



# Capital Strategy 2024/25 – 2027/28

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## Purpose

- 1.1 This document draws together various adopted strategies and agreed process of the Council that govern how the Council manages capital expenditure and investment decisions. The Capital Strategy brings these areas together in one overarching document.
- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code introduced the requirement for local authorities to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability. This Council's practices meet these outcomes and it's useful to set these out in one place to demonstrate this.
- 1.3 The Capital Strategy is a key document, it provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of desired outcomes. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.
- 1.4 Decisions made this year on capital and treasury management will have financial consequences for the Council for many years to come. They are therefore subject to both a national regulatory framework and a local policy framework, summarised in this report.
- 1.5 The Capital Strategy document covers the period from 2024/25 to 2027/28 and will be reviewed annually by Full Council prior to each financial year.

## Capital Expenditure

- 2.1 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. 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, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs, premise running costs and supplies and services.
- 2.2 The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, major maintenance that enhance assets, design and project management fees related to projects and the acquisition of vehicles and other items of equipment. Also included could be service and commercial investments if they relate to a purchase of an asset. The Council has an adopted de minimis level of £20,000 for expenditure to be classified as capital.

- 2.3 The Council's capital programme is approved as part of the annual budget setting process. Further budgeted capital expenditure and the capital financing of this is detailed within the treasury management strategy statement.

## Revenue Budget Implications

- 3.1 Any capital expenditure that is not immediately paid for through a revenue or capital resource leads to a capital financing need or gap, which will increase the Council's total Capital Financing Requirement (CFR). The CFR is a measure of the Council's underlying need to borrow to finance the total historic outstanding capital programme.
- 3.2 The medium term strategy is prudently maintaining an under-borrowed position, meaning that as a temporary measure the Council is using its own cash supporting reserves, balances and cash-flows rather than fully funding the CFR with external borrowing. This position will need to be reviewed in line with investment returns and counterparty risks.
- 3.3 Where a capital project increases the CFR or financing gap then a minimum revenue provision (MRP) must be made to reduce the borrowing amount over the life of the asset. The MRP and the interest payable on the borrowing (annual cost of borrowing) are charged to the revenue account each year and this will therefore impact on the Council's revenue budget and on-going medium term financial plan budget gap.
- 3.4 As part of the capital bids process any revenue implications of new capital programme items are captured. These details are readily available and highlighted if material otherwise all direct revenue implications are contained to the already available revenue funding. The main revenue budget implications for the Medium Term Financial Plan are highlighted to be the cost of financing additional works. It has been reported to members that broadly that for every £100k included, the impact of costs in the MTFP is £10k for 40 years.
- 3.5 The following table highlights this impact on the revenue budget for the General Fund:

Capital Financing Requirement					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
General	12,025	21,226	31,140	38,749	44,904
Service loans to third parties	4,359	3,662	2,338	2,226	1,308
Other loans to third parties	467	467	467	467	467
Investments	2,649	2,627	2,593	2,546	2,498
Projects for yield	0	0	0	0	0
<b>CFR General Fund</b>	19,500	27,982	36,538	43,988	49,177
<b>CFR HRA</b>	84,649	84,640	84,631	84,620	84,610
<b>Total CFR</b>	<b>104,149</b>	<b>112,622</b>	<b>121,169</b>	<b>128,608</b>	<b>133,787</b>
<b>Movement in CFR</b>	<b>9,329</b>	<b>8,473</b>	<b>8,547</b>	<b>7,439</b>	<b>5,179</b>

Movement in CFR represented by					
Net financing need for the year/ (surplus receipts)	9,456	8,851	9,154	8,318	6,288
Less MRP/VRP and other financing movements*	(127)	(378)	(607)	(879)	(1,109)

\* MRP = Minimum Revenue Provision. VRP = Voluntary Revenue Provision. Other financing movements will include any PFI/ finance lease annual principal amounts

3.6 The related prudential affordability indicator can be found in the treasury management strategy.

## Treasury Management Investments

- 4.1 Treasury Management investment activity 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.
- 4.2 Treasury Management investments need to ensure that the **security and liquidity of funds are placed ahead of the investment return**. The management of associated risk is set out in the Council's Treasury Management Strategy.
- 4.3 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service investments to deliver key objectives. The management of associated risk for these investments is set out in the Council's Place and Prosperity Framework.

## Links to other corporate strategies, plans and financial Governance documents

- 5.1 The Council Plan sets out the Council's ambitions and priorities with agreed outcomes which guide its work. These aims, priorities and objectives are in turn reflected in Service Plans.
- 5.2 To support the delivery of the Council Plan and Service Plans a number of key strategies/policies are in place; Financial Plan which contains The Medium-Term Financial Model and the Financial Sustainability Model, Capital Strategy, Asset Management Plan, Treasury Management Strategy.
- 5.3 There are adopted documents which govern and put in place financial controls to ensure proper financial management, these are linked to this Capital Strategy, namely:
  - Treasury Management Strategy – This Strategy is approved annually and follows the Treasury Management Code published by CIPFA to govern treasury activities defined as: *The management of the organisations borrowing, investments and cash flows, its banking, money market and capital market transactions.*
  - The Prudential Code – The adoption of the Code is approved annually and follows the latest best practice as published by CIPFA to help ensure that the capital expenditure plans of the Council are affordable, prudent and sustainable.
  - Place and Prosperity Framework - The Framework sets out the mechanism where Place and Prosperity investment proposals will be screened against the borrowing requirements of the Public Works Loan Board in a standardised way with sufficient assessment of the risk.
  - Project Management Guidelines – These govern the way the Council will appraise and monitor the delivery of key projects which in the main are those within the capital programme.
- 5.4 The operation of all these strategies are underpinned by the Council's constitution, in particular the Contract Standing Orders and Financial Regulations.
- 5.5 Capital resources should be directed to those programmes and projects that optimise the achievement of corporate aims. The following processes are designed to ensure this:

## Capital Programme Setting Process

- 6.1 The preparation of the draft Capital Budget is directed by the Budget Setting and Capital Allocations Panel who meet specifically in December each year to consider scheme proposals. The Panel considers funding resources available, the capital appraisal process and each scheme proposal. Recommendations are made from this Panel to Cabinet who consider all aspects of the annual Revenue and Capital Budget to make recommendations to Council. Draft proposals are also presented to Joint Scrutiny and Overview Committee for consideration and recommendations.
- 6.2 The capital appraisal process is used to build a capital programme aimed at delivering the Council's stated priorities and ensuring schemes meet set gateways:
- Gateway 1 fully financed – external grants pay fully for the project, or revenue savings pay back capital investment inside 5 years
  - Gateway 2 statutory obligation – we have to do it by law
  - Gateway 3 contractual obligation – we have to abide by our contractual agreements
  - Gateway 4 critical business interruption – a major part of the Council's services would not be able to function

Each scheme is given a score against a set criteria such as how the project meets the Council Plan, its carbon impact, the risk involved, any part funding, invest to save and service provision. If gateways are passed then the project is approved subject to there being sufficient funds, scoring is considered to give priority against limited resources.

For each scheme proposed an Initial Project Proposal Form is completed as governed in the adopted Council's "Guide to Project Management".

- 6.3 This process governs for the formation of the Council's Capital Programme and how capital expenditure is approved. Two area of capital expenditure differ to this process:
- ICT Projects proposed by Strata (Jointly owned IT company who proved ICT support to the Council) this falls to the Strata Scrutiny and Executive Committees to consider and make recommendations to Cabinet.

- Community Infrastructure Levy supported schemes are considered and governed and recommended to Council by the Strategic Planning Committee.

6.4 An extract for the Council's Project Management Guidelines is reproduced below which clarifies roles and responsibilities regarding spending plans:

<b>Who</b>	<b>What</b>
<b>Council</b>	<ul style="list-style-type: none"> <li>• Approves the Council's spending plans including service plans – Annual</li> <li>• Adopts Council Plan.</li> </ul>
<b>Cabinet</b>	<ul style="list-style-type: none"> <li>• Recommends Council spending plans and service plans – Annually</li> <li>• Considers and makes recommendations on business cases for large scale projects. Ad hoc reports to Cabinet with cut off September for inclusion in forthcoming budget considerations.</li> <li>• Considers minutes of Strata JEC (ICT Projects).</li> <li>• Considers minutes of Strategic Planning for CIL (Infrastructure/123 schedule list)</li> <li>• Considers minutes of Budget Setting and Capital Allocations Panel (All other Capital Projects and overall financing implications).</li> </ul>
<b>Budget Setting and Capital Allocations Panel</b>	<ul style="list-style-type: none"> <li>• Recommendations to Cabinet projects to be included in the Annual Capital programme. Overview of Programme and funding. Receives Capital Appraisal Forms and Initial Project Proposal Document.</li> <li>• Monitors delivery of large projects and report to Cabinet through minutes any critical issues such as changes (realised or anticipated) to the business case, project plan, level of risk, or variation against the project budget.</li> <li>• Receive Post Project Evaluation reports for large projects.</li> </ul>
<b>Strata JEC</b>	<ul style="list-style-type: none"> <li>• Recommend to Cabinet IT projects for budget inclusion.</li> <li>• Monitor delivery of IT projects and report to Cabinet through minutes any critical issues such as changes (realised or anticipated) to the business case, project plan, level of risk, or variation against the project budget.</li> </ul>
<b>Strategic Planning - CIL</b>	<ul style="list-style-type: none"> <li>• Minutes to Cabinet identifying projects and any implications on the Council's Capital programme.</li> </ul>
<b>SLT</b>	<ul style="list-style-type: none"> <li>• Acts as Project Management Board.</li> <li>• Receives all project documentation and agrees next steps.</li> <li>• Monitors progress of projects, mainly by exception.</li> <li>• Receives requests for changes (realised or anticipated) to the business case, project plan, level of risk, or variation against the project budget and will refer as appropriate.</li> </ul>



Who	What
	<ul style="list-style-type: none"> <li>• Supports Cabinet in the review of the Council Plan and Service Plans</li> <li>• The Finance Director (CFO/S151) has overall responsibility for the Project Management process including training.</li> </ul>
<b>Senior Responsible Owner</b>	<ul style="list-style-type: none"> <li>• Will normally be a Director/Assistant Director but could be a senior manager for small projects.</li> <li>• Champions the project and has overall responsibility for its delivery.</li> <li>• Ensures that the business case is sound and manages the approval of the project.</li> <li>• Responsible for ensuring that an initial kick off meeting takes place with all the anticipated key players to discuss the vision of the project and likely issues (e.g. financial, legal, ICT) to allow for an early understanding of the level of support required internally.</li> <li>• Identifies the core Project Team at the kick off meeting including the Project Manager.</li> <li>• Provides support to the Project Manager.</li> <li>• Ensures the Project Manager has all the resources necessary to deliver the project at their disposal.</li> <li>• Resolves any issues at a level outside the scope of the Project Manager, for example resources/priorities.</li> <li>• Refers issues by exception to ELT/SLT.</li> <li>• Reports to the relevant Portfolio Holder, Cabinet, Overview, Scrutiny, or Audit &amp; Governance Committees or Budget Setting and Capital Allocations Panel.</li> </ul>
<b>Project Manager</b>	<ul style="list-style-type: none"> <li>• Will normally be a senior manager or an appropriately qualified/experienced officer.</li> <li>• The role should not be shared and is the single focus for day-to-day management of the project.</li> <li>• Responsible for producing project documentation including the PID and PPE.</li> <li>• Manages the project delivery including management of the project budget and Project Team (where appropriate).</li> <li>• Responsible for ensuring effective completion of the project as specified in the PID.</li> <li>• Keeps the Senior Responsible Owner regularly informed of progress and of any significant deviation from the project plan (realised and anticipated).</li> <li>• Responsible for producing monthly progress updates for relevant officer/team/group.</li> <li>• Ensures project team meetings are arranged as appropriate.</li> <li>• Provides reports as required by the Senior Responsible Owner.</li> </ul>
<b>Project Team</b>	<p>Not all projects will require a team for delivery. For some it will mean a cross service officer team, whilst others will also have member representation. A Project Team:</p>

Who	What
	<ul style="list-style-type: none"> <li>• Should be made up of officers who have the required skills, experience and knowledge to deliver the project.</li> <li>• Project Team members must be identified in the PID and their participation must be agreed by SLT to ensure there is enough capacity to support the project.</li> <li>• Project Team members must fully understand their roles and responsibilities.</li> <li>• Is responsible for carrying out tasks allocated by the Project Manager in accordance with the PID and is collectively responsible for the delivery of the project.</li> <li>• Provides progress updates to the Project Manager (frequency to be defined by Project Manager) and raise issues as they occur.</li> <li>• The size of the Project Team can vary depending on the type and scope of project.</li> <li>• All large projects must also include a representative of Finance and Legal on the Project Team.</li> </ul>

## Monitoring of the Capital Programme

- 7.1 Once the detailed capital programmes has been approved by Members, the financial spend is monitored on a monthly basis. Monitoring is reported through to Cabinet in the Budget Monitoring reports.
- 7.2 Additional governance is in place for key project and these are monitored through the Budget Setting and Capital Allocations Panel with minutes presented to Cabinet:

Requirement	Project Type		
	Small	Medium	Large
Monthly Monitoring Reports covering; budget, time, milestones, risk register.	Optional – presented Assistant Director/Director	Yes – presented to SLT Project Board (mthly)	Yes – presented to SLT project board (mthly) & BSCAP (qtrly)
Post Project Evaluation Document.	No	Yes – presented to SLT Project Board	Yes – Presented to SLT Project Board & BSCAP

## Service/Commercial Investments

- 8.1 The Authority may undertake two distinct types of investment; treasury management investments and service/ commercial investments.

- 8.2 Service or commercial investments are those investments made outside of the day to day treasury management activity which could be either made in support of service provision, for example economic regeneration or commercial whereby the investments have been undertaken purely for the purpose of generating financial returns.
- 8.3 There is a regulatory and statutory recognition that investments may be made for policy reasons outside their treasury management activity. To ensure that all investment decisions are made in a structured and informed manner with due consideration to both the risks and rewards stemming from that decision, the CIPFA Treasury Management Code covers both types of investment.
- 8.4 The Authority has service investments and zero commercial investments.
- 8.5 The Place and Prosperity Framework governs and determines the Council's risk appetite and controls on service type capital expenditure and defines the governance and monitoring arrangements.
- 8.6 The implications on Council borrowing linked to any future investments will need to be factored into the Council's Prudential Indicator calculations.
- 8.7 The revised Prudential Code makes clear that local authorities must not borrow to invest primarily for financial returns.

## Funding Strategy and Capital Policies

This section sets out the policies of the Council in relation to funding capital expenditure and investment.

### 9.1 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. The capital appraisal processes significantly favours projects that attract external funding.

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.

In respect of match funding bids then the relevant service must fully identify the necessary match funding resources from either within existing budgets or

schemes need to be submitted as part of the normal capital appraisal process if additional funding is being sought.

## 9.2 Capital Receipts

A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. They cannot be spent on revenue items. Repayments of capital grants, loans and investments also generate capital receipts. The Council is currently also permitted to spend capital receipts on service transformation projects for a further 3 years from 2022/23.

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. The Council has deemed that Housing Revenue Account (HRA) generated capital receipts are used to support HRA capital expenditure only.

## 9.3 Revenue Funding

Services may use their revenue budgets to fund capital expenditure, this may be via earmarked reserves. The Council will consider any corporate funding of capital from revenue as outlined in the annual budget report, previously a significant proportion of the Council's New Homes Bonus Grant was used to finance capital but due to grant reductions this is no longer the case.

The Director for the Service and the Finance Director (CFO/S151) will take an overview and decide the most appropriate way of funding the service areas. In doing that the Finance Director (CFO/S151) will take account of the strategy regarding the levels of general and earmarked reserves.

## 9.4 Prudential 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 the Council needs to ensure it can fund the repayment costs. This borrowing may also be referred to as Prudential Borrowing. The Council's Minimum Revenue Provision Policy sets out a prudent approach to the amount set aside for the repayment of debt.

Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. The Council must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets or the Council must see this as their key priority for the budget process and to be factored into the Financial Plan and medium term financial plan calculations accordingly.

The Finance Director (CFO/S151) 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 Finance Director (CFO/S151) will be fed into the corporate bidding process and inform the Budget Setting and Capital Allocation Panel 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 Finance Director (CFO/S151) will also determine whether the borrowing should be from internal resources or whether to enter into external borrowing.

## 9.5 Leasing

Directors may enter into finance leasing agreements to fund capital expenditure however, a full option appraisal and comparison of other funding sources must be made and the Finance Director (CFO/S151) is required to be consulted to ensure 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.

## Procurement and Value for Money

- 10.1 The Council uses Devon Procurement Services, processes have been defined and guidance and training is available to officers through this Procurement Team which ensures officers can evidence they are seeking to achieve value for money in procurement.
- 10.2 It is essential that all procurement activities comply with prevailing regulations and best practice. Guidance on this can be sought from the Procurement Team. Procurement activities must comply with the Council's Contract Standing Orders and Financial Regulations.

## Partnerships and Relationships with other Organisations

- 11.1 Capital planning will be undertaken within the context of the Council Plan and wherever possible and subject to the usual risk assessments services should look to expand the number of capital schemes which are completed on a partnership basis and continually look for areas where joint projects can be

implemented. This principle is taken into account in the capital appraisal process with higher priority given to such schemes.

## Management Framework

- 12.1 The governance structure of the Council has the Strategic Leadership Team that takes a strategic and group view on the capital programme and investments. This Strategy outlines the key roles and responsibilities of member groups and committees in this process.

## Performance Management

- 13.1 Clear measurable outcomes are developed for each capital scheme in the Project Initiation Document (PID). After the scheme has been completed, services should check if outcomes have been achieved. For medium and large projects these are required to be specially reported and reviewed under the Project Management Guidelines (see above).

## Risk Management

- 14.1 Risk is the threat that an event or action will adversely affect the Council's ability to achieve its desired outcomes and to execute its strategies successfully.
- 14.2 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.
- 14.3 The aim 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. Project Managers for medium and large capital projects are required to maintain and report on their individual project risk register, highlighting any risks which are deemed after mitigation to be medium to high.
- 14.4 It is important to identify the appetite for risk by each scheme and for the capital programme, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle applies of control of risk and optimising returns consistent with the level of risk.
- 14.5 The Council accepts there will be a certain amount of risk inherent in delivering the desired outcomes of the Council Plan. The Council seeks to keep the risk of capital projects to a low level whilst making the most of opportunities for improvement. Where greater risks are identified as necessary to achieve desired outcomes, the Council seeks to mitigate or manage those risks to a tolerable level. All key risks identified as part of the capital planning process are considered for inclusion in the corporate risk

register and all medium and large projects are identified in the Council Performance Management System (Spar) with a rag rating against current risk assessment.

- 14.6 The risks with any long-term strategy is the unknown or unexpected events which will require large scale capital investment. Whilst the Treasury Management Strategy has sufficient headroom within its borrowing limits to deal with such situation, the impact of the borrowing costs are much harder to be protected against.

## Knowledge and Skills

- 15.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council will use the services of other specialists and consultants as necessary. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

## Other Considerations

- 16.1 Capital Schemes must comply with legislation, such as the Disability Discrimination Act, the General Data Protection Regulations (GDPR), building regulations etc.