

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 22 March 2022

Subject: **Review of the Capital Strategy 2022/23**

Portfolio Holder: Governance
Councillor Mrs I Sanderson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 The purpose of this report is to give the Committee an opportunity to review the Council's Capital Strategy for the forthcoming financial year 2022/23.
- 1.2 The purpose of the Capital Strategy is to give a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow. It is a key document forms part of a suite of documents required to meet good practice for the financial management of the Council. It covers the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service, economic development/ regeneration and commercial investments are usually associated with capital expenditure in relation to an asset.
- 1.3 The Capital Strategy 2022/23 report was approved by Cabinet and Council in February 2022 is attached at Appendix A. This report contains the Council's Capital Strategy at Annex A. This has been re-written in the light of the Council's financial plans and with an eye towards the impending Local Government Reorganisation in North Yorkshire.

2.0 Risk Management

- 2.1 There are no risks associated with approval of this report. The report will ensure that the Committee has the opportunity to scrutinise a key policy of the Council.

3.0 Recommendation

- 3.1 It is recommended that Members review the Council's Capital Strategy and make any appropriate recommendations to Cabinet.

Noel O'Neill
Interim Director of Finance (s151 officer)

Background papers: None
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Agenda Item 6

Hambleton District Council

Report To: Cabinet

Date: 8 February 2022

Subject: **Capital Strategy 2022/23**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background:

- 1.1 The purpose of the capital strategy is to give a clear and concise view of how a local authority determines its priorities for capital investment, sets its risk appetite and decides how much it can afford to borrow. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code requires local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability.
- 1.2 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure, risk appetite and to meet legislative requirements on reporting and is attached at Annex A. It sets out the long term decisions on capital expenditure and capital investments and explains the approach to the:
- High level overview of:
 - Service objectives relating to investments;
 - Corporate governance arrangements for non-treasury investment activities;
 - Overview of how associated risk is managed:
 - Risks associated with treasury investments (treasury management investments) and non-treasury investments (commercial investments);
 - Implications for future financial sustainability:
 - Expected income, costs and resulting contribution;
 - Debt related to the activity and the associated interest costs;
 - Payback period (Minimum Revenue Provision (MRP) policy);
- 1.3 This Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital, balance sheet and reserves planning and is reported separately from the Treasury Management Strategy Statement. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service, economic development/ regeneration and commercial investments are usually

associated with capital expenditure in relation to an asset. This is a strategic document to set the framework but the impact of any capital expenditure or new project will be detailed by the section 151 officer when Members are considering potential schemes.

2.0 Link to Council Priorities:

2.1 The capital strategy enables all the Council Plan priorities to be achieved as it gives 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 to enable the Council Plan priorities to be available in the long term.

3.0 Risk Assessment:

3.1 There are no risks associated in approving the recommendation.

4.0 Financial Implications:

4.1 The financial implications are dealt with in the body of the report.

5.0 Legal Implications:

5.1 The Capital Strategy is required as stated in the Statutory Guidance on Local Government Investments (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003 and is effective for financial years commencing on or after 1 April 2018. This is also detailed in the updated Prudential Code and Treasury Management Code issued by CIPFA.

6.0 Equality/Diversity Issues:

6.1 Equality and Diversity Issues have been considered however there are no direct issues associated with this capital strategy report. It should be noted that some capital schemes will have specific implications for equalities and these implications will be assessed by departments when individual schemes are put forward to be approved in the capital programme every year.

7.0 Recommendations:

7.1 That Cabinet approves and recommends to Council the Capital Strategy 2022/23 attached at Annex A of the report.

Noel O'Neill
Interim Director of Finance (S151 Officer)

Background papers: 4 Year Capital Programme and Treasury Management Strategy
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Capital Strategy 2022/23

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CAPITAL STRATEGY

1.0 Purpose

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential and Treasury Management Codes require local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and take account of stewardship, value for money, prudence, sustainability and affordability. This requirement was first introduced in 2018/19.
- 1.2 The Capital Strategy is a key document for the Council and forms part of the authority's revenue, capital, balance sheet and reserves planning. It provides;
- a high level overview of how capital expenditure and capital financing contribute to the provision of services and comments on treasury management activity;
 - an overview of how associated risk is managed;
 - the implications for future financial sustainability.
- 1.3 The aim of the capital strategy is to provide an understanding of the Council's overall long-term objectives, governance procedures, allocation and monitoring of capital expenditure and risk appetite.

2.0 Scope

- 2.1 The Capital Strategy is reported separately from the Treasury Management Strategy Statement; treasury investments will be reported through the Treasury Management Strategy Statement only and non-treasury investments will be reported through the Capital Strategy but also through the Treasury Management Strategy Statement as part of the capital and treasury management Prudential Indicators. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the non-treasury function where the policy for service and commercial investments are usually associated with capital expenditure in relation to an asset. This Capital Strategy sets out the long-term decisions on capital expenditure and capital investments and will explain the approach to:

High level overview:

- Service objectives relating to the investments;
- Corporate governance arrangements for non-treasury investment activities;

Overview of how associated risk is managed:

- Risks associated with treasury investments (treasury management investments) and non-treasury investments (capital expenditure including service, economic development / regeneration and commercial investments);

Implications for future financial sustainability:

- Expected income, costs and resulting contribution;
- Debt related to non-treasury investment activity and the associated interest costs;

- Payback period (Minimum Revenue Provision (MRP) policy) and;
- Other ratio analysis

- 2.2 The non-treasury investments (see definition below) - due to the expenditure being for valid service delivery, economic development / regeneration - do not always give priority to security and liquidity over yield (like treasury investment do). For non-treasury investments, decisions on this type of capital expenditure will either be approved at Cabinet or Council in the Capital programme or in individual reports. Individual reports will identify risks and the impact on the financial sustainability of these schemes.
- 2.3 All Cabinet reports will ensure that the Council has the appropriate legal powers to undertake such non-treasury investments and will also include the 'proportionality of non-treasury investments' so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.
- 2.4 Monitoring of all investments will be included in the quarterly capital and treasury management monitoring reports which are approved by Cabinet and Council.
- 2.5 The Chief Finance Officer – Interim Director of Finance (S151 Officer) - will report explicitly on the affordability and risk associated with the Capital Strategy as detailed below and, where appropriate, will have access to specialist advice to enable conclusions to be reached.

A high-level overview of how capital expenditure and capital financing contribute to the provision of services and comments on treasury management activity

3.0 Definitions

- 3.1 The definitions in part 3 will assist the readers understanding of the Capital Strategy and covers (i) capital expenditure, (ii) treasury management investment (iii) non-treasury management investment, which includes (iv) service investment, economic development / regeneration and commercial investment.
- 3.2 Capital Expenditure** - is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services.
- 3.3 The 4 Year Capital Programme is the authority's plan of capital works for the next four years, including details on the funding of the schemes. Included are the projects that relate to 'Service Investment' such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment.

- 3.4 The definition of 'Service Investment' and 'Commercial Investment' which are both types of non-treasury investments, along with the definition of 'Treasury Management Investment', is detailed below. The definition and explanation about the risks of non-treasury investment – service delivery, economic development / regeneration - and implications of financial sustainability are included in this report. The Council does not undertake any Commercial Investments.
- 3.5 **Treasury Management investment** – is activity that covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.
- 3.6 For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Strategy Statement and the Annual Investment Strategy.
- 3.7 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These are non-treasury investments and include service and commercial investments.
- 3.8 **Non-Treasury Management Investment** – is the expenditure made on the purchase of a capital asset and are investments for policy reasons outside normal treasury management activity. It is these non-treasury management investments which are the subject of this Capital Strategy and can further be described as Service Investments or Commercial Investments
- 3.9 **Service Investments (Non-Treasury Management Investment)** - These are investments of capital expenditure held clearly and explicitly in the course of the provision, and for the purposes of operational services of the Council and projects including economic development schemes, regeneration projects, ICT schemes, development of Council's assets etc.
- 3.10 **Commercial investments (Non-Treasury Management Investment)** - These are investments that would be taken mainly for financial reasons. These may include:
- expenditure on investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
 - expenditure to third parties where the aim is to enhance and support the local area whilst obtaining generated income through interest;
 - expenditure explicitly with the aim of generating income for the prudent management of the Council's financial affairs e.g. fixed assets which are held primarily for financial benefit, such as investment properties;
 - this list is not exhaustive.

4.0 Council Objectives

- 4.1 Council Priorities - The Council has agreed four corporate priorities and a number of corporate aims and objectives which guide its work and are set out in the Council Plan. Capital expenditure for non-treasury investment projects must be in line with these overall objectives as well as individual service aims and objectives.

- 4.2 Other Council Considerations - Capital Schemes must also comply with other Council policies, strategies and plans of the Council, Contract Procedure Rules, Financial Regulations as well as complying with legislation, such as the Disability Discrimination Act. Important linking documents for reference are:
- Council Plan;
 - Asset Management Strategy;
 - Risk Management Guide;
 - Individual Service Plans;
 - Council's Constitution including Contract Procedure Rules and Financial Regulations;
 - Economic Development Strategy;
 - Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment strategy;
 - Financial strategy;
 - Capital 4 year programme.
- 4.3 Asset Management Strategy – it is worth highlighting the Asset Management Strategy is influential in ensuring that capital expenditure contributes to the enhancement and development of the Council's assets to ensure they are used to best effect for the community and to provide services, whilst also considering surplus asset that can be considered for disposal. Future expenditure in new assets – additions to the capital programme – is key for advancement and improvements for all Council objectives as this capital expenditure will be to invest in assets to support services the Council directly delivers however also to invest in commercial opportunities to generate income which will be used to support all Council services in the future.
- 4.4 The Council's Asset Management Strategy has informed the significant Capital Programme that the Council has undertaken over previous years. It needs to be reviewed and will be done as part of integration plans of Local Government Reorganisation.
- 4.5 Performance Management of Capital schemes – In order to ensure that capital expenditure projects are in line with the Council's overall objectives, individual service aims and capital scheme goals should be developed with clear measurable outcomes. These objectives should be documented in a Project Initiations Document (PID). After the scheme has been completed, the outcomes should be evaluated to certify that they have been achieved. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.
- 4.6 Performance management of capital schemes is currently under review with the terms or reference of Project Management Board being considered to ensure the Board is in line with the Council Plan priority projects.

5.0 Capital Expenditure Plans and Capital Financing

- 5.1 Capital Expenditure Plans and the Budget Setting Process – Part of the Capital Strategy importantly notes that consideration is given to the capital budget setting process. This is provided to Cabinet and Full Council on an annual basis in February preceding the new financial year. In order for the capital programme to be constructed, consideration is given to schemes across the Council by reviewing option appraisals and feasibility studies which contribute to the construction of individual capital schemes initially in the form of a high level overview which is followed by a more detailed Project Initiation Document (PID).
- 5.2 The capital budget setting processes is designed to ensure the capital programme occurs and contributes to service delivery and commercial investment; this process contains the following items:
- Options Appraisals, Feasibility Studies
 - Key Criteria for capital expenditure
 - Identifying the need for Capital Expenditure/Investment – Project Initiation Document
 - Deciding which schemes are to be put forward
 - Prioritisation of schemes put forward
 - Member Approval Process
 - Monitoring of the Capital Programme Expenditure
- 5.3 Further detail setting out the capital budget setting process is attached at **Annex A**.
- 5.4 Budget Setting Process: 4 Year Capital Programme – Capital expenditure for service and commercial non-treasury schemes often occur over many years, depending on the size and complexity of the project. Therefore, estimated payment patterns are calculated for each project so that the expected capital expenditure per year is known. This is called a cash flow projection or budget profiling. The length of the planning period is at least 10 years and also considers the risks faced with reference to the life of the project/assets. For example, some schemes may span two or three years (e.g. building an extension to a leisure centre) whereas others may be over much longer timeframes. It should also be noted that some schemes will complete within one financial year.
- 5.5 In 2022/23 a 4 Year Capital Programme is being approved. It incorporates the completion of the major schemes approved in the previous 10-year Capital Strategy and the short term needs to maintain existing assets. It will assist the new North Yorkshire Council in a number of ways. It informs of the immediate known requirements and allocates funding to meet those requirements. Longer term plans will need to be developed through the transition and transformation phase of LGR but the programme maintains the resources to keep the Authority legal and safe. It will also allow greater integration of the revenue budget and capital programme.
- 5.6 Value for Money and procurement - Prior to expenditure being incurred on any scheme a Value for Money is assessed at Project Management Board. Procurement is the purchase of goods and services, with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price. The Council has a Procurement Officer that ensures goods and services provide value for money and to see where efficiency savings can be achieved.

- 5.7 It is essential that all procurement activities comply with the Government's Procurement Policy Note 08/20 – Introduction of Find a Tender Action Note – in relation to the UK leaving the European Union on 31 December 2020 for all new procurements. The Policy Note states “At the end of the Transition Period, amendments to the Regulations in relation to the withdrawal of the UK from the EU will come into force. This means that, whilst the framework and principles underlying the public procurement regime (the procurement procedures, financial thresholds, etc.) will not substantially change, contracting authorities will be required to publish public procurement notices for new procurements to the new UK e-notification service, Find a Tender.”
- 5.8 Guidance on this can be sought from the Procurement team. All procurement must also comply with the Councils policies and regulations such as Contract Procedural Rules and Financial Regulations. The main aim is to hold 'value for money' as a key goal in all procurement activity to optimise the combination of cost and quality.
- 5.9 Budget Setting Process: In Year Opportunities - these can be put forward for entry into the capital programme in a managed way either when the capital programme is reviewed each quarter and gets reported to Cabinet and Council or outside of this timetable as a separate Cabinet report to seek approval at any other meeting in the Cabinet cycle. Any other schemes which arise during the year will only be considered for borrowing or funding from central resources if they meet one or more of the following criteria:
- The location of the property to be purchased will bring added value to the estate;
 - The requirement for the asset is an extraordinary service demand or commercial requirement which could not be anticipated in the normal planning processes prior to the beginning of the financial year;
 - There is a limited time span when the opportunity is available.
- 5.10 Requests for approval of revisions to the profiling of scheme expenditure across financial years and the movement of budget between schemes (known as a virement) will be considered by Cabinet at the appropriate quarterly reporting points during the financial year. These will be at July Cabinet when the capital outturn report is considered, at September Cabinet for Quarter 1, December Cabinet when the mid-year review Quarter 2 is considered from 30 September and at the February Cabinet meeting when Quarter 3 is reported and the new capital bids are considered for the 4 Year Capital Programme for the next financial year.
- 5.11 Capital Monitoring process - Once the Capital programme has been set it is monitored on a quarterly basis through Project Management Board which is then reported to Cabinet and Full Council.
- 5.12 Capital Financing, Funding Strategy and Capital Policies - This section sets out the policies of the Council in relation to financing capital expenditure and investment and covers the following capital funding:
- External Funding
 - Capital Receipts
 - Revenue Funding
 - Reserves

- Invest to Save Schemes
- Prudential/Unsupported Borrowing
- Leasing

5.13 Further detail setting out the capital funding is attached at Annex B.

6.0 Corporate governance arrangements - Non-Treasury Investment activities

- 6.1 Corporate Governance Arrangement - The governance structure of the Council is detailed in the Council's Constitution where all capital decisions are report to Cabinet and Council for approval. Non-treasury investment is expenditure on capital for service improvements or commercial opportunities. This section does not include treasury management investment which is covered in the Treasury Management Strategy Statement.
- 6.2 The Council's Programme Management Board - takes a corporate and group view on the capital programme and investment, where this group receives information from the operational Asset Management Working Group. Programme Management Board will also ensure a corporate and group portfolio perspective to the use and allocation of the Council's capital assets and in planning capital investment on service capital expenditure; for commercial capital investment see below. The Programme Management Board receives reports on proposed capital projects, as well as monitoring reports for those included in the Capital programme on a regular basis. Post scheme evaluation reviews should be completed by departments for all schemes; those over £50,000 and also strategic capital projects will be reported to Project Management Board. The terms of reference of Project Management Board are being reviewed during 2020/21 where the value (currently £50,000) of projects to be reported to Project Management Board will be clarified with Directors taking responsibility for the lower value projects in their area with the Board focusing on the Council Plan projects. The Programme Management Board is key in finalising the Capital Programme for approval at Cabinet and Council every year prior to the beginning of the financial year.
- 6.3 Management Team - receives the minutes from Programme Management Board on a monthly basis focusing mainly on service capital schemes and is also instrumental in the decision making and recommendations to Cabinet and Council around economic development and regeneration projects.
- 6.4 Investment Board - A robust decision making process for making time restricted decisions on service capital expenditure below £5m has been approved by Cabinet and Council to provide this ability to the Chief Executive and Leader. This will occur in conjunction with the Investment Board which currently consists of the Chief Executive, the Deputy Chief Executive, the Finance Director (S.151 Officer) and the Director of Legal and Governance (Monitoring Officer) to provide oversight and will only occur if it not possible to convene Cabinet and service capital expenditure decisions are required in a tight timescale.

- 7.0 Corporate Governance arrangements: Guidance from CIPFA Prudential Code and Statutory Investment Guidance**
- 7.1 CIPFA Prudential Code (amended 2017) and Statutory Guidance on Local Government Investments (3rd Edition) (April 2018) in accordance with Local Government Act 2003 has been taken into account when writing the Capital Strategy and considering the corporate governance arrangements under which the Council invests for non-treasury capital expenditure for service investment, economic development and regeneration projects. The Council notes the Local Government Act 2003 and s12 where it can use its “power to invest” for the prudent management of the Council’s financial affairs.
- 7.2 CIPFA’s Prudential Code and the Statutory guidance on Local Government investments allows the Council to borrow if its capital plans are affordable, sustainable and prudent. The Code states that the Council should not “borrow in advance of need”. The intent of the “borrowing in advance of need” within the revised English Ministry of Housing, Communities and Local Government Investment Guidance (paragraph 46 of the Guidance and 35 of the Commentary) 2018 relates to the borrowing to fund income generating assets, essentially the commercial agenda. In effect a re-working of the “borrowing to on-lend” argument from the then named Department of Communities and Local Government (DCLG) guidance originally issued on 1 April 2004 and the wide acceptance that this was not legal. The expectation within this revised wording is that borrowing to invest in purely income generating assets is to be discouraged and not undertaken and activity should be financed by capital. CIPFA Prudential Code paragraph 45, 62 (and E16), allows borrowing in advance of need against the Capital Financing Requirement (CFR) for the current and next two financial years.
- 7.3 The interpretation of the Code and the Statutory Guidance has varied across organisations. However, a large number of Local Authorities have recently invested in Commercial Property in a bid to generate additional revenue; where some Local Authorities have taken borrowing to do so. This Council has suspended its Commercial Investment strategy in September 2020, has not undertaken any commercial activity and the Financial Strategy reflects that without commercially generated income the financial position remains sustainable.
- 7.4 The Council is mindful of the CIPFA prudential Code and does not propose to borrow more than or in advance of need. The rationale that the Council intends to borrow for non-treasury investments is that the capital expenditure for services delivery, economic development and regeneration projects in the district will all be incorporated into the Council’s capital programme where the borrowing of the Council will be looked at in its totality within its Capital Financing Requirement and the appropriate Authorised Borrowing Limit will be set. This can be seen in the Treasury Management Strategy Statement that is approved by Council every February prior to the beginning of the new financial year. This ensures that capital programme is affordable, sustainable and prudent.
- 7.5 The Council’s view on prudence and its prudent approach to the consideration of its position on the Minimum Revenue Provision is included in the ‘implications for future financial sustainability’ section of this Capital Strategy at paragraph 12.0 - Treasury Management Strategy Statement - Minimum Revenue provision (MRP) Policy Statement.

- 7.6 The guidance also suggests a range of indicators should be established and reviewed on a regular basis as part of the Capital Strategy; again this is seen in this Capital Strategy in the following two sections - 'risk associated' and 'implications for future financial sustainability'.

An overview of how associated risk is managed

8.0 Associated Risk

- 8.1 Risk Management Overview - Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.
- 8.2 The aim of risk management is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.
- 8.3 Risk Appetite and Monitoring - To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme as well as for the capital programme as a whole.
- 8.4 The appetite for risk associated with treasury investments (treasury management investments) is centred around the security, liquidity and yield and is covered in the Treasury Management Strategy Statement. For completeness of this Capital Strategy risks associated with treasury investments is attached at **Annex C**
- 8.5 The appetite for risk associated with capital expenditure on non-treasury investment schemes can be for service investments and commercial investments.
- 8.6 When the Capital Programme is produced at the beginning of every financial year, the capital budget setting process – as detailed above – includes the requirement for each capital scheme to write a Project Initiation Document. For capital expenditure on service investment this Project Initiation Document includes the risks associated with that scheme; these risks are then captured in each of the Department's Section Service Plans, consolidated in the Corporate Risk Register which are monitored on a quarterly basis being reported to Scrutiny Committee and annual an update on risk is provided to Audit Governance and Standards Committee who have the overall responsibility for risk.
- 8.7 An assessment of risk should therefore be built into every capital project and major risks recorded in the Corporate Risk Register. More information is available in the Risk Management Guide which is approved by Audit Governance and Standards Committee.

8.8 Measures to manage risk - The following measures to manage the risks associated with non-treasury investment are listed below and the Director of Finance and Commercial (S151 Officer) will report on the affordability of these risks associated with the capital strategy in the Capital Monitoring and Treasury Management reports:

- (i) Proportionality - Advice from CIPFA is that borrowing for investment should be proportionate to the Council's overall budget and an explanation provided if it is not:
 - a 20% limit is deemed as an appropriate level for the commercial investment finance costs to be set at as a proportion of the budget.
- (ii) Reserves Position - The financing cost is deemed to be affordable as reflected in the four-year financial strategy and the Council's balance on reserves being maintained:
- (iii) Financial strategy review - It is important to note that some of the Council's economic development projects or regeneration projects generate income and if there was a shortfall in net income this would reduce the funding that supports the budget. The Council's reserves are allocated over 4 years in the Financial Strategy;
- (iv) Geographical and Sector Diversity - non-treasury investments are made in a variety of assets, in different sectors and across the district to reduce the risks of all capital expenditure being invested in one project.
 - the capital programme is monitored to ensure diversity of projects and locations
- (v) Income Shortfall - The risk profile of assets vary greatly and this is reflected in the yield (the income received) of an asset. The leisure centres yield income along with car parks, the Treadmills site and the crematorium. These non-treasury investments are for the purpose of delivering services to the resident and communities so it crucial to invest in these assets where a balance is struck between a return but more importantly low risk of income shortfall:
 - All assets that generate income will be sought to be occupied under full repairing and insuring terms.
 - All assets will be risk assessed and monitored on a quarterly basis in revenue monitoring report at Cabinet and Council
 - the Financial strategy will over 4 years ensure that the Council remains affordable and sustainable
- (vi) Specialist Advice - service delivery, economic development or regeneration projects may require specialist support. The advisor may assist in the development and / or implementation of a scheme where:
 - The proper procurement process has been adhered to
 - The adviser is held to account through the risk register actions plans
 - Strict monitoring occurs to be able to hold the adviser to account
 - Updates will be provided to Cabinet and Council as appropriate

8.9 Due Diligence - For all non-treasury capital investments the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered. Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant committee;
- identification of the risk to both the capital sums invested and the returns;
- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary further independent and expert advice will be sought.

8.10 Legal and Regulatory Risk - This is the risk that changes in laws or regulation and makes a capital project more expensive or time consuming to complete, make it no longer cost effective or make it illegal or not advisable to complete. Before entering into capital expenditure or making capital investments, the Council will understand the powers under which the investment is made. Forthcoming changes to relevant laws and regulations will be kept under review and factored into any capital bidding and programme monitoring processes.

8.11 The Director of Finance (S151 Officer) will report explicitly on the affordability and management of these risks when appropriate, listed above, associated with the Capital Strategy which will be included in the quarterly monitoring finance reports - Capital Programme and Treasury Management Strategy Statement - to Cabinet as well as reporting risks through the risk management process to Scrutiny Committee and Audit, Governance and Standards Committee. Where appropriate the Director of Finance (S151 Officer) will have access to specialised advice to support conclusions reached and will also ensure that due diligence is undertaken where appropriate.

8.12 The Director of Finance (S151 Officer) will ensure that Members are adequately informed and understand the risk exposures being taken on.

Implications for future financial sustainability:

9.0 Financial Sustainability

9.1 The capital strategy, in conjunction with the 4 year capital programme, sets out the long term decisions on capital expenditure and capital investments and ensures that implications for future financial sustainability are transparent.

9.2 The current decisions on capital expenditure and capital investment are considered in the 4 Year Capital Programme covering the financial years 2022/23 to 2025/26. The 4 Year Capital Programme is set within the fiscal parameters of the Financial Strategy, a key feature of which is to ensure that at the end of the 3-year Financial Strategy reserve funds – grants, contribution and capital receipts – remain available to support the capital programme. The 3-year Financial Strategy also includes the finance costs associated with the borrowing required to support the capital programme.

- 9.3 The 4-year capital programme and the 3 year financial strategy ensure that the Council's capital plans are affordable, sustainable and prudent.
- 9.4 The Council's Commercial Investment strategy was suspended by the Council in September 2020 and therefore is not included in the financial sustainability section of this capital Strategy.
- 9.5 In order for the Council to ensure future capital plans are financial sustainability the Capital Strategy indicators are classed into the following four areas and these will be monitored on a quarterly basis in the Capital Programme and Treasury Management reports to Cabinet and Council:
- Expected income, costs and resulting contribution;
 - Debt related to the activity and the associated interest costs;
 - Payback period (Minimum Revenue Provision (MRP) policy); and
 - Other Ratio analysis

10.0 Payback period (Minimum Revenue Provision (MRP) Policy Statement)

- 10.1 The payback period is the length of time over which it is acceptable to the Council to repay debt. Debt occurs from the borrowing taken to support the Council's expenditure on capital projects in the capital programme. Under Local Government Act 2003 guidance is issued on the payback period of borrowing which is called the Minimum Revenue Provision where it is a requirement for Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. Recently in light of non-treasury activity - commercial investments – this guidance has been updated from 1 April 2018.
- 10.2 The Minimum Revenue Provision Statement is included in the Treasury Management Strategy Statement but also in this Capital Strategy due to its relevance and is detailed below.
- 10.3 It is a statutory requirement that the Council reports on the Minimum Revenue Position and explains this policy. The Minimum Revenue Provision Policy describes that the Council is required to pay off an element of the accumulated General Fund capital spend each year, the Capital Financing Requirement (CFR) through a revenue charge known as the Minimum Revenue Provision (MRP). The Council is also allowed to undertake additional voluntary payments if required. This is known as the Voluntary Revenue Provision (VRP).
- 10.4 This Council in 2022/23 will have a Capital Financing Requirement of £67,441,182 to support the total capital programme and this is the potential amount of borrowing that may be required in 2022/23.
- 10.5 The Department of Levelling Up, Housing and Communities (DLUHC) regulations have been issued which require the Full Council to approve a Minimum Revenue Provision (MRP) Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision

The Council is recommended to approve the following Minimum Revenue Provision Statement which includes different approaches for:

1. Capital expenditure on supported and unsupported borrowing
2. Loan to Third parties
3. Voluntary Revenue Provision

10.6 For capital expenditure incurred before 1 April 2008, or which in the future will be Supported Capital Expenditure, the Minimum Revenue Provision policy will be:

- Based on Capital Financing Requirement (CFR) – Minimum Revenue Provision (MRP) will be based on the Capital Financing Requirement. This option provides for an approximate 4% reduction in the borrowing need (Capital Financing Requirement) each year.

Hambleton District Council does not hold any debt older than 1 April 2008.

10.7 From 1 April 2008 for all unsupported borrowing (including Private Finance Initiative and finance leases) the Minimum Revenue Provision policy will be:

- Asset Life Method – Minimum Revenue Provision will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.

10.8 In addition, where repayments are included in annual Private Finance Initiative schemes or finance leases then this will be applied as the Minimum Revenue Provision (MRP).

10.9 The Capital Financing Requirement for the loan to the local Housing Association at the beginning of 2022/23 is £33,600,000. The agreement with the local Housing Association states they will make bullet repayments to the Council at years 5, 10, 15, 20 and 25. The bullet repayments made throughout the life of the loan will be set aside by the Council when received to ensure that prudent provision is made for regular repayment.

10.10 MRP Overpayments - A change introduced by the revised DLUHC MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. This does not apply to Hambleton District Council since up until the 31 March 2021 the total VRP overpayments were £0m.

11.0 Other Considerations

11.1 Partnerships and Relationships with other Organisations - wherever possible and subject to the usual risk assessments, services should look to continue to work on a partnership basis and continually look for areas where joint projects can be implemented.

11.2 Fraud, Error and Corruption - financial losses could occur due to errors or fraudulent or corrupt activities. Officers involved in any of the processes around capital expenditure or funding are required to follow the Council's policies and procedures. At the core of the Council is 'our values' and these instil through the organisation principles and appropriate behaviour. This is supported by the Employee Code of Conduct and detailed policies such as Anti-Fraud and Corruption, Anti Money Laundering, Whistle Blowing and Declaration of Interests.

Capital Expenditure Plans and the Budget Setting Process

The following capital budget setting processes are designed to ensure the Council Capital Expenditure plans follow this process:

- i. Key Criteria for capital expenditure
- ii. Identifying the need for Capital Expenditure/Investment
- iii. Deciding which Schemes are to be put forward
- iv. Prioritisation of Schemes put forward
- v. Member Approval Process
- vi. Options Appraisals, Feasibility Studies and Project Management process
- vii. Monitoring of the Capital Programme Expenditure

Key Criteria

For any particular budget setting year, the process starts in the Spring of the preceding year with sessions held with the operational Asset Management Working Group to discuss the key criteria by which scheme proposals will be considered. These may include:

- *How does the scheme contribute to the Councils Plan and Targets?*
- *Is this scheme a statutory requirement?*
- *Does the scheme generate any on-going revenue savings?*
- *What are the costs and revenue implications*
- Does the scheme contribute to an improved service provision/ reduction in risks?

Identifying the need for Capital Expenditure/Investment

The need for a capital scheme may be identified by a Service through one or more of the following processes.

- Services annually prepare Service Plans for the improvement of their areas (ensuring that their objectives meet the overall aims and objectives of the Council); these can identify any capital investment needed to meet future service demands. This is a good method to identifying and planning for service's capital requirements;
- Condition Surveys prepared by Design & Maintenance in consultation with Premises Managers and notified through Asset Management Working Group.
- Economic Development Strategy identifies needs in the local area and reports to the Project Management Board making future capital schemes known;
- Reviews and external Inspections may also identify areas that need capital Investment from Design & Maintenance and Premises Managers
- The need to respond to Government initiatives and new laws and regulations;
- The need to generate a revenue income to contribute to the funding of services.

These capital plans are raised and discussed at Asset Management Working Group and Project Management Board.

Chief Officers and Portfolio Holders must identify their key capital priorities for the relevant service planning period by the end of summer each year.

Deciding which Schemes are to be put forward

Once the list of key capital priorities has been identified, in preparing capital project proposals consideration should be given to the key criteria identified earlier in the year. Additionally, consideration should be given to:

Prudence:

- Recognition of the capacity in the organisation to deliver such a programme;

- Recognition of the knowledge and skills available and whether these are commensurate with the appetite for risk;
- Recognition of the future vision of the authority;
- The approach to commercial activities including ensuring effective due diligence, expert advice and scrutiny, defining the risk appetite and considerations of proportionality in respect of overall resources;
- The approach to treasury management and the management of risk as set out in the Treasury Management Strategy.

Affordability:

- Revenue impact of the proposals on the 10 year financial strategy;
- The borrowing position of the Council, projections of external debt and the use of internal borrowing to support capital expenditure;
- The authorised limit and operational boundary for the following year;
- Whether schemes are profiled to the appropriate financial year.

Sustainability:

- A long-term view of capital expenditure plans, where long term is defined by the financing strategy and 10 year capital programme and consideration is given to risks faced with reference to the life of the project/assets;
- Provision for the repayment of debt over the life of the underlying debt as set out in the Minimum Revenue Provision policy;
- An overview of asset management planning including maintenance requirements and planned disposals.
- All bids are produced in line with the appropriate timetable with consideration for the financial information contained within the bid.
- Project Management Board is briefed and understand the service need and the budget consequences, both revenue and capital, of completing the scheme.
- Possible sources of funding are considered for each of the proposed capital
- Schemes - each project will be considered in terms of revenue funding to cover the operational running costs of the asset and any borrowing repayment costs, and also how the asset will be funded in terms of capital expenditure.
- The proportionality of the proposals as a whole will then be considered in respect of overall resources and longer term sustainability and risk. The Director of Finance (Section 151 Officer) will take an overall view on the prudence, affordability and sustainability of the overall borrowing level if all bids are accepted.
- Project management board will then consider the bids from a corporate priority perspective.

Prioritisation of Schemes put forward

A formalised corporate system for prioritising capital projects has been adopted by the Council. This has resulted in:

- Identifying essential capital investment where needed for the 10 year capital programme;
- Utilising feasibility studies where needed;
- The ability to enter items into the capital programme in a managed way through firstly the annual Capital budget process and secondly when the capital programme is reviewed on a quarterly basis to Cabinet and council;
- Being mindful of the current level of the programme in relation to capacity to deliver, the relevant financing of schemes and any other running costs.

Member Approval Process

- In late summer, service managers and premises managers will list high level requests for capital projects for their Service to Project Management Board. Consideration will be given and funding allocated. More detailed Project Initiation Documents will be drawn up and finalised in late autumn.
- The overall capital programme is then reported to Cabinet which in turn make their recommendations to Council; this occurs in February before the beginning of each financial year.
- If the capital programme were to be scrutinised then Scrutiny committee can request this to occur and state the aspect that they require further information.
- Members approve the overall borrowing limit – Authorise Borrowing Limit - at the budget meeting in February each year as part of the Treasury Management Report. The taking of loans then becomes an operational decision for the Chief Finance Officer who will decide on the basis of the level of reserves and money market position whether borrowing should be met internally from the Capital Reserve/Capital Receipts or whether to enter into external borrowing.
- Once the Council has approved the capital programme, then expenditure can be committed against these approved schemes subject to the normal contract procedure rules and the terms and conditions of funding.
- Whether capital projects are funded from grant, contributions, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets or identified (and underwritten) savings or income streams.
- Following approval by Council, the capital programme expenditure is then monitored on a quarterly basis to Cabinet and council.

Options Appraisal, Feasibility Studies and Project Management Process

- As part of the process of producing a list of potential schemes for the capital programme service managers and premises managers should complete option appraisals to determine the most cost effective and best service delivery options.
- The option appraisals will include the amount of capital expenditure required, the associated ongoing revenue implications and if there are any savings that result or income generating opportunities.
- Some projects may require a feasibility study. As part of any feasibility study an assessment of the maintenance costs per annum averaged over the whole life of the asset should be calculated. As a minimum this will be based on the RICS (Royal Institute of Chartered Surveyors) recommended benchmark figure prevailing at the time.

For major, complex and strategic projects, as part of setting the capital programme for new schemes and additions, the Council's project management documentation process is followed:

Stage One – Project Initiation

- the initial scheme is submitted to Management Team or Project Management Board which identifies the purpose, the proposed position, financial implications, and issues for consideration.

Stage Two – Project Development

- At this stage is the preparation of the Project Initiation Document occurs and is signed off for the direction of travel, noting the project risks and the initial projection of investment required to realise the project;

- The risk register, regular meetings, communications plans, design of the project etc will all be formed

Stage Three – Project Implementation

- The project commences, the procurement process is followed, the main contractors are appointed and the project is underway.
- The progress of the project is monitored on a regular basis in line with the requirements of the scheme

Stage Four – Project Review

- A final evaluation would be undertaken considering whether the project has met its initial objectives and reviewing all lessons learned.
- Further resources to progress any of schemes will need to be approved separately by Cabinet and/or at quarterly reporting to Cabinet and / or as part of the annual review of the capital programme and would be subject to the relevant resources being available

Monitoring of the Capital Programme Expenditure

Once the Capital programme has been set it is monitored on a quarterly basis through Project Management Board which is then reported to Cabinet and full Council.

Capital Financing / Funding

External Funding

- Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government. However, services must underwrite any cost overruns on externally funded schemes. If services bid for external funding for schemes and say at tender or during construction or procurement, costs exceed the available funding, then services must fund any shortfall from their existing resources (either revenue or capital) or raise the matter at Programme Management Board.
- Prior to submitting bids for grant funding, an assessment of the risk of a contract price increase, associated with market conditions or abnormal building plan demands attached to some grants, must be completed to estimate the likelihood of additional funding being needed. This is carried out between the service manager or premises manager and Design & Maintenance.
- In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from within existing service budgets or raise the matter at Programme Management Board prior to submitting any bid for funding.

Capital Receipts

- A capital receipt is an amount of money received from the sale of an asset. They cannot be spent on revenue items.
- Programme Management Board, along with the Director of Finance and Commercial (S151 Officer), will review all of the Council's property annually against the aims and objectives the Council Plan and Asset Management Strategy.
- The general policy is that any capital receipts are pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.

Revenue and Reserve Funding

- Services may use their revenue budgets to fund capital expenditure.
- The Director of the service and the Director of Finance (S151 Officer) along with Project Management Board will take an overview and decide the most appropriate way of funding capital expenditure

Prudential/Unsupported Borrowing

- Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so services need to ensure they can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing.
- Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The costs of borrowing must be affordable and the borrowing repayment and interest charges on the loan must be included in the Council revenue budget; it must also be factored into the medium term financial strategy accordingly.

- The Director of Finance (S151 Officer) will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.
- The view of the Director of Finance (S151 Officer) will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the corporate prioritisation system.
- The Director of Finance (S151 Officer) will also determine whether the borrowing should be from internal resources such as reserves or whether to enter into external borrowing.

Leasing

- The Director of Finance (S151 Officer) may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Director of Finance and Commercial (S151 Officer) must be certain that leasing provides the best value for money method of funding the scheme.
- Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.