

Report to Executive

Meeting Date: 2 August 2021
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref: KD08/21
 Within Policy and Budget Framework: The YES
 Public / Private: Public

Title: DRAFT CAPITAL INVESTMENT STRATEGY 2022/23 - 2026/27
 Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
 Report Number: RD29/21

Purpose / Summary:

The Council's draft Capital Investment Strategy is intended to direct the Council's Capital Programme and the allocation of resources for the five-year period 2022/23 to 2026/27. The guidance in this strategy complements and supplements the Medium-Term Financial Plan.

Following consideration by the Executive, the Business and Transformation Scrutiny Panel will consider the draft on 26 August, with final recommendations to Council on 14 September 2021.

Recommendations:

The Executive is asked to:

- (i) Comment on the draft Capital Investment Strategy for consideration by the Business and Transformation Scrutiny Panel on the 26 August 2021.

Tracking

Executive:	2 August 2021
Overview and Scrutiny:	26 August 2021
Executive	31 August 2021
Council:	14 September 2021

1. BACKGROUND

- 1.1 The Capital Investment Strategy is a key policy document, providing guidance on the Council's Capital Programme and the use of capital resources. The Strategy supplements guidance contained in the Medium-Term Financial Plan (MTFP).
- 1.2 The Capital Investment Strategy is reviewed annually alongside the MTFP, starting with the assumptions made in the Budget Resolution approved by Council on 17 February 2021. This position has been updated to reflect any known changes since that date.
- 1.3 The Strategy has been updated to reflect the guidance contained within the recent CIPFA publication '*Capital Strategy Guidance 2021, a whole organisation approach*', and now includes more details on the Council's Strategic Vision and Long-Term Ambitions.

2. KEY MESSAGES

- 2.1 The Capital Investment Strategy shows the starting position for the budget considerations for the next five years and gives an indication of the likely factors that will have an impact in the budget setting process. The Capital Programme and the financing of the programme are going to play an important role in shaping future budget considerations due to:
 - The re-profiling of asset sales will be updated as part of the budget process, especially in regard to the timing and level of receipts impacted as a result of COVID-19; this may have a significant impact on the revenue budget through the requirement to fund the capital programme with an additional borrowing requirement;
 - Additional Capital investment decisions will likely require revenue funding, either as a direct contribution from revenue reserves or through borrowing costs;
- 2.2 Although there is a forecast borrowing requirement to fund the capital programme, there are some factors that will also need consideration. These are:
 - Asset sales generating receipts over current estimate levels will reduce any borrowing requirement;
 - The ability to make a recurring revenue contribution to fund the capital programme will reduce any borrowing requirement;
 - A review of the current programme may relieve some of the expenditure pressures.

- 2.3 The Council was notified on 21 July of the outcome of the consultation into proposed Local Government Reorganisation (LGR) in Cumbria. The draft MTFP and Capital Investment Strategy have both been prepared based on the Council in its existing form and structure as a going concern for the next 5 years. However, the decision announced on 21 July notified the Council that, subject to Parliamentary approval, two new unitary authorities would replace the current local government structure in Cumbria, with Carlisle joining with Copeland and Allerdale areas to form a new unitary authority covering the west of the County, effective from 1st April 2023. The Council still needs to approve a revenue budget, council tax requirement and a capital investment programme for 2022/23. Therefore, the financial plans beyond this date are for illustrative purposes only and will fall under the responsibility of the new proposed Authority.

Any new Local Authority established will prepare its own Medium-Term Financial Plan for 2023/24 and beyond.

3. RISKS

- 3.1 The Capital Investment Strategy contains risk analysis of the issues that could potentially affect the budget and financial planning position.

4. CONSULTATION

- 4.1 The draft Capital Investment Strategy has been considered by the Senior Management Team and the Portfolio Holder for Finance, Governance and Resources.
- 4.2 The Business and Transformation Scrutiny Panel will consider the report on 26 August and recommendations made to full Council on 14 September 2021.

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 5.1 The Executive is asked to:
Comment on the draft Capital Investment Strategy for consideration by the Business and Transformation Scrutiny Panel on the 26 August 2021.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 6.1 The Capital Investment Strategy contains the current capital programme and how this aims to enhance the Carlisle area through the development of new infrastructure to both improve service delivery and provide additional facilities in the area.

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**Appendices
attached to report:**

Appendix 1 – Capital Investment Strategy 2022/23 to 2026/27

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: • None

CORPORATE IMPLICATIONS/RISKS:

Legal – The Council has a fiduciary duty to manage its resources correctly. The Capital Investment Strategy is an important part of the budgetary process and seeks to ensure a planned and coordinated approach to the delivery of projects within the parameters of our financial resources.

Finance – contained within the report

Equality – Strategy includes expenditure forecast for Disabled Facility Grants

Information Governance - There are no Information Governance Implications

Property – The Capital Investment Strategy links with the Asset Management Plan 2022/23 to 2026/27 to provide details on how the City Council will utilise its property assets to assist with the Council's finances and the development of new infrastructure for the City.

Draft Capital Investment Strategy

Carlisle City Council

2022/23 to 2026/27

Contents

1.0	Introduction.....	2
2.0	Financial Principles supporting the Capital Investment Strategy	6
3.0	Strategic Vision / Long-term ambitions	9
4.0	Capital Expenditure	14
5.0	Debt, Borrowing and Treasury Management.....	19
6.0	Commercial Activity	26
7.0	Knowledge and Skills	29

1.0 Introduction

- 1.1 The Capital Investment Strategy (CIS) is a key policy document for the Council and provides guidance on the Capital Programme and the use of capital resources and Asset Management Plans. The strategy reflects the links to other Council plans and is based on the guidance in the Medium-Term Financial Plan (MTFP). The Capital Investment Strategy is written following guidance included in the Prudential Code (2017) (which is due to be updated later in 2021), reflects the new CIPFA Capital Strategy Guidance 2021 ‘A *whole organisation approach*’ and is required to be approved by Full Council.

The objectives of the Capital Investment Strategy are to:

- Provide an overview of the governance process for approval and monitoring of capital expenditure;
- Provide a longer-term view of capital expenditure plans;
- Provide an overview of asset management planning;
- Provide expectations around debt and use of internal borrowing to support capital expenditure;
- Define the authority’s approach to commercial activities including due diligence and risk appetite;
- Defines the available knowledge and skills to the authority in relation to capital investment activities.

- 1.2 Capital spending is strictly defined and is principally incurred in buying, constructing or improving physical assets such as buildings, land and vehicles, plant and machinery. It also includes grants and advances to be used for capital purposes. The Council’s policy on capitalisation is included in the Accounting Policies of the Statement of Accounts. The policy states that items of vehicle, plant and equipment over £5,000 will be capitalised and expenditure on land, buildings and other structures over £20,000 will be capitalised. Expenditure under these limits is deemed to be a revenue cost.

- 1.3 The Council was notified on 21 July of the outcome of the consultation into proposed Local Government Reorganisation (LGR) in Cumbria. The draft MTFP and Capital Investment Strategy have both been prepared based on the Council in its existing form and structure as a going concern for the next 5 years. However, the decision announced on 21 July notified the Council that, subject to Parliamentary approval, two new unitary authorities would replace the current local government structure in Cumbria, with Carlisle joining with Copeland and Allerdale areas to form a new unitary authority covering the west of the County, effective from 1st April 2023. The Council still needs to

approve a revenue budget, council tax requirement and a capital investment programme for 2022/23. Therefore, the financial plans beyond this date are for illustrative purposes only and will fall under the responsibility of the new proposed Authority.

Any new Local Authority established will prepare its own Medium-Term Financial Plan for 2023/24 and beyond.

1.4 **Evaluation and Monitoring of Capital Projects**

The evaluation and monitoring of capital projects is important to enable the Council to determine:

- If projects have met their individual objectives for service provision,
- If projects have been delivered on time and to budget, or whether lessons need to be learned to improve processes in the future,
- If projects have contributed to the overall aims and objectives of the Council.

1.5 To assist with these processes, the Council has a series of procedures in place as a capital project develops. These consist of: -

- Consideration of all aspects of a capital project by the Transformation Sub-Group, comprising senior officers of the Council, whose purpose is to lead on the prioritisation of capital investment through the consideration of business cases and the ongoing monitoring and evaluation of individual capital projects. All proposals for investment will be submitted to members for consideration as part of the normal budget process.
- The development of a risk-assessed project plan for every project, which is subject to regular monitoring against key milestones by a nominated project officer.
- Changes to capital budgets, scheme costs, the inclusion or removal of individual schemes and information on remedial action needed to bring projects back on track are reported to Council as required.
- The Senior Management Team and the Executive receive quarterly monitoring reports on the Capital Programme to review progress on the delivery of projects. This process also includes the evaluation of completed capital projects to assess if their individual aims and

objectives have been met and makes recommendations where necessary to improve the delivery of similar projects in the future.

- The Council's Business and Transformation Scrutiny Panel also critically examines the performance in delivering capital projects on a quarterly basis.

1.6 **Current Asset Portfolio**

The Council holds a significant asset portfolio that supports both its operational activities and non-operational activities from which it receives significant rental income.

The rental income it receives is used to support Council services and provides a significant proportion of the income it receives. The income from rentals on the non-operational asset portfolio is approximately 60% of what the Council receives in funding from Council Tax.

Asset Category	Valuation 31/03/21 £000	Rental Income £000	Other Income £000	Total Income 21/22 £000
Investment Property	89,379	4,143	0	4,143
Surplus Assets	1,143	0	0	0
Land & Buildings	50,276	0	4,036	4,036
Infrastructure	5,080	0	0	0
Community Assets	4,195	23	0	23
Dwellings	230	0	0	0
Vehicles Plant & Equipment	5,810	0	0	0
Heritage	19,502	0	0	0
Assets Under Construction	5,741	0	0	0
TOTAL	181,356	4,166	4,036	8,202

Investment Property (Non-Operational)

These assets include Industrial Estates, land held for capital appreciation and rental income and the Lanes Shopping Centre

Surplus Assets (Non-Operational)

These assets include land held that do not generate significant rental incomes or are held for capital appreciation

Assets Held for Sale (Non-Operational)

This relates to assets that have been identified for sale and are in the process of being disposed at the Balance Sheet date.

Land & Buildings (Operational)

These are operational properties that are used to deliver council services and include Council accommodation, community centres, car parks and hostels

Infrastructure (Operational)

These assets include bridges and footpaths

Community Assets (Operational)

These assets include parks and open spaces

Dwellings (Operational)

These assets are primarily homeshares used by the homelessness service

Vehicles, Plant and Equipment (Operational)

These assets are used in the delivery of Council services and include all Council owned vehicles, IT equipment, play equipment and green spaces equipment

Heritage (Operational)

These assets relate to items of heritage and include the Tullie House Museum Collection and statues and monuments.

Assets Under Construction (Non-Operational)

These are assets that are in the course of construction but have not yet been completed.

The assets held on the balance sheet are offset by the long-term debt currently held on the balance sheet. As at 31 March 2021, this totalled £12.8million, which represents a debt cover ratio of 7.05%.

2.0 Financial Principles supporting the Capital Investment Strategy

2.1 Capital expenditure is to be incurred in line with Financial Procedure Rules as follows:

- The Corporate Director of Finance and Resources is responsible for ensuring that a capital programme is prepared on an annual basis for consideration by the Executive before submission to the Council (FPR2.14);
- Capital Programme – Key controls and responsibilities of the Corporate Director of Finance and Resources and Corporate Directors (B.51 – B.66).

2.2 The key principles to be applied to the Capital Investment Strategy are set out below:

- Capital resources are held corporately and are allocated according to the priorities set out in the Carlisle Plan (i.e. there is no automatic ring-fencing of resources for specific purposes with the exception of the repayment of Renovation grants);
- Capital receipts will be allocated in accordance with Council priorities;
- Specific repayments of Renovation Grants will be reinvested in the programme and be used to support Private Sector Renewal Grants;
- Income generated from the sale of vehicles, plant and equipment will be reinvested in the programme and be used initially to fund future replacements;
- The Council will seek to maximise the use of grants and external funding;
- The Council is committed to deliver capital investment with partners to maximise benefits where this fits with Council priorities;
- Redirection of capital resources from one project to another will be contained within existing budgets, unless increases can be justified through the budget process;
- Capital budgets are generally cash-limited i.e. no provision is made for inflation which effectively means that over time there is a real reduction in the value of resources allocated to specific capital projects;
- Council Tax increases will be limited to fair and reasonable levels. This requires a full assessment of the revenue consequences of capital projects and their respective methods of finance;

- Any shortfall against the capital receipts forecast to be received will have significant implications on the ability to deliver the forecast levels of investment without incurring borrowing;
- Review of capital financing decisions which will likely have a revenue budget impact due to lack of capital resources (E.g. through re-profiling of capital receipts and borrowing);
- Review the Asset Review Business Plan to see if any asset sales can be re-profiled and whether expected proceeds require revision;
- In order to reduce the exposure of the council to a borrowing requirement the following steps should continue to be examined:
 - Review of existing capital programme to ensure that schemes are still required and are accurate;
 - Maximisation of the use of grants and contributions from external sources;
 - Providing a recurring revenue contribution to the capital programme;
 - Invest to save schemes that can repay the capital investment over a period of time.

Capital Investment Assumptions:

- *The current capital programme is forecast to utilise all forecast capital receipts and includes a borrowing requirement to fund the planned programme.*

2.3 **Carlisle Plan and Other Council Strategies, Plans and Policies**

The Carlisle Plan forms part of the Policy and Budgetary Framework for the Council. These frameworks work together to create the strategic framework.

A new plan is in the process of being considered by Executive and Scrutiny Panels and will be debated by a meeting of the Full Council in September prior to its adoption. The new plan will continue with a focus on Supporting the Economy and Health & Wellbeing.

The Capital Investment Strategy must both support and inform the Council's vision for the Carlisle area and the strategic direction set out in the Carlisle Plan. This is to enable resources to be matched against the agreed priorities and any other supporting needs.

The Capital Investment Strategy takes account of other Council Plans and Strategies of the Council, which have a potential impact on the use of

resources by the Council. Particularly consideration is given to the following key strategies:

- The Medium-Term Financial Plan, which provides information on the proposed revenue budget and considerations that will impact on future budgets.
- The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy, which sets out the assumptions for financing requirements and interest rates and their effect on the revenue budget.
- The Asset Management Plan, which provides forecasts of necessary investment in the Council's land and property portfolio.
- The Procurement and Commissioning Strategy.
- Local Plan/Local Development Framework.
- The ICT Strategy.
- The Organisational Development Plan, which highlights the need for a thorough review of the Council's staffing needs and skill levels to ensure that the Council improves its performance to deliver excellent services to the local community in the future.
- There are also a number of strategies, which set out policy direction for key Council priority areas, and these include the Economic Strategy, Local Environment (Climate Change) Strategy, and Housing Strategy.
- Directorate Service Plans will be used to inform the budget setting process and identify key strategic and operational objectives and the resources required to deliver those.

3.0 Strategic Vision / Long-term ambitions

3.1 The Council recognises the vital contribution its Capital Investment Strategy and its asset portfolio play in the economic growth and health and wellbeing of the area.

3.2 **Economic Strategy**

The Capital Investment Strategy needs to allow the Council to achieve its strategic ambition to see economic investment and growth in the City. The CIS also needs to recognise the ambitions of the Council in improving the health and wellbeing of the area.

The priorities and key actions that will require capital investment implications of the Economic Strategy that should inform capital investment decisions are:

- ***Driving housing and population growth***
 - Production a Local Plan for St Cuthbert's Garden Village
 - Remediation of the Caldew Riverside site
 - Development and delivery of the first phase of 'Start with the Park'
- ***Growing our target employment sectors and levelling up our skills base and productivity***
 - Supporting the redevelopment of the Citadels
- ***Increasing city centre vibrancy***
 - Creation of a new events space at the Greenmarket
 - Redevelopment of the Sands Centre
 - Improvements to the Market Hall
 - Redevelopment of the Central Plaza site
- ***Enhancing digital and transport connectivity***
 - Supporting the delivery of Carlisle Station Gateway project
 - Supporting the delivery of the Southern Link Road and Gateway projects
 - Supporting the production of a Carlisle Local Cycling and Walking Infrastructure Plan
- ***Supporting rural development and innovation***
- ***Promoting Carlisle as a place to live, work and visit***

3.3 **Climate Change Strategy**

The Council approved the Local Environment (Climate Change) Strategy in March 2021 with the aim of ensuring that the Council plays its full role in protecting the environment and in the worldwide movement which aims to tackle climate change. The commitment is, subject to public consultation and legal constraints, that all the activities of the Council, all strategic decisions, budgeting, and, in so far as the Council can influence, arrangements with partners, are in line with eliminating pollution and achieving net zero carbon emissions at the earliest possible date.

The Strategy highlights that the following projects are underway, which together will significantly reduce the Council's greenhouse gas emissions:

- Sands Centre Redevelopment.
- Civic Centre Ground Floor Reinstatement.
- Replacement of footway lighting with energy efficient lamps.
- Ongoing replacement of fleet and plant with lower carbon vehicles and equipment.
- Waste management and recycling initiatives at operational sites.

The Council is also delivering projects to help reduce Carlisle district's greenhouse gas emissions:

- Community Electric Vehicle Charging Points.
- Improvements to the cycling and walking infrastructure, increasing the network for active transport.

The Council is also working in partnership to adapt to Climate Change; over the next three years Carlisle will benefit from the delivery of new flood defences and upstream natural flood management projects.

In order to achieve the strategic goal of net zero greenhouse gas emissions the following objectives are set out in the Strategy and will potentially require capital investment decisions to achieve:

Objective 1: Reducing emissions from the City Council estate and operations.

Objective 2: Reducing energy consumption and emissions from homes and businesses in Carlisle and tackling fuel poverty, by promoting energy efficiency measures, sustainable construction, renewable energy sources and behaviour change.

Objective 3: Reducing emissions from transport by promoting sustainable transport, reducing car travel and traffic congestion and encouraging behaviour change.

Objective 4: Reducing consumption of resources, increasing recycling and reducing waste.

Objective 5: Supporting Council services, residents and businesses to mitigate against and adapt to the impacts of Climate Change

3.4 **Asset Management Plan**

The Asset Management Plan sets out the Council's approach to managing its land and property assets and aligns to Council's policies and strategies. The Plan has the following strategies that it aims to follow in managing the Council's property portfolio:

Operational Property Investment Principles

- Investment will be made where a property is required for the medium or long-term use, enhances service delivery, improves environmental sustainability, improves utilisation, increases efficiency, adds value, and addresses statutory obligations.

Non-Operational Property Strategy

- To own property that supports the growth of Carlisle and the Economic Strategy, provides a sustainable income stream, is a key component of the Medium-Term Financial Plan.

Non-Operational Property Investment Principles

- Commercial property will only be held where it provides an acceptable financial return, there is potential to deliver economic development objectives, it contributes to the delivery of other Council priorities, it addresses legal or contractual liabilities and obligations.

Surplus Property Strategy

- the Council will dispose of surplus assets on a freehold or leasehold basis at best consideration. Disposals at less than best consideration may be agreed subject to the necessary statutory and Council approvals.

Surplus Property Principles

- operational and non-operational property will be sold unless occupied for service provision, used to deliver social, housing,

economic or environmental benefits meeting agreed priorities, or it is a long-term strategic investment.

Property Acquisition Strategy

- the Council will acquire assets; that improve service delivery, assist with delivery of Economic Strategy, develop opportunities to assemble sites to deliver Council objectives, improve the financial returns and deliver the Asset Review Business Plan.

Property Acquisition Principles

- property will only be acquired where whole life costings and option appraisal exercises are undertaken and meet set target criteria around risk, income returns and yields.

3.5 External and Partner Influences

Capital investment decisions will be influenced by both internal and external factors.

Projects for inclusion in the capital programme arise from a variety of sources, some of them internally generated and some arising from external factors.

The more significant of these are summarised as follows:

Internal Factors	External Factors
Corporate Priorities	Government sponsored programmes, e.g. Disabled Facilities Grants, Town Deal, Future High Street Fund, Borderlands
Investment identified in strategies, policies and plans	Unforeseen emergency works
Work needed to maintain Property assets	Works required to comply with legislation e.g. disabled access, health & safety
Vehicles, Plant and Equipment replacement needs	Projects resulting from partnership activity
ICT Investment and replacement	Availability of external funding
Invest to save projects	Public expectation that works should be carried out

The Council works with a wide range of partners from the public, private, voluntary and community sectors, all of which have an influence over its spending priorities. These include, but are not limited to:

- Central Government
- Other Local Authorities

- Health sector
- Further and Higher education sector
- Charity, social and not for profit sector
- Private sector
- Community Projects

4.0 Capital Expenditure

4.1 Capital Investment Priorities

The Capital Investment Strategy needs to ensure that any capital investment decisions are both affordable and achieve the priorities as set out in the Carlisle Plan. The Council is at a point where capital resources have become scarce and as such any investment in assets will have implications on the revenue budget.

The Capital Investment Strategy must therefore recognise the implications of capital investment decisions and ensure that they are in line with Council priorities and financing requirements are robustly evaluated and understood.

The current capital programme includes provision for investment in new Leisure facilities primarily funded from borrowing that will be offset by a reduction in the subsidy payable on the Leisure contract. The programme also includes provision for a contribution towards the Carlisle Southern Relief Road.

Other capital investment opportunities may present themselves over the lifetime of the MTFP; each will be subject to further business cases on investment opportunities and the benefits that could be made from those investments.

All business cases are subject to due diligence to ensure that they afford the best value for money for the Council, align with its core priorities and do not expose the Council to unnecessary risk that could put future delivery of services in jeopardy. Further details on the Council's attitude to risk and due diligence is given at section 6 (Commercial Activity).

The table below shows the current capital resources before any new decisions around capital investment are made.

	Budget	Forecasts				
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Borrowing Requirement B/Fwd	19,521					
Estimated resources available in year (Table 3)	(8,210)	(9,694)	(3,087)	(3,087)	(3,332)	(2,887)
Proposed Programme (Table 2)	29,649	15,662	4,098	3,976	3,462	3,184
In-Year Borrowing Requirement	21,439	5,968	1,011	889	130	297
MRP And Repayment of Debt	(12)	(292)	(421)	(1,055)	(1,288)	(1,253)
Cumulative Borrowing Requirement	40,948	46,624	47,214	47,048	45,890	44,934

Table 1: Current Capital resources

4.2 **Current Expenditure Forecast**

The Council approved the current forecast for the period 2021/22 to 2025/26 in February 2021 and details are shown below adjusted for the outturn from 2020/21 and also for decisions made in relation to capital investment between April and June 2021.

	Budget	Forecasts				
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Disabled Facilities Grants	3,387	1,900	1,900	1,900	1,900	1,900
Vehicles Plant & Equipment	837	1,221	1,772	1,680	1,166	888
Property Enhancements	459	250	250	250	250	250
ICT Strategy	314	76	131	101	101	101
Recycling Containers	69	45	45	45	45	45
Leisure Facilities	16,923	3,450	0	0	0	0
Civic Centre Reinstatement	2,082	0	0	0	0	0
Crematorium Infrastructure	350	900	0	0	0	0
Energy Monitoring System	12	0	0	0	0	0
Future High Street Fund - Market Square	100	2,670	0	0	0	0
Planning Software	150	0	0	0	0	0
Play Area Improvements	195	0	0	0	0	0
Bits Park - Towns Deal	129	0	0	0	0	0
Cemetery Infrastructure	36	0	0	0	0	0
Skew Bridge Deck	67	0	0	0	0	0
Paton House	934	0	0	0	0	0
Caldew Riverside Remediation - Towns Deal	843	0	0	0	0	0
Swifts Wildlife Haven	70	0	0	0	0	0
Bits Park Water Feature	10	0	0	0	0	0
Gateway 44	896	0	0	0	0	0
On Street Charging infrastructure	103	0	0	0	0	0
LED Footway Lighting Installation	29	0	0	0	0	0
Rough Sleeping Initiative	10	0	0	0	0	0
Empty Property Grants	112	0	0	0	0	0
Flare Data Management System	0	150	0	0	0	0
Carlisle Southern Relief Road Contribution	0	5,000	0	0	0	0
Tullie House - Levelling Up Fund	1,500	0	0	0	0	0
Bits Park - Public Realm	32	0	0	0	0	0
Total Programme	29,649	15,662	4,098	3,976	3,462	3,184

Table 2: Current Capital Programme

4.3 **Current Resource Forecasts**

The Council's capital programme can be financed, (or paid for), through a variety of sources and the Corporate Director of Finance and Resources will make recommendations on the most effective and efficient way of financing the Capital Programme to optimise the overall use of resources. The availability of staff resources to deliver the approved programme will need to be considered during the budget process. Table 3 shows the estimated level of capital resources, which will be generated over the next five years.

	Budget	Forecasts				
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Capital Grants & Contributions	4,538	4,346	1,900	1,900	1,900	1,900
Capital Receipts (Asset Review)	1,379	3,461	200	200	445	0
Revenue Financing	2,293	1,887	987	987	987	987
Total Resources Receivable in Year	8,210	9,694	3,087	3,087	3,332	2,887

Table 3: Current Proposed Resources

There is a further £125,590 held within capital grants unapplied account that is not currently allocated to fund specific projects and is therefore not included within the figures above or the opening balances. These can only be utilised on projects linked to the original grant allocations.

4.3.1 Capital Grants

The Council receives one primary capital grant from central government to support its role in providing Disabled Facilities Grants. For 2022/23 the Council is budgeting to receive £1,899,800. For 2021/22, the final allocation was £2,155,600. The grant continues to be distributed through the County Council, as the Better Care provider, who then allocates funding to the District Councils.

4.3.2 Revenue Contributions and Reserves

The capital programme can also be financed through the use of reserves (both capital and revenue) although revenue contributions will have an overall effect on the General Fund revenue budget

4.3.3 Capital Receipts

Capital Receipts arise principally from the sale of Council capital assets.

The sale of assets as part of the Asset Review are now utilised to support the Capital Programme in the Capital Strategy. Sales (after costs) of £3.461million are included in the Capital programme to be achieved in 2022/23.

4.3.4 Borrowing Requirement

The cumulative in-year borrowing requirement in Table 1 identifies a potential need to borrow an additional £29.734million to fund the capital programme over the next five years. The brought forward borrowing requirement of £19.521million compares to actual brought forward external debt of

£13.319million. The current programme includes an expectation of borrowing £29.5million in 2021/22 and a further £6.507million in 2022/23. This does not include any borrowing requirement brought forward. The majority of the revenue cost of the borrowing is to be paid for through a reduction in the Leisure contract fee, increased income from Gateway 44 and potential developer contributions.

4.4 **Asset Management**

A separate Asset Management Plan is produced annually by the Council that outlines the ongoing asset management requirements to maintain the property portfolio. This Plan is considered alongside the MTFP and the Capital Investment Strategy.

The Council also maintains a Fleet Replacement Plan which outlines the anticipated replacement lifecycle for the main items of fleet it requires to operate services. This plan is updated annually and is fed into the budget process to determine the capital requirement.

5.0 Debt, Borrowing and Treasury Management

5.1 Borrowing

Rules on borrowing have been relaxed since the introduction of the Prudential Code in April 2004 with authorities now able to borrow as much as it wishes provided that it can afford the repayments from its revenue budget.

The Council has identified that it may need to undertake additional borrowing to fund the current capital programme including to support the development of Leisure Facilities, Gateway 44 project, Tullie House and Carlisle Southern Relief Road. The cost of this borrowing is included in the Medium-Term Financial Plan and is also offset by corresponding savings from the Council's Leisure Contract and income generated from Gateway 44, increased income and developer contributions.

Borrowing can be undertaken through external loans with, for example, the Public Works Loan Board (PWLB), or can be undertaken by utilising internal resources, i.e. investment balances. This is known as internal borrowing. External borrowing of £14million was undertaken through the PWLB in 2019/20 to support the Council's overall borrowing requirement.

The Corporate Director of Finance and Resources is delegated with responsibility for the financing of the capital programme and as such may make borrowing decisions based upon interest rates, the Council's cash flow projections and other economic factors, in order to optimise the overall use of resources. External advice will be sought from the Council's Treasury advisors, Link, if necessary.

In order to reduce the exposure of the council to a borrowing requirement the following steps should be examined when determining proposed capital programmes:

- Review of existing capital programme to ensure schemes are still required and are accurate;
- Maximisation of the use of grants and contributions from external sources;
- Providing a recurring revenue contribution to the capital programme;
- Invest to save schemes that can repay the capital investment over a period of time.

Where possible the Council will attempt to avoid using any debt financing for capital projects, however, it recognises that this is not always possible. In cases

where debt financing is unavoidable, the Council will consider robust business cases to ensure the servicing of debt costs can be adequately met from revenue resources without having an adverse impact on service delivery. Where possible, debt will be repaid at the earliest opportunity, and the type of borrowing undertaken will always reflect the need the Council has at the point in time it is taken out. The Council will look to repay all borrowing either before or upon its actual maturity profile.

5.2 **The Capital Financing Requirement**

The Capital Financing Requirement (CFR) represents the Council's underlying need to borrow. This is different to any actual borrowing. If the Council generates the same amount of resources in a year to meet its capital expenditure requirements, then there is no change to the CFR. However, if the Council spends more than the resources it generates in year, the CFR will increase as in effect the Council has created a borrowing requirement to bridge the gap in the resources it needs and the resources it has.

Although the CFR does not necessarily reflect actual borrowing taken from an external source, it can reflect the use of internal cash resources, i.e. internal borrowing.

Where the Council has a positive CFR, i.e. an underlying need to borrow, it must make provision to repay that 'debt', or repay the cash used through internal borrowing. This is known as Minimum Revenue Provision (MRP). The Council's current policy, as set out in the MRP Strategy is to charge MRP on a straight-line basis at 3% of the CFR. As MRP is a non-cash transaction it has the effect of increasing the cash balance of the Council.

The current forecast for the CFR and MRP based on the current capital programme is as follows:

	Budget	Forecasts				
	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Total Capital Expenditure	29,649	15,662	4,098	3,976	3,462	3,184
Capital Resources Receivable in Year	(8,210)	(9,694)	(3,087)	(3,087)	(3,332)	(2,887)
MRP & Other Repayment of Debt ¹	(12)	(292)	(421)	(1,055)	(1,288)	(1,253)
Change in Underlying need to borrow	21,427	5,676	590	(166)	(1,158)	(956)
CFR Brought Forward	19,521	40,948	46,624	47,214	47,048	45,890
CFR Carried Forward	40,948	46,624	47,214	47,048	45,890	44,934
Adjustment A Revision	(4,426)	(4,426)	(4,426)	(4,426)	(4,426)	(4,426)
Adjustment for Assets Under Construction	(19,165)	(20,520)	0	0	0	0
CFR FOR MRP PURPOSES	17,357	21,678	42,788	42,622	41,464	40,508

Table 4: Capital Financing Requirement

Note 1: Includes the repayment of Transferred Debt

5.3 Investment and Reserve Balances

An important consideration to understand when making capital investment decisions, especially when a borrowing requirement exists is the relationship between the Council's available cash investment balances and its reserves.

At 31 March 2021, the Council had cash and investments of £15.091million. If all revenue and capital budgets are spent in line with the budget and all receipts are received in line with expectations then at 31 March 2022, investment balances would be £16.289million. The following table shows the breakdown of the investment balance and what the cash relates to:

	Outturn	Forecasts					
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Total Investments	15,091	16,289	13,808	11,040	9,285	8,555	7,724
<i>Made up of:</i>							
General Fund Reserves	5,436	4,091	3,620	3,382	3,401	3,453	3,606
Capital Reserves	90	105	120	135	150	165	180
Earmarked Revenue Reserves	16,879	7,066	6,166	6,166	6,166	6,166	6,166
Provisions	1,964	1,964	1,964	1,964	1,964	1,964	1,964
Collection Fund Adj Account	(9,570)	(107)	(107)	(107)	(107)	(107)	(107)
Capital Grants Unapplied	126	126	126	126	126	126	126
Total Reserves	14,925	13,245	11,889	11,666	11,700	11,767	11,935
Cash Backed Reserves %	101%	123%	116%	95%	79%	73%	65%
Working Capital	6,368	2,868	2,867	2,867	2,867	2,867	2,867
Capital Receipts applied	0	0	0	0	0	0	0
Total Working Capital & Reserves	21,293	16,113	14,756	14,533	14,567	14,634	14,802
(Surplus Monies) / Internal Borrowing	6,202	(176)	948	3,493	5,282	6,079	7,078

Table 5: Investments and Reserves

The figures above are based on assumptions regarding budgets being fully spent with no over/under spends and reserves utilised as per current budget projections.

The surplus monies / internal investments position represents how much of any borrowing requirement identified can be met from internal resources (internal borrowing) or how much will need to be met from actual external borrowing up to 2026/27. Where there is an internal investment shown this represents the use of the Council's own investments to support the borrowing requirement, i.e. internal borrowing. As interest rates are extremely low at the moment, there is little value added by holding cash in investments whilst undertaking external borrowing at higher rates. However, this position also has to be balanced by the Council having enough cash to pay for day to day expenditure. The need to borrow externally at the most appropriate time is constantly reviewed and updated to ensure that the Council borrows at the best available rates and at the most appropriate time.

This can also be shown when comparing the difference in the CFR (underlying need to borrow) and the actual borrowing level.

	Outturn	Forecasts					
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
CFR (Underlying Need to borrow)	19,521	40,948	46,624	47,214	47,048	45,890	44,934
Total Borrowing	13,319	41,124	45,676	43,721	41,766	39,811	37,856
(Over)/Under Borrowing Position	6,202	(176)	948	3,493	5,282	6,079	7,078
Less Capital Receipts Applied	0	0	0	0	0	0	0
(Over)/Under Borrowing Position	6,202	(176)	948	3,493	5,282	6,079	7,078

Table 6: Borrowing position

Therefore, the Council is utilising £6.202million of its cash balances to support the borrowing requirement. This is due to the repayment of the Stock Issue loan of £15m in 2020/21 which was not replaced by any new borrowing. Where actual debt is greater than the CFR, the Council holds this surplus cash in its investment balances, and this is known as over-borrowing.

The position shown above shows that by 2026/27 the Council is forecast to be in an under-borrowed position (i.e. its actual external debt is less than the borrowing requirement) and would need to meet this borrowing requirement through the use of its own cash balances (internal borrowing) or by taking out additional external debt if no new capital resources (i.e. receipts or grants) can be generated.

As the figures shown above are based on forecast levels of expenditure linked to current budgets and anticipated receipts, actual figures will vary in each year depending upon actual expenditure and income levels.

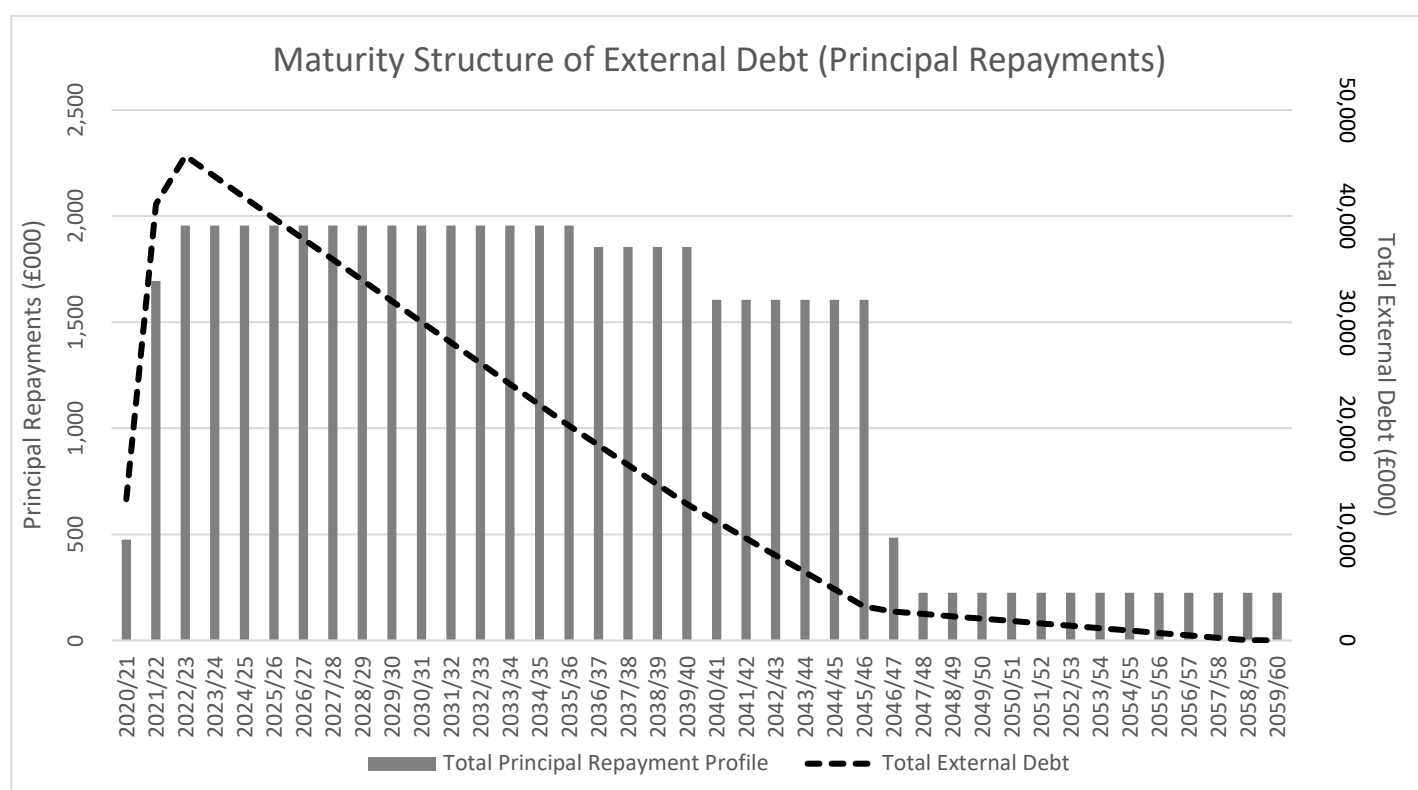
5.3.1 Debt Financing Costs

The table below shows the actual and forecast debt financing costs (Interest) for actual and forecast debt and compares to the Council's budget requirement. Interest and MRP are charges against the Council's revenue budget and any changes to the profiling of external borrowing or changes to interest rate assumptions are included in the Treasury Management forecasts when the budget is set.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Total Borrowing	41,124	45,676	43,721	41,766	39,811	37,856
Interest	658	734	705	674	645	615
Capital Financing Cost (MRP)	0	280	409	1,043	1,279	1,244
Total Capital Financing Cost	658	1,014	1,114	1,717	1,924	1,859
City Council Budget Requirement	13,848	12,393	12,721	13,146	13,486	13,832
% Financing Costs to Budget Requirement	5%	8%	9%	13%	14%	13%

Table 7 Debt Financing Costs

The repayment profile of the Councils actual and forecast external debt is as follows:

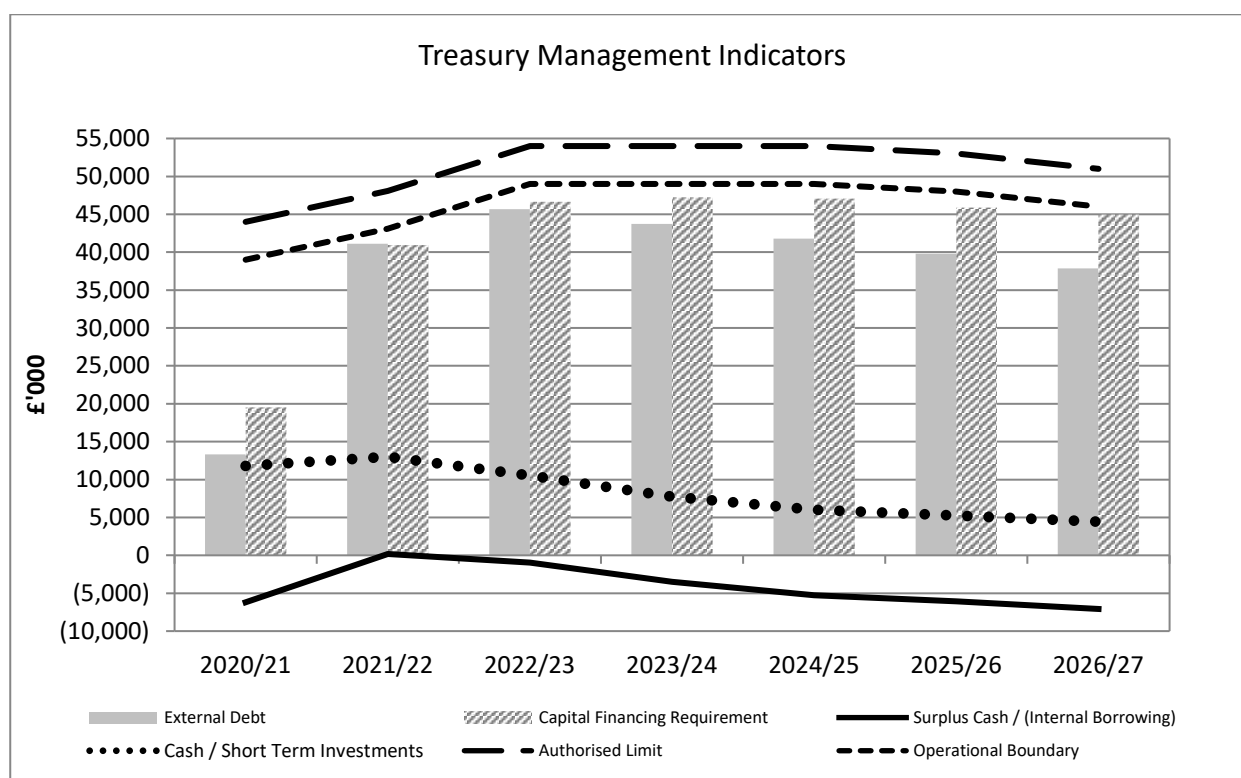


The following table shows the overall movement on external debt:

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
External Debt B/Fwd	13,319	41,124	45,676	43,721	41,766	39,811
New External Debt	29,500	6,507	0	0	0	0
Principal Repaid	(1,695)	(1,955)	(1,955)	(1,955)	(1,955)	(1,955)
External Debt C/Fwd	41,124	45,676	43,721	41,766	39,811	37,856

Table 8: External Debt

The graph below shows the forecast overall level of external debt compared to the Capital Financing Requirement (Borrowing requirement).



5.4 **Authorised Limit and Operational Boundary**

The Authorised Limit and Operational Boundary are set in line with the requirements of the Prudential Code and are included in the Treasury Management Strategy Statement and approved by Council in February each year.

The Authorised Limit is consistent with the authority's current commitments, plans and proposals for capital expenditure and its financing. **However, the**

overall authorised limit should not be exceeded without prior Council approval.

The operational boundary is based upon the same estimates as the authorised limit but without the headroom included within the authorised limit to allow for unusual cash movements. As with the authorised limit, the Council is asked to delegate authority to the Corporate Director of Finance and Resources to effect movement between the separately agreed limits for borrowing and other long-term liabilities. The operational boundary can be exceeded in exceptional circumstances without prior Council approval providing that it remains within the authorised limit.

The limits shown below will be reviewed during the consultation process of the Capital Investment Strategy and recommendations will be made in the final versions to be considered by Council in September 2021 on adjusting the limits in line with the current projections for the CFR.

PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS	2020/21 actual	2021/22 estimate	2022/23 estimate	2023/24 estimate	2024/25 estimate	2025/26 estimate
	£000	£000	£000	£000	£000	£000
Authorised Limit for External Debt:						
- Borrowing	44,000	48,000	54,000	54,000	54,000	53,000
- Other Long Term Liabilities	100	100	100	100	100	100
TOTAL	44,100	48,100	54,100	54,100	54,100	53,100
Operational Boundary for external debt:						
- Borrowing	39,000	43,000	49,000	49,000	49,000	48,000
- Other Long Term Liabilities	100	100	100	100	100	100
TOTAL	39,100	43,100	49,100	49,100	49,100	48,100

Table 9 Prudential Limits

6.0 Commercial Activity

6.1 The Council has used its asset portfolio to operate in a commercial manner for many years. Much of the investment property portfolio is held on long term leases which provide a guaranteed rental return from the asset with regular rental review built into the terms of each lease. This way of operating therefore provides some certainty about the income levels receivable.

With reductions in funding the Council is having to look at commercial activities to supplement its income and support service delivery. However, to minimise risk of potential loss of income in the longer term it needs to ensure that any investment opportunities are based upon sound decision making that consider the future likelihood of investment income reducing.

Therefore, when making commercial investment decisions the Council will follow the principles set out below:

- Commercial capital investments will only be made to enhance the Council's asset portfolio and will be linked to the delivery of the Carlisle Plan;
- Consideration will be given to the economic development potential of any investment decision;
- Expert advice will be sought to ensure any investment decision is based upon sound market intelligence, forecasts for future investment returns and yields that offer a sound investment return without risking the capital invested;
- Any borrowing linked to investment opportunities is secured upon the potential guaranteed element of the investment return so that any liability can be met from the activity undertaken;
- Investment opportunities will always ensure that the Council's investment is protected as far as possible either through increases in capital value or from guaranteed revenue income;
- Capital investment decision will be subject to the usual governance processes of consideration by Executive, scrutiny by the appropriate panel and Council approval where a budget is required to be established.

6.2 **Prudential Code Considerations**

- 6.2.1 The recent consultation by HM Treasury on updates to the Prudential Code states, "Local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with PWLB loans. Under the Prudential Code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield."
- 6.2.2 Having any "commercial activity" could hinder wider PWLB borrowing to support the capital programme. The revised Prudential Code is scheduled to be

published later in 2021 and will include further definitions of what is deemed to be commercial activity.

6.2.3 Local authorities are to be required to submit their high-level capital and financing plans to MHCLG and will be required to split these into the following categories to ensure that capital projects are not being used to buy investments for yield:

- Service Spending
- Housing
- Regeneration
 - Addressing economic or social market failure
 - Making a significant investment in the asset beyond its purchase price
 - Projects that generate significant additional activity that would not happen without the local authorities intervention
 - Rental income generated are recycled within the project or applied and related to regeneration projects rather than applied to wider services
- Preventative Action
 - Prevents a negative outcome
 - No realistic prospect of support from a source other than the local authority
 - The local authority has an exit strategy
 - The intervention generates a balance sheet asset
- Treasury Management

6.2.4 The guidance issued by HM Treasury states that assets bought primarily for yield would usually have one of the following characteristics:

- Buying land or existing buildings to let out at market rate
- Buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification
- Buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly.

7.0 Knowledge and Skills

7.1 The Council utilises the knowledge and skills of its internal officers when considering capital investment decisions and where necessary it also relies on the expert knowledge of specialist external advisors.

7.2 The Council employs professionally qualified legal, finance and property officers who are able to offer advice and guidance when considering any capital investment decisions.

7.3 Finance

Finance staff are professionally qualified to advise the Council on all financial aspects of capital decisions. They also have the necessary experience of how the Council works having been in post for a number of years. Finance staff also undertake Continuous Professional Development and the Council is an accredited body of the CIPFA (Chartered Institute of Public Finance Accountancy) CPD scheme. They maintain knowledge and skills through regular technical updates from appropriate bodies.

7.4 Property

The City Council's in-house property team is made up of a number of Chartered Surveyors who advise the Council on all property matters. They are all members of the Royal Institution of Chartered Surveyors (RICS) and comply with the RICS's rules in relation to Continuing Professional Development. The Property Services Manager is also an RICS Registered Valuer. The Council is a member of ACES – the Association of Chief Estates Surveyors and Property Managers in the Public Sector. The team have extensive property knowledge and have worked for the Council for a number of years.

7.5 Legal

Legal Staff are professionally qualified as either solicitors or legal executives and are regulated by their respective professional bodies (Solicitors Regulation Body/Institute of Legal Executives). The staff undertake Continuing Professional Development and their rules of conduct require that they have an appropriate level of skill and expertise to deal with the particular matter with which they are dealing. All staff are aware of the operational structure of the Council. They maintain knowledge and skills through regular technical updates from appropriate bodies.

7.6 **External Advice**

The Council uses external advisors where necessary in order to complement the knowledge its own officers hold. Some of these advisors are contracted on long term contracts or are appointed on an ad-hoc basis when necessary. The main advisors the Council uses are as follows:

- **Link Asset Services** – Treasury Management, including Cash investments, borrowing and capital financing
- **ChanceryGate** – Property and Asset Management and asset development opportunities in relation to Kingstown Industrial Estate

APPENDIX A**Capital Programme – Risk Assessment**

Risk	Likelihood	Impact	Mitigation
Capital projects are approved without a full appraisal of the project and associated business case.	Remote	High	Strengthen the role of Transformation Sub-Group when considering capital project appraisals, to include consideration of business cases
Full capital and revenue costs of a project not identified.	Remote	High	Capital spending must meet statutory definitions. Financial Services to regularly review spending charged to capital. Appraisals to identify revenue costs, including whole life costs to improve financial planning.
VAT partial exemption rules are not considered.	Remote	High	Reduced impact following the decision to elect to tax land and property. To be considered as part of Project Appraisals and assessed by Financial Services.
Capital projects are not monitored nor reviewed (post contract) to ensure that the original business case assumptions have been achieved	Reasonably probable	Marginal	Better project management skills (including contract monitoring) have been introduced through PRINCE 2. Project managers to take more ownership and responsibility for the delivery of projects, including post contract reviews.
Capital projects are not delivered to time	Reasonably Probable	High	Significant slippage in the current capital programme. Better project management skills to be introduced through PRINCE 2. Project managers to take more ownership and responsibility for the delivery of projects. The review of the capital programme currently underway will address some of these issues.
Capital projects are not delivered to budget. Major variations in spending impact on the resources of the Council.	Reasonably Probable	High	Improved capital programme monitoring through PRINCE 2 and monthly financial monitoring. Corrective action to be put in place where necessary.
Assumptions on external funding for capital projects are unrealistic	Remote	High	Potential shortfalls arising from changes to external funding have to be met from other Council resources, so assumptions need to be backed by firm offers of funding before projects are submitted for appraisal. Risk increased due to uncertainty around funding, e.g. MHCLG grants
Spending subject to specific grant approvals e.g. housing improvement grants, disabled persons adaptations varies from budget	Remote	Marginal	Specific grants are generally cash limited so variations in projects supported by funding of this nature will be monitored closely to ensure target spend is achieved to avoid loss of grant or restrictions on subsequent years grant funding.
Shortfall in level of capital resources generated from Capital Receipts	Probable	High	Economic downturn will impact - early warning so as not to over commit capital resources.