>£15.69</b>	<b>£141.22</b>

Subject to the year-end outturn position, any carry forwards from the 2021 to 2022 budget will be added to the 2022 to 2023 capital programme budget at the year end.

## Capital Receipts

Part of the funding arrangements for the capital programme is the use of useable capital receipts. Capital receipts can only be replenished through the disposal of surplus assets and repayment of capital loans. The table below is a summary estimate of the likely level of capital receipts over the next four years.

	<b>2022 to 2023 millions</b>	<b>2023 to 2024 millions</b>	<b>2024 to 2025 millions</b>	<b>2025 to 2026 millions</b>
Council share of right to buy receipts	£0.25	£0.25	£0.25	£1.25
Barley Home loan repayments to be made available through agreed loan facility	£2.50	£0.00	£0.00	£0.00
Sale of flats from 17 to 18 Cornhill redevelopment	£3.98	£0.00	£0.00	£0.00
Other asset disposals	£1.93	£0.88	£0.05	£0.05
<b>Total</b>	<b>£8.66</b>	<b>£1.13</b>	<b>£0.30</b>	<b>£0.30</b>

In the short to medium term, the council's useable capital receipts reserves move from £3.23 million to £4.37 million. Note that the Barley Homes repayments are likely to be reinvested in the delivery of further housing sites as subsequent business plans are agreed.

### **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).

### **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 affordability position of West Suffolk Council is shown below.

	<b>Forecast 31 March 2022 millions</b>	<b>Budget 31 March 2023 millions</b>	<b>Budget 31 March 2024 millions</b>	<b>Budget 31 March 2025 millions</b>
Annual Interest payable	£0.23	£1.53	£1.51	£1.49
Annual repayment cost (MRP)	£0.80	£0.74	£0.76	£0.78
Annual Interest payable as % of gross revenue income budget	0.61%	4.00%	4.61%	4.69%
Annual repayment cost as % of gross revenue income budget	2.11%	1.94%	2.32%	2.45%

### **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 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.

## **Debt, Borrowing and 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.

## **Commercial Activity**

The Council does not embark on capital projects / investments where the outcome is purely to generate a financial return. Project outcomes are always assessed with an eye to the social and economic outcomes, as well as the financial returns that could be generated.

This is even more in focus with the recent changes to the PWLB lending criteria, which will mean that access to the PWLB is restricted if authorities undertake debt for yield investments i.e. investments which are purely for financial returns.

The Council has developed strategies which detail how it will go about investing in both our communities (through the Investing in our Growth Agenda) and our own property estate (through the Asset Management Strategy and Plan). More information on these strategies is detailed below.

## **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 2020-2025;
- 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.

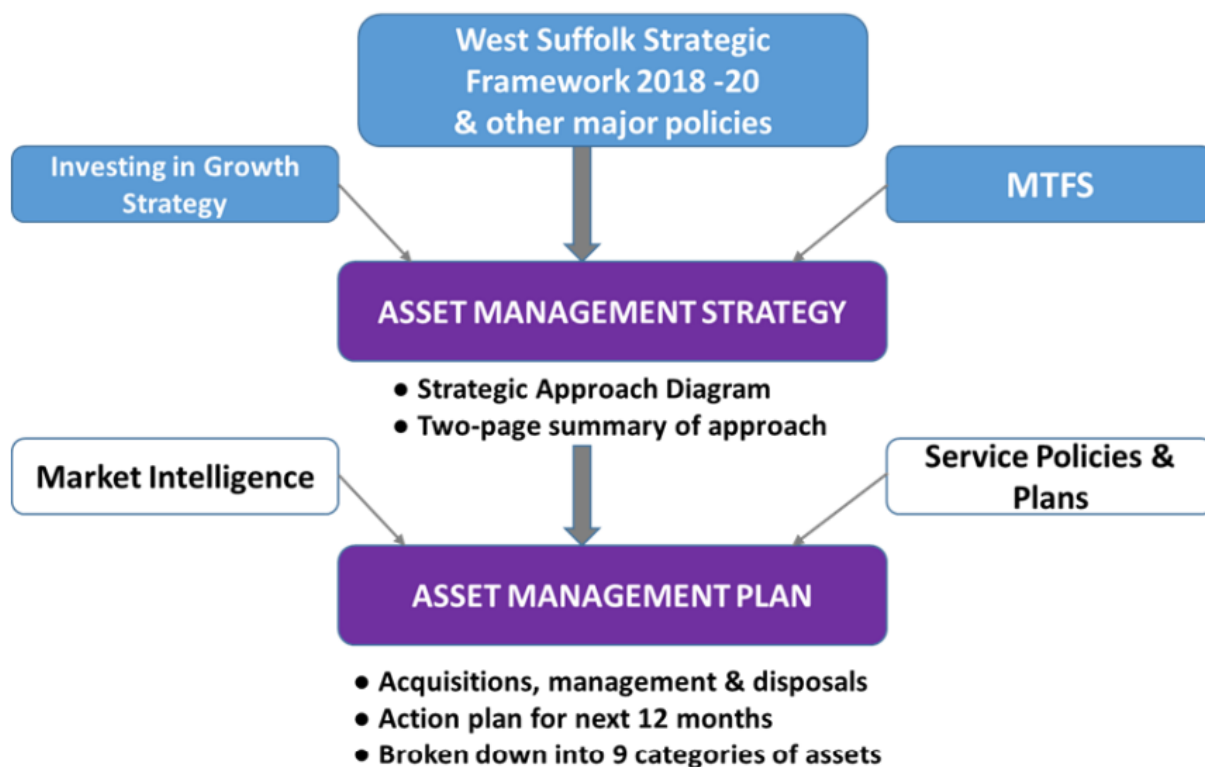


## Asset Management

The Capital Strategy is supported by the Council’s Corporate Asset Management Strategy and Plan (AMSaP) which was approved by Council in December 2019.

The West Suffolk Asset Management Strategy and Plan supports our behaving more commercially approach and provides the framework to both enable the Council to maximise the value of its existing assets. Plus through potential future acquisitions ensure we continue to achieve the management of an overall balanced (risk/return) asset portfolio whilst generating a blended return of economic development outcomes and additional revenue income streams to support the delivery of council services. The AMSaP therefore sets out a clear strategic and planned approach to how we acquire, manage, dispose, develop and maximise the potential of the Council’s portfolio of land and property assets and interests.

The AMSaP does not sit on its own, but with a clear strategic and contextual link with other policies and documents across the Council. The following diagram demonstrates how these link together:



## Knowledge and Skills

The Council's utilises a matrix approach to management of capital projects. We are able to utilise the skills and knowledge from across the organisation including our in house legal, estates and surveying teams. We are also able to source internal and external project management and quantity surveying where appropriate to the size and scale of the project.