

Report to Council

Agenda
Item:

14(ii)

Meeting Date: 8 September 2020
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref: KD15/20
 Within Policy and Budget Framework YES
 Public / Private Public

Title: CAPITAL INVESTMENT STRATEGY 2021/22 - 2025/26
 Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
 Report Number: RD 26/20

Purpose / Summary:

The Council's Capital Investment Strategy is intended to direct the Council's Capital Programme and the allocation of resources for the five-year period 2021/22 to 2025/26. The guidance in this strategy complements and supplements the Medium-Term Financial Plan.

The Capital Investment Strategy has been considered by the Executive and the Business & Transformation Scrutiny Panel.

Recommendations:

Council is asked to:

- (i) approve the Capital Investment Strategy for the period 2021/22 to 2025/26.

Tracking

| | |
|------------|--------------------------|
| Executive: | 20 July 2020 |
| Scrutiny: | 23 July 2020 |
| Executive | 17 August 2020 |
| Council: | 08 September 2020 |

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 4 February 2020. This position has been updated to reflect any known changes since that date. The Strategy also incorporates the requirements under the Prudential Code 2017 to link capital investment with treasury management activity and service objectives.

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 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;
 - Impact of COVID-19 on the deliverability of capital projects.
- 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.

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 considered the report on 23 July 2020 and recommendations will be made to full Council on 08 September.

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 5.1 Council is asked to:
- (i) approve the Capital Investment Strategy for the period 2021/22 to 2025/26.

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 Appendix 1 – Capital Investment Strategy 2021/22 to 2025/26
attached to report:

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 2021/22 to 2025/26 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.

Capital Investment Strategy

Carlisle City Council

2021/22 to 2025/26

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1.0 Introduction

- 1.1 The Capital Investment Strategy 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) 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 **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.

1.4 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.

1.5 **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 31/03/20 £000 | Rental Income £000 | Other Income £000 | Total Income 20/21 £000 |
|----------------------------|-------------------------------|--------------------------|-------------------------|----------------------------------|
| Investment Property | 79,905 | 4,118 | 0 | 4,118 |
| Surplus Assets | 961 | 0 | 0 | 0 |
| Land & Buildings | 32,255 | 0 | 3,924 | 3,924 |
| Infrastructure | 5,114 | 0 | 0 | 0 |
| Community Assets | 4,128 | 24 | 0 | 24 |
| Dwellings | 201 | 0 | 0 | 0 |
| Vehicles Plant & Equipment | 5,896 | 0 | 0 | 0 |
| Heritage | 19,502 | 0 | 0 | 0 |
| Assets Under Construction | 4,218 | 0 | 0 | 0 |
| TOTAL | 152,180 | 4,142 | 3,924 | 8,066 |
| | | | | |

Investment Property (Non-Operational)

These assets include Industrial Estates, land held for capital appreciation and rental income, 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 2020, this totalled £29million, which represents a debt cover ratio of 18.9%.

2.0 Financial Principles supporting the Capital 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 revisions;
- 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.

The Capital 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, 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 Capital Expenditure

3.1 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 at £25.5million 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 Gateway 44 investment and 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 will be subject to the usual 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 5 (Commercial Activity).

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

| | Budget | Forecasts | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| Borrowing Requirement B/Fwd | 2,711 | | | | | |
| Estimated resources available in year (Table 3) | (9,605) | (6,204) | (2,454) | (2,454) | (2,899) | (2,454) |
| Proposed Programme (Table 2) | 29,946 | 10,387 | 7,996 | 2,869 | 3,714 | 2,866 |
| In-Year Borrowing Requirement | 20,341 | 4,183 | 5,542 | 415 | 815 | 412 |
| Cumulative Borrowing Requirement | 23,052 | 27,235 | 32,777 | 33,192 | 34,007 | 34,419 |
| In-Year External Borrowing planned to be Undertaken | 7,000 | 6,000 | 5,000 | 0 | 0 | 0 |
| External Borrowing undertaken in previous years | 14,000 | 0 | 0 | 0 | 0 | 0 |
| Cumulative External Borrowing to Fund the Capital Programme | 21,000 | 27,000 | 32,000 | 32,000 | 32,000 | 32,000 |
| | | | | | | |
| Amount of Borrowing Requirement funded from internal cash balances (Internal Borrowing) | 2,052 | 235 | 777 | 1,192 | 2,007 | 2,419 |
| | | | | | | |

Table 1: Current Capital resources

Note: External Borrowing shown is in relation to capital expenditure only. Other external borrowing is not shown here (i.e. refinancing of Stock Issue)

3.2 **Current Expenditure Forecast**

The Council approved the current forecast for the period 2020/21 to 2024/25 in February 2020 and details are shown below adjusted for the outturn from 2019/20 and also for decisions made in relation to capital investment between April and June 2020.

| | Budget | Forecasts | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| Disabled Facilities Grants | 2,865 | 1,467 | 1,467 | 1,467 | 1,467 | 1,467 |
| Vehicles Plant & Equipment | 1,532 | 1,215 | 1,158 | 976 | 1,851 | 1,003 |
| Property Enhancements | 377 | 250 | 250 | 250 | 250 | 250 |
| ICT Strategy | 311 | 101 | 76 | 131 | 101 | 101 |
| Recycling Containers | 45 | 45 | 45 | 45 | 45 | 45 |
| Play Area Developments | 83 | 0 | 0 | 0 | 0 | 0 |
| Gateway 44 | 4,622 | 0 | 0 | 0 | 0 | 0 |
| Bits Park Flood reinstatement | 22 | 0 | 0 | 0 | 0 | 0 |
| Planning Software | 150 | 0 | 0 | 0 | 0 | 0 |
| Cemetery Infrastructure | 36 | 0 | 0 | 0 | 0 | 0 |
| Open Space Improvements | 81 | 0 | 0 | 0 | 0 | 0 |
| Minor Works Grants | 23 | 0 | 0 | 0 | 0 | 0 |
| Carlisle Southern Relief Road | 0 | 0 | 5,000 | 0 | 0 | 0 |
| On Street Charging Points Infrastructure | 204 | 0 | 0 | 0 | 0 | 0 |
| Civic Centre Development | 2,581 | 1,021 | 0 | 0 | 0 | 0 |
| Savings to be identified | 0 | (200) | 0 | 0 | 0 | 0 |
| LED Footway Lighting Installation | 203 | 0 | 0 | 0 | 0 | 0 |
| Skew Bridge Deck | 70 | 0 | 0 | 0 | 0 | 0 |
| Central Plaza | 12 | 0 | 0 | 0 | 0 | 0 |
| Rough Sleeping Initiative | 50 | 0 | 0 | 0 | 0 | 0 |
| Leisure Facilities | 16,679 | 6,488 | 0 | 0 | 0 | 0 |
| Total Programme | 29,946 | 10,387 | 7,996 | 2,869 | 3,714 | 2,866 |

Table 2: Current Capital Programme

3.3 **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 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 | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| Capital Grants & Contributions | 4,304 | 1,467 | 1,467 | 1,467 | 1,467 | 1,467 |
| Capital Receipts (Asset Review) | 2,078 | 3,750 | 0 | 0 | 445 | 0 |
| Revenue Financing | 3,223 | 987 | 987 | 987 | 987 | 987 |
| Total Resources Receivable in Year | 9,605 | 6,204 | 2,454 | 2,454 | 2,899 | 2,454 |
| Borrowing Requirement (in Year) | 20,341 | 4,183 | 5,542 | 415 | 815 | 412 |

Table 3: Current Proposed Resources

There is a further £113,000 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. £750,000 has also been received in relation to a specific Cumbria LEP funded scheme which is not yet in the current programme.

3.3.1 Capital Grants

The Council receives one primary capital grant from central government to support its role in providing Disabled Facilities Grants. For 2020/21 the Council has budgeted to receive £1,467,300 which will increase to £1,899,800 now that the 2020/21 allocation has been confirmed. The grant continues to be distributed through the County Council, as the Better Care provider, who then allocates funding to the District Councils.

3.3.2 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

3.3.3 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 of £2.078million are included in the Capital programme to be achieved in 2020/21.

3.3.4 Borrowing Requirement

The borrowing requirement includes £34m borrowing over the next five years for the funding of the capital programme, with £14million of this requirement having been borrowed in 2019/20. The majority of the revenue cost of the borrowing is to be paid for through a reduction in the Leisure contract fee, increased income and developer contributions.

3.4 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 vehicle Plant and Equipment 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.

4.0 Debt, Borrowing and Treasury Management

4.1 **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 borrow up to £34million in total to fund the current capital programme to support the development of Leisure Facilities, Gateway 44 project and Carlisle Southern Relief Road. The cost of this borrowing is included in the Medium-Term Financial Plan and is also offset by a corresponding savings from the Council's Leisure Contract, 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:

- Fundamental 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.

4.2 **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 | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| Total Capital Expenditure | 29,946 | 10,387 | 7,996 | 2,869 | 3,714 | 2,866 |
| Capital Resources Receivable in Year | (9,605) | (6,204) | (2,454) | (2,454) | (2,899) | (2,454) |
| MRP & Repayment of Debt | (12) | (12) | (162) | (969) | (953) | (1,187) |
| Change in Underlying need to borrow | 20,329 | 4,171 | 5,380 | (554) | (138) | (775) |
| CFR Brought Forward | 14,485 | 34,814 | 38,985 | 44,365 | 43,811 | 43,673 |
| CFR Carried Forward | 34,814 | 38,985 | 44,365 | 43,811 | 43,673 | 42,898 |
| Adjustment A Revision | (4,426) | (4,426) | (4,426) | (4,426) | (4,426) | (4,426) |
| Adjustment for Assets Under Construction | (23,446) | (21,539) | 0 | 0 | 0 | 0 |
| CFR FOR MRP PURPOSES | 6,942 | 13,020 | 39,939 | 39,385 | 39,247 | 38,472 |

Table 6: Capital Financing Requirement

4.3 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 2020, the Council had cash and investments of £30.956million. 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 2021, investment balances would be £12.3million. The following table shows the breakdown of the investment balance and what the cash relates to:

| | Outturn | Forecasts | | | | | |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| Total Investments | 30,956 | 12,326 | 12,284 | 10,145 | 9,000 | 7,580 | 6,918 |
| <i>Made up of:</i> | | | | | | | |
| General Fund Reserves | 4,590 | 3,063 | 2,812 | 2,873 | 2,994 | 3,257 | 3,639 |
| Capital Reserves | 75 | 90 | 105 | 120 | 135 | 150 | 165 |
| Earmarked Revenue Reserves | 5,412 | 3,041 | 3,041 | 3,041 | 3,041 | 3,041 | 3,041 |
| Provisions | 2,552 | 2,552 | 2,552 | 2,552 | 2,552 | 2,552 | 2,552 |
| Collection Fund Adj Account | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 | 1,101 |
| Capital Grants Unapplied | 136 | 113 | 113 | 113 | 113 | 113 | 113 |
| Working Capital | 2,799 | 2,799 | 2,799 | 2,799 | 2,799 | 2,799 | 2,799 |
| Capital Receipts applied | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Working Capital & Balances | 16,665 | 12,759 | 12,523 | 12,599 | 12,735 | 13,013 | 13,410 |
| Surplus Cash/(Cash Deficit) | 14,291 | (433) | (239) | (2,454) | (3,735) | (5,433) | (6,492) |

Table 7: 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/deficit cash 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 2025/26.

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

| | Outturn | Forecasts | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 |
| CFR (Underlying Need to borrow) | 14,485 | 34,814 | 38,985 | 44,365 | 43,811 | 43,673 | 42,898 |
| Total Borrowing | 28,776 | 34,381 | 38,746 | 41,911 | 40,076 | 38,240 | 36,406 |
| (Over)/Under Borrowing Position | (14,291) | 433 | 239 | 2,454 | 3,735 | 5,433 | 6,492 |
| Less Capital Receipts Applied | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Over)/Under Borrowing Position | (14,291) | 433 | 239 | 2,454 | 3,735 | 5,433 | 6,492 |

Table 8: Borrowing position

Therefore, the Council is holding £14.291million of cash in its investment balances at 31 March 2020 that can be attributed to the amount of debt it

holds. This was due to the borrowing undertaken in 2019/20 that has yet to be spent on the capital programme. 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.

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.

4.4 **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 2020 on adjusting the limits in line with the current projections for the CFR.

| PRUDENTIAL INDICATOR TREASURY MANAGEMENT INDICATORS | 2019/20 actual | 2020/21 estimate | 2021/22 estimate | 2022/23 estimate | 2023/24 estimate | 2024/25 estimate |
|---|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Authorised Limit for External Debt: | | | | | | |
| - Borrowing | 44,000 | 44,000 | 45,000 | 48,000 | 47,000 | 45,000 |
| - Other Long Term Liabilities | 100 | 100 | 100 | 100 | 100 | 100 |
| TOTAL | 44,100 | 44,100 | 45,100 | 48,100 | 47,100 | 45,100 |
| Operational Boundary for external debt: | | | | | | |
| - Borrowing | 39,000 | 39,000 | 40,000 | 43,000 | 42,000 | 40,000 |
| - Other Long Term Liabilities | 100 | 100 | 100 | 100 | 100 | 100 |
| TOTAL | 39,100 | 39,100 | 40,100 | 43,100 | 42,100 | 40,100 |
| | | | | | | |

5.0 Commercial Activity

5.1 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.

6.0 Other Long-Term Liabilities

- 6.1 The Council currently holds a £15million stock issue loan that is due for redemption in 2020. This debt is factored into the Medium-Term Financial Plan to be re-financed in 2020 at a lower rate of interest. The loan is currently repayable at 8.75% and the MTFP assumes that the new borrowing will be at a lower interest rate, however, the actual rate achieved will depend on prevailing market rates at the time the loan is re-financed. The MTFP also assumes that any new loan will be taken on a principal repayment term so that the debt repaid fully once the new term ends.

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. |

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 20 JULY 2020

EX.70/20 **DRAFT CAPITAL INVESTMENT STRATEGY 2021/22 TO 2025/26**
(Key Decision – KD.15/20)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

The Deputy Leader reported (RD.08/20) on the Council's draft Capital Investment Strategy 2021/22 to 2025/26, which was a key policy document providing guidance on the Council's Capital Programme and the use of capital resources. The Capital Investment Strategy was reviewed annually alongside the Medium Term Financial Plan, commencing with the assumptions made in the Budget Resolution approved by Council on 4 February 2020. The position had been updated to reflect any known changes since that date.

The Strategy also incorporated the requirements under the Prudential Code 2017 to link capital investment with treasury management activity and service objectives.

In terms of the key messages, the report recorded that the Capital Investment Strategy showed the starting position for the budget considerations for the next five years and gave an indication of the likely factors that would have an impact in the budget setting process. The Capital Programme and the financing thereof would play an important role in shaping future budget considerations.

Although there was a forecast borrowing requirement to fund the capital programme, the factors identified at paragraph 2.2 would also need consideration.

The Deputy Leader commented upon the ambitious nature of the capital programme. Importantly, the Council held a significant asset portfolio that supported its operational activities and non-operational activities from which it received significant rental income. He added that the rental income received was used to support Council services and provided a significant proportion of the income it received. The income from rentals on the non-operational asset portfolio was approximately 60% of what the Council received in funding from Council Tax.

The Deputy Leader concluded by moving the recommendation, which was duly seconded by the Leader.

Summary of options rejected None

DECISION

That the Executive had considered the draft Capital Investment Strategy 2021/22 to 2025/26 as appended to Report RD.08/20; and made it available for consideration by the Business and Transformation Scrutiny Panel on 23 July 2020.

Reasons for Decision

To consult with the Business and Transformation Scrutiny Panel on the draft Capital Investment Strategy 2021/22 to 2025/26

EXCERPT FROM THE MINUTES OF THE BUSINESS AND TRANSFORMATION SCRUTINY PANEL HELD ON 23 JULY 2020

BTSP.34/20 DRAFT CAPITAL INVESTMENT STRATEGY 2021/22 – 2025/26

The Corporate Director of Finance and Resources reported (RD.08/20) on the draft Capital Investment Strategy 2021/22 – 2025/26, which directed the Council's Capital Programme and the allocation of resources for the five year period 2021/22 to 2025/26. The guidance in the strategy complimented and supplemented the Medium Term Financial Plan.

The Executive had considered the Draft Capital Investment Strategy 2021/22 to 2025/26 at their meeting on 20 July 2020 (Minute Excerpt EX.70/20 refers) and made the report available to the Panel for scrutiny.

In considering the Draft Medium Term Financial Plan 2021/22 to 2025/26 Members raised the following comments and questions:

- The Council had £4m in rental income from investment property, was there a potential that tenants could default on payments due to Covid 19 and result in a reduction in the income?

The Corporate Director of Finance and Resources confirmed that there was a risk to income due to Covid 19; the situation was being closely monitored and the debtors' team were working closely with property services to support tenants and provide them with payment options.

- A Member asked that consideration be given to the best options for plant and vehicle replacement to meet the climate strategy obligations.

The Corporate Director of Finance and Resources clarified that the assumption in the budget was for like for like replacement, however, each asset was considered individually at the time of replacement, and alternative options were considered including electric vehicles and lease options.

- A Member felt that the key considerations for shaping the budget were appropriate under the current circumstances and sought reassurance the impact of Covid 19 was part of the consideration given to the deliverability of the current capital programme.

The Finance, Governance and Resources Portfolio Holder assured the Panel that the capital programme was reviewed annually, the current programme of works would not be affected by the impact of Covid 19 however this would continue to be monitored.

- A Member commented that the Covid 19 pandemic had highlighted the need for the Council to invest in its ICT and asked for confirmation that this would be a priority for the Executive and Senior Management Team.

The Corporate Director of Finance and Resources reported that the Council was in the process of appointing a new Head of Digital and Technology whose role would be to update and refresh the Council's ICT Strategy. The Strategy would come through the democratic process and would be scrutinised by the Panel.

RESOLVED – That the Panel had considered and commented upon the draft Capital Investment Strategy 2021/22 – 2025/26 (RD.08/20).

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 17 AUGUST 2020

EX.89/20 **CAPITAL INVESTMENT STRATEGY 2021/22 TO 2025/26
(Key Decision – KD.15/20)

(In accordance with Paragraph 15(i) of the Overview and Scrutiny Procedure Rules, the Mayor had agreed that call-in procedures should not be applied to this item)

Portfolio Finance, Governance and Resources

Relevant Scrutiny Panel Business and Transformation

Subject Matter

Pursuant to Minute EX.70/20, the Deputy Leader submitted report RD.08/20 (amended) presenting the Council's Capital Investment Strategy 2021/22 to 2025/26, which was intended to direct the Council's Capital Programme and the allocation of resources over that five-year period. The guidance contained therein also complemented and supplemented the Medium Term Financial Plan.

The background position; key messages; and risks were as detailed within the report.

The Deputy Leader reported upon the undernoted changes to the Strategy:

- Table 1 on page 67 had been expanded to provide clarity on the borrowing requirement to fund the capital programme and also to set out the assumptions currently built into the MTFP
- Table 6, 7 and 8 starting on page 73 now reflected the capital financing requirement for the Council including updates to the assumed level of investments held by the Council over the next five years

The Business and Transformation Scrutiny Panel had considered and commented upon the draft Capital Investment Strategy 2021/22 – 2025/26 at their meeting on 23 July 2020 (BTSP.34/20 referred).

The Chair of the Business and Transformation Scrutiny Panel had been invited to speak on the matter but was not in attendance today.

The Deputy Leader moved the recommendation set out in the report, which was duly seconded by the Leader.

Summary of options rejected that the Capital Investment Strategy should not be referred to Council for approval

DECISION

That the Executive had considered the observations of the Business and Transformation Scrutiny Panel on 23 July 2020 as detailed within Minute BTSP.34/20; and referred the Capital Investment Strategy 2021/22 – 2025/26 to the meeting of the City Council on 8 September 2020 with a recommendation that the Strategy be approved.

Reasons for Decision

To consider the comments of the Business and Transformation Scrutiny Panel on the Capital Investment Strategy prior to recommending the Strategy to Council for approval