APPENDIX 11

WARWICK DISTRICT COUNCIL

Capital Strategy 2019/20 to 2023/24

February 2019

Capital Strategy 2019/20 to 2023/24

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Capital Strategy 2019/20 to 2023/24

1 Introduction

1.1 A new Council was elected in May 2015 and agreed new strategies and priorities, which guides the use all resources, including capital, to secure the achievement of its aims and objectives. An organisational structure is in place to link strategy with service and project delivery. A performance management system is in place that links Fit for the Future (the Council's Corporate Strategy), to the resource strategies and all in turn influence the Service Area Plans, Team Operational Plans and individual performance statements.

1.2 May 2019 will see the election of a new Council. As a consequence of that, this Strategy, along with all others will need to be reviewed to ensure that it meets the corporate priorities and is achievable with estimated resources.

1.3 As part of its wider Treasury Management objectives, the Council is required to have regard to the CIPFA[1] 'Prudential Code for Capital Finance in Local Authorities' (the Prudential Code). The 2018 revision to the Prudential Code introduced a requirement for local authorities to produce a Capital Strategy, as part of best practice in financial planning.

1.4 This is Warwick District Council's first version of such a strategy and sets out the baseline practices. It will be updated as and when new priorities, schemes or methods of financing are adopted, and in line with the Asset Management Strategy and will form an integral part the Council's strategic planning.

1.5 This Strategy sets out the resource background, the new policy context, the lessons that have been learned from previous years, and areas for improvement. It also sets out how the Strategy will be assessed and reviewed in the future so that improvement can be continuous. Importantly, it shows how the Capital Strategy will help deliver the Council's aims and the process that will be used to make sure that this is the case.

1.6 The Strategy sets the framework for all aspects of the Council's capital and investment expenditure.

1.7 The Capital Strategy needs to be seen in the context of very considerable change and where it is part of the essential infrastructure of excellent public service delivery.

1.8 It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.9 This Strategy includes sufficient detail to allow all members of the Council to understand how stewardship, value for money, prudence, sustainability and affordability will be secured, and to meet legislative requirements on reporting.

1.10 Capital expenditure is defined as the acquisition, creation or enhancement of an asset. These assets can be tangible such as buildings or vehicles, as well as intangible assets such as software or licenses.

[1] Chartered Institute of Public Finance & Accountancy

2 Resource Background

2.1 Set out below is a summary of the Council's assets and its existing plans to use its resources to invest for the future.

2.2 The Council's assets as shown in the balance sheet as at 31st March 2018 are summarised below:-

	No.	Value £m
Operational Assets		
HRA		
Property & other assets	7,542	378.0
General Fund		
Land and buildings	119	71.9
Community assets		6.6
Vehicles, plant, furniture and equipment		1.9
Infrastructure		2.0
		82.4
Non-Operational Assets		10.9
Investment Properties		11.0
Total	7,661	**482.3**

(note: Non-Operational Assets include Heritage Assets)

2.3 A summary of the capital programme proposed to be agreed by the Council in February 2019 for the period 2019/20 to 2022/23 is given below. This programme gives an indication of the level of the Council's resources that are to be devoted to capital expenditure.

Capital Programme 2018/19 to 2022/23	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
General Fund:					
Strategic Leadership & CWLEP	0.415	0.129	0.149	0.302	0.277
Health & Community Protection	0.647	0.600	-	-	-
Culture Portfolio	3.250	0.623	-	-	-
Finance Portfolio	0.200	0.150	0.150	0.150	0.150
Neighbourhood Portfolio	2.972	0.758	0.080	0.080	0.080
Development Portfolio	10.962	1.940	0.070	0.045	0.045
Total General Fund Capital Programme	18.447	4.200	0.449	0.577	0.552
Housing Investment Programme	10.598	22.156	4.633	4.636	4.639
Total Capital Programme	**29.045**	**26.356**	**5.082**	**5.213**	**5.191**

Capital Funding 2018/19 to 2022/23	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
General Fund:					
External Borrowing	-	-	-	-	-
Internal Borrowing	11.646	0.045	0.045	0.045	0.045
Capital Receipts	1.202	-	-	-	-
External Contributions	1.299	2.206	0.025	-	-
Revenue Contributions to Capital Outlay	0.085	0.080	0.080	0.080	0.080
Specified Reserves	4.214	1.869	0.299	0.452	0.427
Total General Fund Programme Financing	18.447	4.200	0.449	0.577	0.552
Housing Investment Programme:					
Capital Receipts		-	-	-	-
Capital Receipts: One for One replacement	0.704	3.449	-	-	-
Major Repairs Reserve	8.131	7.194	4.511	4.513	4.516
Capital Grant	-	-	-	-	-
HRA Capital Investment Reserve	1.642	11.391	-	-	-
Housing Revenue Account (RCCO)	0.122	0.122	0.123	0.123	0.123
Total Housing Investment Programme Financing	10.598	22.156	4.633	4.636	4.639
Total Capital Programme Financing	**29.045**	**26.356**	**5.082**	**5.213**	**5.191**
Estimated Resources C/F:					
General Fund	2.051	1.942	1.980	1.865	1.789
HIPS	48.614	38.647	46.202	53.756	61.306
Total	50.665	40.589	48.182	55.621	63.095

No prudential borrowing has been included to finance the capital programme in future years. Any prudential borrowing will be approved by Council annually before the start of each financial year, as part of the Treasury Management Strategy.

2.4 Capital and revenue are both key elements of successful financial planning and are intrinsically linked. The impact of capital expenditure on the Council's revenue budgets is a key part of the Medium Term Financial Strategy planning process.

2.5 The table below highlights some of the key impacts of capital expenditure on revenue budgets.

Revenue Savings	Revenue Costs
Direct income from assets	Running costs of new assets
Reduced maintenance costs	Minimum Revenue Provision(loan principal)
Reduced premise operating costs	Interest costs from borrowing / lost investment interest from internal borrowing
Reduced staff costs	Revenue funding of capital programme

3 Policy Background and Performance Management

3.1 The District Council has agreed a corporate policy framework that links:

i) the Corporate Strategy – Fit For the Future,
ii) the Council's Resource Strategies,
iii) Service Area Plans, and
iv) Individual Performance Statements and Appraisals

3.2 Fit For the Future and Corporate Objectives

3.2.1 The Council's priorities are detailed in the Fit For the Future strategy. The Council's vision is confirmed as "**To make Warwick District, a great place to live, work and visit**". To achieve the vision we will be customer focussed, a good employer, a community leader, provide high quality services and working in partnership where this adds value.

3.2.2 Fit for the Future is Warwick District Council's Corporate Strategy and links together our aims and objectives, projects and service area plans. These are linked in three separate strands, as summarised as follows:

a) Service – Delivering customer focused services by: using customer measures, helping to build trust, continuously improving, understanding our customers, and using systems thinking.

b) People – Valuing our staff, empowering our staff, supporting our staff through change, ensuring our communication is clear and regular.

c) Money – Managing the resources appropriately to balance our budget, ensuring our assets work for us, ensuring our town centres are vibrant and create solutions to increase our revenue.to manage our services openly and effectively and efficiently

3.3 Links to Other Strategies and Plans

3.3.1 Within the overall strategy, there is a clear hierarchy. The Service Planning process sits at the centre and is advised by Fit For the Future, the Resource Strategies and other Strategies, Policies and Plans. This is a two way process as the information flows in both directions. The important link is from the Service Plans to individual staff targets in the appraisal process – so linking strategy with individual staff's performance.

3.3.2 The Council's Asset Management Plan (AMP) is currently being developed and is due to be completed in the Summer of 2019. The AMP will need to have regard to this Capital Strategy, and in due course this Strategy may need to be updated to reflect any issues arising from the AMP. The Council will use active asset management to consider both existing assets and the future asset base. The capital programme will be used to bridge the gap to ensure that the Council has appropriate assets in the long term.

3.4 **The Council's Service Area Planning Process**

3.4.1 This is a key process to ensure that the Council works towards the corporate priorities and objectives. The Heads of Service agree service plan proposals that include development bids for the services. Capital schemes are an important element of development. The Service Plans objectives have been put into place by a whole raft of service strategies and policies which have been developed over the years.

3.4.2 The Council's Corporate Management Team ensure that all projects for the capital programme meet the Fit For the Future objectives in order to be considered for the service plans.

3.4.3 Service Area Plans specify the need for all units to undertake consultation of its customers, benchmarking of its services and to comply with a number of corporate issues e.g. equality of access, sustainability, employment policies etc. These requirements are then to be translated to individual staff's objectives and targets within the appraisal system.

4 Priorities

4.1 The Council has two key areas for capital expenditure - Housing and Other Services (blocks defined by Central Government).

4.2 With respect to all capital expenditure, the following overriding priorities have been determined as:

- Realising local aspirations as expressed within the Fit For the Future Strategy;
- Maintaining, and where possible enhancing, the condition of the Council's existing assets so as to reduce future maintenance liabilities and to encourage their effective use. Where appropriate this will include working in partnership with others.
- Supporting capital schemes that provide revenue savings to the Council, in particular supporting investment in Information and Communication Technology so as to modernise activities and release resources for other purposes.
- Achieving regeneration and economic vitality in main population centres.

However, alongside these priorities for capital, all capital projects need to contribute towards the Council delivering its priorities as set out in Fit For the Future.

4.3 Key particular projects that link to Fit For the Future are: -

- Enabling developments across the district that improve the environment such as Europa Way, and the improvement of Leamington Old Town.
- To continue to maintain the Government's "decent homes" standard.
- To increase the number of affordable houses in the District.
- Relocation of the Council's main office to a more efficient and cost effective building
- Enhanced Leisure Facilities
- Maintaining and enhancing the Council's off street parking facilities.

4.4 The Council does need to invest in its assets so as to enable it to maintain and enhance its service provision to residents and customers. The increasing population within the District, on the back of the Local Plan, is creating further service demands. The Council's recent and on-going investment in its leisure centres is as a consequence of these requirements.

4.5 Ideas for new capital schemes come from a wide variety of sources including individual Members, Council Committees, officers or external stakeholders.

4.6 The Council actively encourages developments that will help the local economy. Partners have been procured for the development of the Creative Quarter in Leamington's old town with consultation on the Master Plan currently underway.

4.7 The Council protects the condition of its existing assets by carrying out a four yearly building conditions survey and providing a significant budget for repair and maintenance, which then reflects the priorities highlighted in the survey. Recent stock condition surveys have shown there is some backlog in terms of repairing and maintaining some of the Council's municipal assets.

4.8 The Council may consider investing in projects that are not directly in support of service provision. These may be for commercial activities so as to generate a financial return to the Council, or to promote activities in line with the Council's overall objectives. In all cases the basis for these will need to be clearly identified, having regard to the relevant legislation and the Treasury Management requirements.

5 Evaluation and Monitoring of Schemes

5.1 Effective evaluation and monitoring of capital schemes is an essential element of good governance, as projects are often significant in terms of financial resources, organisational capacity, impact on service provision and the Council's reputation.

5.2 The Corporate Management Team (CMT) comprises the Chief Executive and two Deputy Chief Executives that take a corporate view to the development of the Council's services. They ensure that a cross-cutting approach is taken to the consideration of all issues including the capital programme. All development issues are discussed between the Service Area Head and a member of CMT as part of the Council's Service Planning process, previously explained. Only schemes that deliver priorities as established by the Council's Fit For the Future Strategy and Government guidance proceed to the next stage.

5.3 New capital projects are developed as part of the Council's Service Area Planning Process. Projects needs to be assessed against how they deliver the Council's corporate objectives, whether there are alternative methods of achieving the aims, the resources available and the cost to the Council. For larger schemes, a full Project Initiation Document should be prepared based on Prince2 methodology.

5.4 Business cases for all schemes require the following financial issues to be considered, in addition to the service implications:-

- Revenue implications, including running costs, income, savings and costs of capital finance (debt charges).
- Sources of capital funding
- Profile of costs and sources of funding, including projects being delivered over multiple years
- Risks attached to the project and finances

5.5 All project proposals are considered by portfolio holders before they are presented to the Executive to consider against Council priorities and the resources available before being formally agreed by the Council.

5.6 Project opportunities do arise outside of the annual service planning process. These may be specific service related or significant corporate projects, for example, the Europa Way project. Such projects may only be possible in a specific time frame. Sometimes there may be time limited funding available to support such projects. In all cases the projects will be properly evaluated against the Council's priorities and resources (including finance and capacity) by CMT before such consideration by portfolio holders and Executive.

5.7 Aside from individual business cases for projects, consideration will be given to the overall proposed Capital Programme and whether it can be supported with regard to:-

- The overall funding available
- The capacity of the organisation to progress all the projects
- The risk appetite and risk capacity to undertake all the projects, and mitigations in place to reduce the risks.

5.8 Capital projects will be monitored and evaluated, both during and after their completion, to ensure their efficient progress and that any lessons learned are applied to other Council schemes.

5.9 As part of the Council's regular budget monitoring, monthly expenditure reports are produced by Finance for budget officers responsible for individual capital projects, with variances considered by the Senior Management Team. Quarterly monitoring reports are submitted for consideration by the Executive and Scrutiny Committees.

5.10 The Code of Financial Practice requires that "Along with progress being monitored as part of monitoring and review of budgets and final accounts, projects should be subject to an appropriate post implementation review to confirm whether the project objectives have been met".

6 Financing the Capital Strategy

6.1 The Capital Strategy needs to have regard to the financial resources available to fund it. Some funding sources are ring fenced and can only be used for Housing Revenue Account (HRA) capital expenditure, or a particular capital scheme. No capital scheme will be put forward without funding having been identified to complete the project.

6.2 The main sources of funding are detailed below: -

- **Capital Receipts** – primarily resulting from the sale of the Council's assets as other receipts have fallen in recent years. This income is "lumpy" and limited, although there are still schemes being considered that could realise further capital receipts.

- The Council is required to sell homes to eligible tenants at a significant discount under the right-to buy (RTB). The proportion of such receipts are taken by the Treasury; with the balance retained by the Council, some having to be to provide for new dwellings and the remainder the Council having flexibility over its use.

- **Capital Contributions** – including contributions from developers (often under Section 106 Planning Agreements and now from the Community Infrastructure Levy as well) and grants towards specific schemes.

- **Use of Council's own resources** – either by revenue contributions to capital, or use of earmarked reserves.

- **Prudential Borrowing** – the Council has freedom to borrow under the Prudential Code, provided that it can demonstrate that it has the resource to service the debt. Where appropriate, internal balances[2] will be utilised ahead of external borrowing in order to optimise borrowing costs, especially when internal balances are invested at rates lower

[2] Internal borrowing refers to the use of internal cash balances to finance capital expenditure in place of borrowing money from external sources

than the cost of external borrowing. The normal sources of borrowing are from the money market or the Public Works Loan Board (PWLB), the latter offering preferential rates of interest to local authorities.

- The Council is required to ensure that all borrowing is both prudent and affordable. All schemes funded by prudential borrowing are approved by full Council. As part of the annual Treasury Management Strategy full Council approves a limit for affordable borrowing; capital schemes will be evaluated with reference to that limit.

- Borrowing will normally be used as the last possible source of funding.

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

- **Leasing** – the Council requires that, where appropriate, an options appraisal is undertaken in order to identify the most efficient source of financing capital purchases. In certain cases this may take the form of either a finance or operating lease.

- **External funding** – there are a number of sources where monies from a third party are available:
  - **Capital grant from Government or Government agency** – these may be either ring fenced or non-ring fenced. Disabled Facilities Grants (DFGs) and Heritage Lottery Fund (HLF) are examples of a ring fenced grants. Use of the New Homes Bonus (NHB) is an example of a non-ring fenced grant.
  - **Community Investment Levy** – Money received from developers under the Community Infrastructure Levy (CIL) will be allocated under the CIL arrangements in accordance with the Council's capital scheme priorities
  - **Section 106 Agreements** – Developer consents may attract Section 106 funding on a particular asset or site, as an alternative to a Community Infrastructure Levy
  - **Capital contributions from partner organisations** – schemes may be part or fully funded from contributions from partner organisations. The Council will look to use external funding wherever possible towards meeting the funding requirement of its capital programme.

6.3 The funding available to finance the capital programme will be monitored and reported to Members as part of the annual Budget report each February. Also, any specific project proposal will need to state the sources of the funding, and the level of funding available.

7 Revenue Consequences of Capital Investment

7.1 The Council's Financial Strategy, which is closely linked to this strategy, outlines a projection of the Council's revenue resources for the same period - i.e. to 2024. The Financial Strategy takes account of all revenue effects of the capital programme to ensure that the decisions taken are sustainable into the future.

7.2 The Prudential Code requires the Council to set prudential limits for servicing debt. The use of prudential borrowing is supported by the Council to finance appropriate capital projects, provided that the Medium Term Financial Strategy (MTFS) can accommodate the borrowing costs, with this cost duly prioritised over other use of revenue funding. A level of prudential borrowing has been included within the financing of the General Fund Capital Programme, to replace schemes currently funded by internal borrowing, with the associated cost of servicing that debt having been allowed for within the revenue projections.

8 Risks

8.1 Under the Prudential Code the "chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions". The statement below is the Warwick District Council Chief Finance Officer's response.

8.2 Affordability and risk are key considerations within this Capital Strategy. The key principles articulated within this Strategy include that it must support the financially viability of the Council, and that payback should be a key consideration of the Strategy. The capital investment will be required to provide an overall positive return to the General Fund, as well as generating a number of key services enhancements. The risk section is articulated below and importantly, business cases for new schemes are required to ensure that risks are adequately covered; one of the most significant risks being capacity to deliver the individual projects contained within the strategy and adequately identifying resources required at the commencement of projects. The HRA capital programme is a key element of the 50 year Housing Revenue Account (HRA) Business Plan, which is refreshed annually; individual schemes are assessed for affordability within the overall context of this plan.

8.3 All projects need to have a strong governance framework to support them and ensure their subsequent delivery.

8.4 The Council also utilises our treasury management advisors, Link Treasury Services, to consider the implications of the Prudential Code and the impact on the Treasury Management Strategy.

8.5 **Legal and Procurement Implications**
Individual projects proposed to be included within the Capital programme will be carefully considered in relation to legal and procurement issues and separate approvals sought as appropriate.

8.6 **Workforce Implications**
Project resources for individual projects are identified as part of the business case. This will need to consider how projects will be supported, both by the sponsoring service and other services needed to support the project. Where necessary, further external support may need to be allowed for within the project business case.

8.7 **Environmental Considerations**
Environmental considerations will be part of the business case supporting specific capital projects where relevant. Many of the schemes have environmental benefits included within them.

8.8 **Equality Impact Assessment**
Equality Impact assessments will be considered as part of the business case for specific capital projects.

8.9 **Risk Management**
In setting out this Strategy, and when considering the Capital Programme and the projects within in it, all risks should be managed in line with the Council’s Risk Management Framework. This will include individual projects having their own specific Risk Register to be managed as part of the overall project.

9 Assessment and Review

9.1 This strategy will be subject to annual review to ensure that changes are included and that development issues have been implemented.

10 Treasury Management

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

10.2 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.

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

10.4 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

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

10.6 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 or other forms of credit such as finance leases. 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.

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

10.8 The 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	9,128	20,715	20,406	18,665	17,725
Borrowing *	11,693	-32	-1,456	-653	-4,397
Budgeted MRP	-106	-277	-285	-287	-282
Closing CFR	**20,715**	**20,406**	**18,665**	**17,725**	**13,046**

* The borrowing figure from 2019/20 onwards is negative due to external contributions and capital receipts being used to pay down the CFR.

10.9 The Treasury Management Strategy to be considered by Council in February 2019 sets out the following limits for external borrowing:

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Authorised Debt Limit	169	199	209	208	208