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1. Introduction

- 1.1. This Capital Strategy sets out the Council's approach to meeting community and service needs through its capital investment programme. The Council's priorities, objectives and corporate outcomes are set out in its refreshed Council Plan which is due to be approved on 22 February 2022. This Capital Strategy describes how the deployment of capital resources will contribute to the achievement of these objectives.
- 1.2. Capital spending is strictly defined and is principally incurred in acquiring, constructing or improving physical assets such as buildings, land, 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, approved by Audit Committee. The policy states the de-minimus level set by the authority for capital expenditure is £10,000. Individual schemes must therefore be £10,000 and above to be included in the authorities capital programme. The only exception is where the funding for the project is external and requires the scheme to be capital.
- 1.3. The Council owns property, plant and equipment assets, investment properties and heritage assets with a total net book value of £71m at March 2020. Council assets include 44 car parks, 192 parks and open spaces, 9 cemeteries, 3 depots, 3 sports centres, 3 public offices and 2 public halls. The Council also owns a large number of commercial properties and agricultural land used to generate income.
- 1.4. The Capital Strategy is written following guidance included in the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 (The Prudential Code) and has regard to the updated version issues in December 2021. The Capital Strategy is required to be approved by Full Council and forms part of the Council's integrated revenue, capital and balance sheet planning.

Links to other plans and strategies

- 1.5. This Capital Strategy links to, and is consistent with, the following other plans and strategies:
 - Council Plan
 - Service Plans & Strategies
 - Medium Term Financial Plan
 - Property and Land Management Strategy
 - Car Park Strategy
 - Risk Management Strategy

- Procurement and Commissioning Strategy
- Treasury Management Strategy

2. The principles underpinning the Capital Strategy

Overarching objectives

- 2.1. The Council's Capital Strategy is to deliver a capital programme that:
- Contributes to the Council Plan, and the Council's vision, values, strategic objectives and priorities
 - Is closely aligned with the Council's asset management plans
 - Supports service-specific and other plans and strategies
 - Is affordable, financially prudent and sustainable, contributes to better value for money
- 2.2. The Capital Strategy will be delivered through:
- Effective political and corporate leadership
 - Adequate and effective performance management arrangements
 - Clearly defined processes for building and monitoring the capital programme
 - Clear policies on financing capital expenditure
 - Effective risk management arrangements
 - A clear procurement protocol
- 2.3. In prioritising the Capital Programme, particular emphasis will be given to schemes that:
- Achieve the Council's priorities
 - Improve performance against national and local targets
 - Improve efficiency and effectiveness in service delivery, including through partnership working
 - Generate or increase income streams
 - Promote effective asset management, including Disability Discrimination Act (DDA) and Health & Safety issues

The Prudential Code

2.4. The Prudential Code was introduced by the Local Government Act 2003 and has since been updated in 2021. It sets out the concepts of affordability, sustainability and prudence as they apply to capital expenditure. To demonstrate that these objectives have been met the Code sets out the prudential indicators that must be used, and the factors that must be taken into account. These are designed to support and record local decision-making in a manner that is publicly accountable. This includes the setting of the prudential indicators by Council in February and the monitoring of treasury management through the Corporate Quarterly Financial Monitoring process. The prudential indicators are discussed in section 4 of this Capital Strategy and the concepts of affordability, sustainability and prudence as they apply to capital expenditure are discussed in the following paragraphs.

Affordability

2.5. The fundamental objective in determining the affordability of the authority's capital plans is to ensure that the total capital investment remains within sustainable limits. This includes considering the impact on Council Tax. The Council is required to take into account all its current and forecast resources, together with the capital expenditure plans and revenue income and expenditure forecasts for the coming year and the following two years: The Council has opted to forecast up to five years ahead. This is done on a rolling basis, with regard to risk analysis and risk management strategies. Any significant known variations beyond this time frame must also be considered.

Prudence and Sustainability

- 2.6. Prudence and sustainability year on year are addressed through the prudential indicators for external debt, which must be set and revised taking into account their affordability.
- 2.7. The key indicator of prudence laid down by the Code is that net external borrowing should not, except in the short term, exceed the total of the capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. This ensures that, over the medium term, net borrowing will only be for capital purposes.
- 2.8. It is also prudent to carry out treasury management activities in accordance with good practice, and the Prudential Code sets a number of indicators to address this.

Value for Money

2.9. It is important that best value for money is obtained from capital investment. The Council is committed to making continuous improvements to

processes and practices to increase value for money. Those that are embedded or being developed include:

- Improvements to procurement
- Investing to improve performance and/or generate efficiency savings (spend to save)
- Working with partners to improve efficiency

2.10. The Council will use its commissioning strategy when assessing capital bids.

Financial Procedure Rules

2.11. Capital budgets, expenditure and financing are the subject of various Financial Procedure Rules within Part 4 of the Council's Constitution. Capital expenditure is only to be incurred in line with key Financial Procedure Rules as follows:

- Capital budgets shall be prepared in the form of a rolling five-year Capital Programme. The Chief Finance Officer shall review and estimate the capital resources available to the Council over the five year period. Bids for the use of capital resources shall be in a form agreed by the Cabinet, to include an appropriate level of project appraisal and an assessment of the revenue consequences of the capital scheme. The Cabinet shall be responsible for the allocation of resources within a viable Capital Programme for submission to the Council for approval. (3.4);
- Capital expenditure shall not be incurred unless it forms part of the approved Capital Programme and has been allocated and expenditure account by the Chief Finance Officer (8.1).

3. Capital Expenditure

Governance process for approval and monitoring of capital expenditure

Capital programme project bids

- 3.1. All requests for inclusion in the capital programme are supported by a project bid pro-forma, the preparation of which is the responsibility of the budget holder or project manager. The project manager signs the bid to confirm that their Director and Portfolio Holder are aware of and support the scheme.
- 3.2. All bids for inclusion in the following years programme are considered according to a set of objective criteria to assist with the prioritisation of schemes and the allocation of funds. This ensures that, in a context of limited resources, the community vision and strategy and the Council's vision, values, objectives and

priorities form the framework for decisions about investment priorities, and that capital allocations are made using clear impartial criteria.

- 3.3. The prioritisation process is linked directly to the information given on the completed project appraisals, with weighting given to schemes that strongly support the Council's objectives and priorities, and those that fulfil an urgent legal or statutory requirement.
- 3.4. In summary, each bid can be rated on the extent to which the project contributes:
 - The Council's objectives and priorities
 - Legal commitments or statutory duties, including DDA & Health & Safety issues
 - Equalities
 - Improvements in performance indicators
 - Efficiency savings
 - Value for money
 - The delivery of service objectives
 - Effective Asset Management
 - Extent of ring fenced or specific funding
 - Levels of financial risk involved
 - Impact on the revenue budget and income generation
- 3.5. Prioritisation of the bids enables officers to put forward a recommended programme that is within available resources. The weighting within the scoring framework will be reviewed on an annual basis as part of a policy of continuous improvement and to take into account any relevant factors. Bids for work required to meet a statutory or legal obligation will be given a high priority.
- 3.6. The prioritised programme is for guidance only. Members are responsible for agreeing the capital programme and have the discretion to include or exclude schemes as they deem appropriate.
- 3.7. Project bids have been completed for capital programme bids since 2014. The bid pro-forma has been designed to ensure that the information gathered is sufficient in order to make decisions based on the criteria set out above. Project bids must consider carefully the deliverability of projects to avoid slippage of the capital programme.
- 3.8. The project bid template and project prioritisation and assessment criteria are included as Appendix A to this Capital Strategy.

Monitoring the capital programme

- 3.9. Project managers are responsible for the proper and effective control and monitoring of their projects, including financial monitoring. This includes ensuring that:
- Only capital expenditure is charged to the capital project;
 - Proper procurement processes are followed, in accordance with the Contract Procedure Rules;
 - Only expenditure properly attributable to the scheme is coded to the scheme;
 - The scheme expenditure is contained within the agreed budget, and that any 'unavoidable' variations are dealt with appropriately;
 - Realistic expenditure profiles are determined;
 - A realistic forecast outturn for the financial year and the project as a whole are calculated and kept under regular review;
 - Any slippage of expenditure from current to future years is identified;
 - Any grants or third party funding is applied for and all grant conditions met
 - The source of any revenue funding is identified.
- 3.10. Project managers are also responsible for carrying out project reviews following scheme completion. The finance team is responsible for providing support and advice to assist project managers in managing and monitoring their capital budgets. It also has a key role in consolidating and co-ordinating the monitoring information that is required for reporting purposes. This involves reporting to Corporate Management Team, Cabinet and Council.
- 3.11. The capital programme position is reported to Corporate Management Team, Cabinet and Council as part of the Corporate Financial Update report and covers the latest programme and any amendments to be notified or approved, expenditure to date, and the forecast outturn. It also outlines the financing position and any steps needed to deal with potential financing difficulties.
- 3.12. At year-end, an outturn report and carry-forward requests are taken to Cabinet and Council. These will include an analysis of programme slippage to the following year, including the reasons for that slippage and how it is to be financed.

Changes to the Agreed Programme

- 3.13. The programme for the coming year is set and agreed by Council prior to 1st April (at the February Council as part of the Budget process), but it is essential to also have a process that then allows for changes during the year.
- 3.14. Changes may be required as a result of proposed additions to the programme, amendments to existing schemes or deletions from the programme. For example tenders may come in above or below estimate; difficulties may be

encountered in implementation, which require a change of approach; funding may need to be released to support another more urgent priority.

Proposed additions to the programme

- 3.15. The need to add a scheme to the programme usually arises from either access to additional funding, such as a grant or third party contribution, or as a response to an unforeseen urgent issue (often related to legal or health and safety concerns).
- 3.16. In order to request an addition to the programme, a project bid proforma must be completed and signed off in the usual way. The funding for the project must be identified at this stage. Where there is no additional funding to support the bid, resources must be identified from within the existing programme. The prioritisation of the proposed addition will need to be considered with reference to any reserve list of projects, as well as projects already in the programme but not yet complete.
- 3.17. The request for the addition will either be incorporated into the regular Corporate Quarterly Financial Update report to Cabinet or Council, or approved by Cabinet and Council.

Amendments to existing schemes

- 3.18. If the proposed amendment is one of substance, which results in a scheme materially different from the original project appraisal, then the original project must be withdrawn, and a new project appraisal completed to support the new bid. If, however, the substance of the scheme remains the same, then the change can be dealt with through the Corporate Quarterly Financial Update process or as a budget virement if within the limits set in the Financial Procedure Rules, which is currently up to £60,000.
- 3.19. Formal variations to budgets for existing projects must be completed and authorized in the following circumstances:
 - Forecast total scheme outturn is materially in excess of budget
 - Additional funding has become available to support a scheme
 - A forecast overspend is to be funded by a forecast underspend in another project
 - Funding is released due to a forecast underspend on a scheme
 - A scheme is to be withdrawn from the programme

Long-term view of capital expenditure plans

- 3.20. In light of local government reorganization (LGR) The capital programme was reviewed on 18th October 2021 by Portfolio Holders and a revised programme was agreed with a list of projects that officer can deliver before LGR on 1st April 2023. The revised capital programme along with new bids for 2022/23 to 2025/26 is

presented at Appendix 4. A summary of the proposed capital expenditure up to 2025/26 is shown below:

Table 1: Summary Draft Capital Programme Expenditure

2021/22	2022/23	2023/24	2024/25	2025/26	Total 2021/22 to 2025/26
£000	£000	£000	£000	£000	£000
14,578.65	15,836.80	9,055.00	7,183.00	2,343.00	48,996.45

3.21. There were a number of new capital bids including:

- a) £265k for repairs to Gooseholme / Stramongate retaining wall.
- b) £240k for repairs to Council assets in Ulverston

3.22. For those schemes that have been prioritised, a summary of the draft capital programme funding is in the table below. This shows the proposed use of capital resources in support of the proposed capital programme (see **Appendix 4**).

Table 2: Capital Funding 2021/22 to 2025/26

	Balance April 2021 £000	Estimated Income £000	Use in capital programme £000	Projected Balance March 2026 £000
General				
Usable Capital Receipts	(2,020.3)	(1,169.0)	2,611.8	(577.5)
New homes bonus / LIPS****	(1,954.0)	(467.1)	2,421.1	0.0
Earmarked or allocated				
IT replacement reserve	(13.6)	(400.0)	380.3	(33.3)
Major Repairs Reserve	(399.4)	(410.0)	793.6	(15.8)
General Revenue contributions	0.0	(210.1)	210.1	0.0
Other Reserves	(456.6)	(1,350.0)	1,642.7	(163.9)
Cap grants and contributions (inc S106)	(4,184.2)	(11,021.4)	13,330.1	(1,875.6)
Disabled Facilities Grants	(833.8)	(3,073.0)	3,636.8	(270.0)
Community Housing Fund*	(1,821.0)	0.0	543.0	(1,278.0)
Right to Buy receipt**	(5,469.9)	(2,100.0)	6,000.0	(1,569.9)
Community Infrastructure Levy	(2,112.5)	(442.9)	75.0	(2,480.4)
Borrowing				
Funding from borrowing***.	0.0	(17,352.0)	17,352.0	0.0
Sub Total	(19,265.3)	(37,995.5)	48,996.5	(8,264.4)
Funding to be agreed	0.0	0.0	25.0	25.0

*Ring fenced for Community Housing Schemes

**Ring fenced to support replacement of affordable housing.

***'Prudential Borrowing'; this may not result in taking on new loans but requires revenue charge to cover the cost over the assets' life

****Subject to annual confirmation and settlement

3.23. There are a number of significant potential additional service areas and schemes to be added to the capital programme that have yet to be prioritised and allocated a capital and or revenue budget. These schemes would lead to additional capital budget costs on top of those presented in Appendix 4. These include:

- a) A review of the depot locations within the district.
- b) Car park investments
- c) Employment site land acquisition/development

3.24. While currently not prioritised and so not allocated budget, these schemes must be included as part of the overall longer-term capital plans, as they are aspirational should suitable funding be identified. Therefore the table below summarises expenditure for all potential identified schemes through to 2033/34. These schemes will be subject to detailed business case assessment before they become part of the approved draft capital programme and will only be selected with overall consideration of the affordability of the capital programme.

Table 3: Summary Aspirational Long-Term Capital Programme Expenditure

2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	26/27 – 29/30 Estimate £000	30/31 - 33/34 Estimate £000	2021/22 - 2033/34 Estimate £000
14,578.65	15,836.80	9,055.00	7,183.00	2,343.00	9,641.50	17,552.00	76,189.96

3.25. The additional schemes are projections based on current aspirations and needs but overtime they may change significantly due to actions or decisions taken now to improve economic life or dispose of assets. For example the new scheme for Westmorland Shopping Centre Car Park in the capital programme for 2021/22 and 2022/23 extends the life of the car park and removes over £12 million of projected spend in the period 2029/30 – 2033/34.

Asset Management Planning

Strategic Asset Management Planning

3.26. Until recently the Council's approach to asset management was set out in the Corporate Asset Strategy. A thorough review of property assets was completed by the Council's external property services advisors in December 2017. This in turn led to the development of a Property and Land Management Strategy (approved by Cabinet on 28 November 2018), which will help guide and advise the Council on land and building investment, disposals and acquisitions. The key aims of this strategy are:

- Ensuring investment is prioritised in the right areas with the ever increasing financial pressure on Local Authorities.

- Ensuring the Council has a balanced estate looking at the medium and long term commitments of the Council and in the wider context of other assets in public ownership.
- Ensuring that there is a sufficient governance structure in place to allow the estate to flex with ease and consistency.
- Ensuring that the decisions achieve a balance of requirements for capital receipts, investment and revenue income generation.

3.27. The strategy also lead to the establishment of the Strategic Asset Management Plan Board (SAMP Board) which will provide oversight and governance and ensure a more strategic approach to the management of its property estate.

Building Asset Maintenance Programme

3.28. The Council utilises a property and asset management system to record data on the property portfolio to assess building condition and maintenance requirements. This data is then used to set the Council’s annual building maintenance programme and budget for both reactive and planned maintenance. The Council also holds a Major Repairs Reserve to cover the costs of major repairs and renewals of Council assets.

Table 4: Building Repairs and Maintenance Budgets for 2021/22 to 2025/26

2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
419	419	497	497	497

Vehicle and Plant Replacement Programme

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

IT Replacement Programme

3.30. The Council also maintains an IT Replacement Plan which outlines the anticipated replacement lifecycle for the main items of information technology equipment it requires to operate services. While major IT projects are funded through the capital programme, routine replacement is funded from the IT Replacement Reserve.

4. Debt, Borrowing and Treasury Management

Borrowing

- 4.1. The Local Government Act 2003 introduced new flexibilities into the capital expenditure and financing rules governing local authorities. The new rules, contained in the 'Prudential Code', allow local authorities to set their own limits with regard to borrowing undertaken to support capital expenditure. Additional borrowing may now be undertaken, but a key objective of the Prudential Code is to ensure that the capital investment plans of the local authority are, and can be shown to be, prudent, affordable and sustainable.
- 4.2. In order for borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt financing) costs. Ideally this will come from revenue savings or additional income arising directly from the capital scheme. For example, refurbishment of a building may generate maintenance and/or energy savings, or the building of a car park could generate income through charges. The cost of borrowing therefore should be offset by savings within the service that uses the asset.
- 4.3. The Prudential Code sets out the prudential indicators that must be used, and the factors that must be taken into account to ensure investment plans are prudent, sustainable and affordable. These are designed to support and record local decision-making in a manner that is publicly accountable.
- 4.4. A summary of the Council's capital expenditure aspirations based on the latest capital programme proposals along with further additional longer-term and unprioritised projects is summarised below along with the sources of finance. It must be stressed that not all these expenditure plans will be accepted and taken forward. The plans are designed to identified all areas of potential expenditure so that they may be assessed and in terms of both suitability and affordability.

Table 5: Potential Capital expenditure and financing

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27 - 2029/30	2030/31 - 2033/34
	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000	Estimate £000
Capital expenditure	14,578.65	15,836.80	9,055.00	7,183.00	2,343.00	9,641.50	17,552.00
Financed by:							
Capital receipts	2,815.60	2,751.20	1,045.00	1,000.00	1,000.00	0.00	0.00
Grants	6,818.65	7,751.20	1,734.00	603.00	678.00	2,412.00	2,412.00
Revenue and Reserves	1,078.80	3,504.00	530.00	145.00	190.00	580.00	580.00
Increased borrowing need	3,865.60	1,830.40	5,746.00	5,435.00	475.00	6,649.50	14,560.00

The Council's borrowing need

- 4.5. 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.
- 4.6. 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.
- 4.7. 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 over the life of the asset.
- 4.8. The current forecast for the CFR and MRP based on the current proposed capital programme **along with the further additional longer-term and unprioritised projects** is shown in the table below:

Table 6: CFR projection

Capital Financing Requirement	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 - 2029/30 Estimate £000	2030/31 - 2033/34 Estimate £000
CFR opening	21,226.77	24,117.57	24,676.67	29,063.17	32,965.47	31,657.37	32,775.41
Add unfinanced capital	3,865.60	1,830.40	5,746.00	5,435.00	475.00	6,649.50	14,560.00
Less MRP	(974.80)	(1,271.30)	(1,359.50)	(1,532.70)	(1,783.10)	(5,531.46)	(3,707.49)
CFR closing	24,117.57	24,676.67	29,063.17	32,965.47	31,657.37	32,775.41	43,627.92

Prudence and Sustainability

- 4.9. Prudence and sustainability year on year are addressed through the prudential indicators for external debt, which must be set and revised taking into account their affordability.
- 4.10. A key prudential indicator is that external borrowing must not (except in the short term to support operational cash flow) exceed the underlying level of indebtedness (the CFR) and is intended to control any 'borrowing to on-lend' or borrowing to support the revenue account.

4.11. Table 7 confirms that the Council expects to be compliant with this indicator and should remain under-borrowed across the period. The increase in borrowing reflects the prudent assumption that the unfinanced element of the capital programme would be funded through external debt. That said, a thorough review of the affordability of the current plans will need to be carried out.

Table 7: Gross debt and the CFR

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 - 2029/30 Estimate £000	2030/31 - 2033/34 Estimate £000
CFR at 31 March	24,117.57	24,676.67	29,063.17	32,965.47	31,657.37	32,775.41	43,627.92
Borrowing at 31 March	20,391.60	24,676.67	29,063.17	32,965.47	31,657.37	32,775.41	43,627.92
Under/over borrowing (-/+)	(3,725.97)	0.00	0.00	0.00	0.00	0.00	0.00
Investments at 31 March	(21,335.07)	(22,357.64)	(28,150.04)	(35,363.94)	(44,303.24)	(47,017.71)	(46,292.71)

Affordability

4.12. The fundamental objective in determining the affordability of the authority's capital plans is to ensure that the total capital investment remains within sustainable limits. This includes considering the impact on Council Tax.

4.13. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates are presented in the table below:

Table 8: Ratio of financing costs to net revenue stream

2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
10.67%	13.85%	17.77%	19.88%	23.03%

4.14. This shows that the amount of revenue budget spent financing debt is rising over the MTFP period. There are two main reasons for this trend.

- a. MRP is rising to the level required to sustain the vehicle and plant programme. Older vehicles were grant funded whereas replacement vehicles are financed through borrowing.
- b. The net revenue stream (Council Tax, retained rates and non-service grant) is forecast to reduce over the period although reductions in grant are partially offset by increases to income from local taxation. And;
- c. Increase in borrowing costs due to new property schemes within the capital programme which are likely to require funding from borrowing.

Estimates of the incremental impact of capital investment decisions on council tax

- 4.15 This indicator identifies the revenue costs associated with proposed changes to the capital programme compared to the Council’s existing approved commitments and current plans. This reflects interest income foregone on the use of reserves and additional costs where schemes are funded by external borrowing.

Table 9: Incremental impact of capital investment

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Council tax - band D	£4.80	-£0.73	£0.52	£1.02	£2.34

- 4.16 Following changes in the profiling of the Capital programme in light of Local Government Reorganisation (LGR) and the ongoing impact of Covid-19, the amount the Council is expecting to need to borrow for capital purposes in 2022/23 has fallen when compared to the Capital programme agreed this time last year. As a result borrowing planned for 2022/23 has been pushed back into later years which is why the impact on council tax then rises.

Also reflected is the anticipated use of reserves and the impact of rising MRP as discussed in 4.14 above.

Authorised Limit and Operational Boundary

- 4.17. The Council currently distinguishes between operational and core cash balances. The operational balances relate to short term cash management whereas the core cash balances reflect longer term strategic resources (such as the General Fund balance and usable capital receipts).
- 4.18. A key prudential indicator is that external borrowing must not (except in the short term to support operational cash flow) exceed the underlying level of indebtedness (the CFR) and is intended to control any ‘borrowing to on-lend’ or borrowing to support the revenue account.

The Operational Boundary

- 4.19. This is the limit beyond which external debt is not normally expected to exceed. This is set at a level consistent with the borrowing need (CFR), the anticipated level of external borrowing plus any anticipated further borrowing that may be required to manage operational cash balances. This may be required, for example, at year end when operational cash balances are at their lowest due to the timing of local taxation collection.

The Authorised Limit for external debt.

4.20. This reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is a limit on the maximum level of debt, beyond which external debt is prohibited and the limit can only be set or revised by Full Council.

Table 10: Authorised limit and operational boundary

	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 - 2029/30 Estimate £000	2030/31 - 2033/34 Estimate £000
Lease Liabilities*	555.00	555.00	555.00	555.00	555.00	2,220.00	2,220.00
CFR at 31 March	24,117.57	24,676.67	29,063.17	32,965.47	31,657.37	32,775.41	43,627.92
Under borrowing 31 March	(3,725.97)	0.00	0.00	0.00	0.00	0.00	0.00
Add operational cash limit	7,016.00	7,016.00	7,016.00	7,016.00	7,016.00	7,016.00	7,016.00
Operational boundary	24,700.00	25,300.00	29,700.00	33,600.00	32,300.00	35,000.00	45,900.00
Authorised limit	31,716.00	32,316.00	36,716.00	40,616.00	39,316.00	42,016.00	52,916.00

*Due to the change in accounting for leases as a result of the introduction of accounting standard IFRS 16 Leases, this is a new change for the Council which applied from 01/04/2022. The total in the table is currently only an estimate and officers are working on gathering the information to enable us to determine the Council's total finance lease liability and will update the total as existence of finance leases are confirmed. Therefore the above limits may change before we get to the final version to be approved by Council.

Risk Appetite

- 4.21. As a holder of public funds, the Council recognises its responsibility to the prudent management of public funds, and follows relevant Government and CIPFA guidance.
- 4.22. The guidance defines a prudent investment policy as having two objectives: achieving first of all **security** (protecting the capital sum from loss) and then **liquidity** (keeping the money readily available for expenditure when needed). Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities.
- 4.23. Consequently, the Council will seek to optimise returns commensurate with the management of the associated risks, limiting its investment activities to the instruments, methods and techniques referred to in Treasury Management Practice 4 Approved Instruments Methods and Techniques. The Treasury Management Practices (TMP's) are approved by Chief Financial Officer and form the framework for operational treasury management practice and procedures on a day-to-day basis.

Counterparty Risk

4.24. The Council also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. Before the start of each financial year the council will determine through its Annual Investment Strategy, within the Treasury Management Framework, the credit criteria for selecting counterparties. The Chief Financial Officer will maintain a counterparty list in compliance with the criteria which will be approved annually by Full Council. Updates will be taken through the year as necessary. These criteria provide an overall pool of counterparties considered high quality which the Council may use.

Liquidity Risk

4.25. This is the risk that cash will not be available when it is needed, causing additional costs and potentially compromising the Council's business/service objectives. Detailed cash flow forecasts will be kept by the financial services team to give as accurate a picture as possible of the movement and timing of income & expenditure and the resulting daily cash balances.

4.26. Individual managers have the responsibility of providing the team with adequate notice of any large payments and receipts, to aid the team in keeping the cash flow forecasts as accurate as possible, and avoiding causing the Council additional costs.

4.27. The Chief Financial Officer will ensure that adequate, though not excessive cash resources, borrowing arrangements, overdraft or standby facilities exist to enable it at all times to have the level of funds available for the achievement of its business/service objectives.

4.28. The Council will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Interest Rate Risk

4.29. The risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in the income contained in the annual budget.

4.30. The Council will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with its latest approved budget.

4.31. It will achieve this by the prudent use of its approved financing and investment instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or

structure of interest rates. This should be the subject to the consideration and, if required, approval of any policy or budgetary implications.

Exchange Rate Risk

- 4.32. The risk that fluctuations in foreign exchange rates expose the council to greater costs or a shortfall in income than have been budgeted for.
- 4.33. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.
- 4.34. From time to time the Council may be exposed to exchange rate risk through the receipt of income or the incurring of expenditure in a currency other than sterling.

Refinancing Risk

- 4.35. The risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets.
- 4.36. This Council will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.
- 4.37. It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective, and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

Legal and Regulatory Risk

- 4.38. The risk that the Council itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.
- 4.39. This Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Council, particularly with regard to duty of care and fees charged.
- 4.40. This Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so,

will seek to minimise the risk of these impacting adversely on the Council.

The Risk of Fraud, Error and Corruption, and Contingency Management

- 4.41. The risk that the Council may fail to employ adequate systems, procedures and other arrangements that identify and prevent losses through such occurrences.
- 4.42. This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.
- 4.43. The Council will therefore:-
- a) Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal check which minimises such risks.
 - b) Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
 - c) Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
 - d) Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

Market Risk

- 4.44. The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
- 4.45. This Council will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect its self from the effects of such fluctuations.

Risk Management, Reporting and Review

- 4.46. More information on the systems, procedures and policies in place to manage these treasury management related risks is available in the Treasury Management Framework, Annual Investment Strategy and within the Council's Treasury Management Practices all of which are subject to full Council approval and which are included in the work programme of the Overview and Scrutiny Committee.

- 4.47. The Treasury Management reporting requirements to full Council are as follows:
- Annual reporting requirements before the start of the year:
 - review of the organisation's approved clauses, treasury management policy statement and practices
 - strategy report on proposed treasury management activities for the year comprising of the Treasury management strategy statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement
 - Regular Monitoring reports, included within Corporate Financial Monitoring report.
 - Annual review report after the end of the year
- 4.48. Furthermore, Treasury Management activities are subject to internal and external audit review to ensure compliance with codes of practice, policies and operate within the parameters agreed by Council.
- 4.49. More generally, Risk is managed at two levels within the Council:
- Operational Risks are those that threaten service level objectives and are listed in annual Service Plans. The risks are reviewed and updated regularly by Operational Managers on a quarterly basis. Operational risks can be escalated to Senior Management Team if it is felt that they are more strategic in nature or that help is required with mitigation. It helps to fully detail the impacts of the risk and to describe why greater authority is needed to control the risk. For example, Operational Risks identified in departmental service plans may include individual capital schemes for which the service is responsible for delivering and the Financial Services Operational Risk Register includes the risk 'Profiling of Capital Schemes' as it is recognised that outstanding capital expenditure has a significant revenue budget implication.
 - Strategic Risks can be seen within the Strategic Risks Register and also within Council Plan Performance reports to Overview and Scrutiny Committee and Cabinet. These tend to be the risks that threaten council wide objectives and require senior level management. Senior Management Team manages the Council's Strategic Risks by identifying and reviewing risks and ensuring mitigation. The Strategic Risk register may contain business continuity risks and mitigations. Senior Management Team reviews the risks along with Corporate Plan performance monitoring on a quarterly basis. Medium Term Financial Planning – delivery of a balanced budget is a key risk identified in the Strategic Risk Register, this includes the effects of the capital programme and treasury management activities.

5. Other Long-Term Liabilities and Investments

Soft Loans

- 5.1. The Council make loans for a number of reasons primarily economic development and investment objectives or to help meet other Council priorities. These are often outside of normal commercial terms. The Council in making these loans ensure they are prudent and secured by:
- Carrying out a full independent due diligence exercise
 - Using an expected loss model to assess the impact on the balance budget requirement if the loan was at risk
 - On-going monitoring of the loans
 - Ensuring adequate security is in place
 - The financial exposure of the Council is proportionate to its size.
 - All loans are agreed by the Council's Cabinet
- 5.2. The loans are accounted for as soft loans and the Council's accounting policy on soft loans is described in the Accounting Policies of the Statement of Accounts. The balance outstanding of these loans as at 31st March 2021 was £51,056.

Pension Guarantees

- 5.3. The Council transferred in council housing stock to South Lakes Housing in 2012. This involved the transfer of Council employees to the South Lakes Housing. Employee's rights are protected under the provision in Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). However, pension rights are not fully covered within TUPE regulations. The Council have thus given pension guarantees to the South Lakes Housing. This guarantee means that if an admitted body fails to pay its pension obligations then the Council will be responsible for taking on those obligations.
- 5.4. The deficit on the South Lakes Housing pension scheme at 31st March 2017 was £2.254m of which SLDC would be responsible for approximately 55%.
- 5.5. The guarantee is reviewed annually as part of the closure of accounts process. The pension balance is assessed on an annual basis by the Cumbria Pension Fund and is subject to change due to the underlying assets. This is rebalanced on a three year basis, formerly known as a triennial review.

6. Knowledge and Skills

- 6.1. 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.
- 6.2. The Council employs or contracts professionally qualified legal, finance and property officers who are able to offer advice and guidance when considering any capital investment decisions.

Finance

- 6.3. 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 they maintain knowledge and skills through regular technical updates from appropriate bodies.

Property

- 6.4. The Council operates an outsourced contract for its property and asset services to Lambert Smith Hampton. Their team is made up of a number of Chartered Surveyors and Valuers 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.
- 6.5. The Council's in-house Property and Contracts Manager is also a RICS Registered Chartered Surveyor.

Legal

- 6.6. 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.

External Advice

- 6.7. 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
 - **Lambert Smith Hampton** – Property and Asset Management and asset development.

7. Review and monitoring of the Capital Strategy

- 7.1. This Capital Strategy is based on the proposed Capital Programme for 2021/22 to 2025/26 which will be approved by Council on the 22nd February 2022. It also highlights the aspiration and unprioritised capital programme over the longer-term to 2033/34. The strategy will be monitored and reviewed throughout the financial year and may be updated or replaced as proposals are developed or the Capital Programme is updated.

Project bid template

REVENUE and CAPITAL 2019/20 Budget Change Pro Forma			
<p>This form is designed to capture the information required for budget changes in the 2019/20 budget setting cycle. Finalised forms are to be emailed by Assistant Directors to accountancy@southlakeland.gov.uk no later than Thursday 30/8/2018 but earlier if possible so that clarifications may be sought. Please see comment boxes (red triangles) and hyperlinks for further guidance. Please complete all grey cells.</p> <p>Use this form if you are proposing:</p> <ul style="list-style-type: none"> - a revenue budget change that generates a net saving (including extra income) or net additional expenditure (including reduced income) - a revenue budget change that is net £0 but has a gross change to income or expenditure of £10k or more - a new capital scheme or amendment to an existing scheme 			
1	Title of Project		
2	Type of Project	Please select ...	
3	Sponsoring Portfolio Holder	Please select ...	
	Sponsoring Portfolio Holder (if more than 1 Portfolio Holder)	Please select ...	
4	Sponsoring Assistant Director		
5	Officer Responsible for Delivery		
6	Cost Centre/Service		
7.0	Outline description of project/service change		
7.1	Alignment with Council Plan priorities?		
7.2	Equality Impact Assessment implications.		
7.3	Legislative requirements		
7.4	Alignment with Property Asset Review		
7.5	Risk / Business continuity?		
7.6	External 'partnership' and Localism benefits with public, private or voluntary sector?		
7.7	Delivery risk including planning process.		
7.8	What are the social, economic and environmental impacts of the proposal, if accepted?		
8	Costs and Financing		
8.1	Capital Budget adjustments required	Existing Base (net) £000	Changes to Capital Expenditure (+/-) £000
			Changes to Capital Income (-/+) £000
	2019/20	BIDS TO START 2020/21	
	2020/21		
	2021/22		
	2022/23		
	2023/24		
	Years thereafter		
	Total	0.0	0.0
	Net capital cost/saving (+/-)		0.0
PLEASE INCLUDE THE REVENUE IMPACTS OF CAPITAL SCHEMES IN 8.2 BELOW			

8.2	Revenue Budget adjustments required	Existing Base (net) £000	Change to Revenue Expenditure (+/-) £000	Change to Revenue Income (-/+) £000
	2019/20 Savings, Budget Pressures & One Off Growth			
	2020/21 Savings and Budget Pressures only			
	2021/22 Savings and Budget Pressures only			
	2022/23 Savings and Budget Pressures only			
	2023/24 Savings and Budget Pressures only			
	Years thereafter (Savings and Budget Pressures only)			
	Total	0.0	0.0	0.0
	Net revenue cost/saving (+/-)		0.0	
8.3	What is the lifetime of the scheme/service change in years?			
8.4	What is the basis of the figures (eg supplier quotation/market testing etc)?			
8.5	Please give details of any grant funding or external income			
8.6	What risks are there around the proposed timing of budget changes (as set out in 8.1 and 8.2)?			
8.7	Does the proposal relate to a previous Committee decision? If so, please provide minute ref?			
8.8	Is the proposed saving/growth reflected in your 2018/19 budget monitoring report?			
9.1	Details of procurement route to be followed			
10.1	Proposed score (please complete scoring criteria tab)		PLEASE COMPLETE SCORING CRITERIA TAB	
10.2	Scoring override - if judged to be necessary please provide details why?			
11	Assistant Director Declaration			
11.1	Form complete and quality checked?		Please select ...	
11.2	Portfolio Holder in agreement?		Please select ...	

Project prioritisation and assessment criteria

Ref.	Weighting	Criteria	Score
	30	STRATEGIC	0
A	9	Impact on Council Plan priorities and targets. Priority - Economy - Enabling and delivering opportunities for sustainable economic growth.	No (0), Yes (6), Essential to delivery (9)
	9	Impact on Council Plan priorities and targets. Priority - Housing - Providing homes to meet need.	No (0), Yes (6), Essential to delivery (9)
	6	Impact on Council Plan priorities and targets. Priority - Environment - Protecting and enhancing our place.	No (0), Yes (4), Essential to delivery (6)
	6	Impact on Council Plan priorities and targets. Priority - Culture and Wellbeing - Improving wellbeing, reducing inequality and supporting cultural activities.	No (0), Yes (4), Essential to delivery (6)
B	0	Does the scheme impact on rurality, age, disability, race, religion or belief, sex, sexual orientation, gender reassignment, pregnancy, maternity, marriage or civil partnership	Positive impact (+5), negative impact (-5), no impact (0)
	25	RISK MANAGEMENT / CONTINUITY OF SERVICE	0
C	5	Is the scheme consistent with the Property Asset Review?	No (0), Yes (5)
D1	5	Urgency of investment due to condition rating of a property asset.	Urgent : Year 1 (5), Year 2 (4), Year 3 (3), 4-5 Years (2), 6-10 Years (1), Later Years (0)
D2	5	Urgency of investment in order to meet statutory obligations (e.g Disability Discrimination Act, Health & Safety, Security)	Urgent : Year 1 (5), Year 2 (4), Year 3 (3), 4-5 Years (2), 6-10 Years (1), Later Years (0)
E	10	Addressing future business continuity	Yes (10); no (0)
	5	PROMOTES PARTNERSHIP / LOCALISM	0
F	5	External 'partnership' and Localism benefits with public, private or voluntary sector	No (0), Yes (5)
	40	FINANCIAL	0
G	20	Spend to Save Initiative - produces revenue savings / additional income	Annual net savings per year as % of cost; 1 mark for every 1% to a max of 20 marks for 20% and above.
H	10	Is part funded from externally generated resources (e.g. grants).	0-19% 5 points, 20-50% 7 points greater than this 10 points.
I	10	Maximises external funding eg NHB and Retained Business Rates?	No (0), Yes (10)
Total	100		0
Notes			
A	Please refer to the priorities and targets within the Council Plan. Does the scheme contribute to the delivery of a Council priority or target? Maximum points if the scheme is essential to delivery of a priority or target.		
B	We need evidence that these factors have been reviewed as part of the EIA on the capital programme. See guidance in the report writing toolkit.		
C	Is the scheme consistent with the Property Asset Review? How and to what extent? Please complete this section in consultation with Sion Thomas (Corporate Asset Manager) who will be able to provide guidance on whether the change relates to a corporate asset and whether it is consistent with the aims and objectives of the review.		
D	Where there are major Health & Safety issues, or other legal obligations, the Capital Prioritisation Group may choose to override the priority score and recommend a project be included in the Capital Programme. For existing property assets consider the condition rating of the asset and the technical life.		
E	Yes or no depending on whether the scheme is necessary for continuation of current Council operations. If the proposal relates to an existing asset, is the asset critical to service delivery, could technical failure of the asset lead to failure of service delivery.		
F	Projects promoting joint working - across Council services, with other agencies, the public, private & voluntary sectors		
G	If a score is given against this criteria, it must be supported by a financial analysis, which shows the estimated revenue savings and capital costs of the project. Where revenue savings are identified, they will also need to be included in the relevant revenue budget		
H	If a score is given against this criteria, it must be supported by a financial analysis, which shows the estimated reduction of the Council's projected deficits.		
I	Does the scheme draw on grant funding mechanisms designed to encourage Local Authorities to increase the tax base and rates base?		