WARRINGTON BOROUGH COUNCIL

AUDIT AND CORPORATE GOVERNANCE COMMITTEE
14 February 2018

Report of	**Lynton Green, Director of Corporate Services**	
Report Author	**Danny Mather, Corporate Finance Manager**	
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Ward Members:	**All**	

TITLE OF REPORT: 2018/19 CAPITAL STRATEGY

1. PURPOSE OF THE REPORT

1.1 This report sets out the Council's proposed Capital Strategy for 2018/19. The report will be considered by the Executive Board on 12 February 2018 and Full Council on 26th February 2018.

2. BACKGROUND

2.1 The Capital Strategy attached at appendix 1 to this report is a new requirement for Council's to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2017.

2.2 The Capital Strategy focuses on core principles that underpin the Council's three year capital programme as presented in this strategy. It gives a position statement with regards to capital expenditure and the resources available in terms of funding. The Strategy projects where the Council will be in three years' time and how it will get there. It also focuses on the key issues and risks that will impact on the delivery of the Capital Investment Strategy and the governance framework required to ensure the Strategy is delivered.

2.3 The Strategy maintains a strong and current link to the Council's priorities and to its key strategy documents notably the Treasury Management Strategy, Asset Management Strategy, Property Investment Strategy, Medium Term Financial Strategy and the Corporate Plan.

3. CONFIDENTIAL OR EXEMPT

3.1 Not confidential.

4. **FINANCIAL CONSIDERATIONS**

4.1 Dealt with in the body of the report.

5. RISK ASSESSMENT

5.1 Contained within the body of the report. All schemes entering the programme are subject to a full risk assessment and on-going monitoring.

6. EQUALITY AND DIVERSITY/EQUALITY IMPACT ASSESSMENT

6.1 The Finance Service undertakes an Equality Impact Assessment (EIA) in its wider functions. Service changes that emerge from proposals contained in the treasury management strategy are subject to EI Assessments.

7. CONSULTATION

7.1 Not applicable.

8. REASONS FOR RECOMMENDATIONS

8.1 To ensure the Council adopts the Prudential Code for Capital Finance 2017.

9. RECOMMENDATIONS

9.1 That the committee notes the report.

10. BACKGROUND PAPER

10.1 Capital Programme working papers.

Contacts for Background Papers:

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Appendix 1

WARRINGTON BOROUGH COUNCIL

EXECUTIVE BOARD - 12 February 2018

Report of Executive Board Member:	Councillor R Bowden, Deputy Leader and Executive Board Member, Corporate Finance	
Executive Directors:	Lynton Green, Director, Corporate Services	
Senior Responsible Officer:	Danny Mather – Head of Corporate Finance	
Contact Details:	**Email Address:** dzmather@warrington.gov.uk	**Telephone:** 01925 442344
Key Decision No.		
Ward Members:	All	

TITLE OF REPORT: CAPITAL STRATEGY

1. PURPOSE

1.1 To seek Executive Board approval of the Council's 2018 Capital Strategy which incorporates the 2018 – 2021 Capital Programme and to recommend it to Full Council for approval.

2. CONFIDENTIAL OR EXEMPT

2.1 This report is not confidential or exempt.

3. INTRODUCTION AND BACKGROUND

3.1 The Capital Strategy is a new requirement for Council's to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2017.

3.2 The Capital Strategy focuses on core principles that underpin the Council's three year capital programme as presented in this strategy. It gives a position statement with regards to capital expenditure and the resources available in terms of funding. The

Strategy projects where the Council will be in three years' time and how it will get there. It also focuses on the key issues and risks that will impact on the delivery of the Capital Investment Strategy and the governance framework required to ensure the Strategy is delivered.

3.3 The Strategy maintains a strong and current link to the Council's priorities and to its key strategy documents notably the Treasury Management Strategy, Asset Management Strategy, Property Investment Strategy, Medium Term Financial Strategy and the Corporate Plan.

4. 2018-2021 CAPITAL PROGRAMME

4.1 The Council's 2018-2021 Capital Programme, associated financing and Capital Flexibilities Polices is attached at Appendix 1 to this report.

5. 2018 ASSET MANAGEMENT PLANNING

5.1 The Council has a typical local authority property portfolio. This consists of operational property, investment property and property held for specific community or regeneration purposes. The Council has specific reasons for owning and retaining property:

- Operational – supporting core business and service delivery
- Investment – to provide a financial return to the Council
- Community – to support specific local community projects
- Regeneration – enabling strategic place shaping and economic growth

PROPERTY INVESTMENT STRATEGY

5.2 In the context of the Capital Strategy, the Council is using capital to invest in property to produce a revenue return.

5.3 In July 2017, the Council adopted a Property Investment Strategy. This proposed a formal approach to invest in property that provides a positive surplus/financial return. This is done by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income into the future.

5.4 The Council funds the purchase of the property by borrowing money – potentially from the Public Works Loans Board (itself funded by the Government). The rental income paid by the tenant must exceed the cost of repaying the borrowed money each year. The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.

5.5 Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council can expect to see an increase in the value of the property as well as a net annual surplus of revenue.

5.6 The formal Property Investment Strategy:

- Sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily financial gain.
- Identifies the issues of the economy, the general property market and the possible risks for the Council in acquiring investment property.
- Clarifies the legal powers used to operate the Strategy and ensure continued compliance.
- Identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
- Includes an outline of the process involved in acquiring property assets for investment purposes.
- Is part of a wider policy framework supporting what the Council does and why.

5.7 Acquisition for investment and treasury management purposes, to generate an income stream is a natural progression from acquisition for regeneration purposes. The two can also be combined – a good example of this is the Council's acquisition of DW Sport on Academy Way in September 2016, which offers a secure income stream and the option for future regeneration of a site adjacent to the Time Square development.

5.8 The reasons for buying and owning property investments are primarily in this order:

- Financial gain to fund our services to local people
- Market and economic opportunity – the time is right
- Economic development and regeneration activity in Warrington

OPERATING IN THE PROPERTY INVESTMENT MARKET

5.9 Investment property will usually have a commercial occupier, paying a rent to the landlord. The better the covenant of the occupier, the more secure the rental income, the better the investment value and the yield obtainable in the open market. A tenant with a strong covenant and a long lease (10 years plus) with no break clause and with responsibility for repairing and maintaining the property, is the best type of investment.

5.10 The UK commercial property investment market is very well established, attracts global investors and is defined as a 'mature asset class'. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.

5.11 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "…used solely to earn rentals or for capital appreciation or both…". Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

5.12 Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.

5.13 What should be sought by the Council are property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to 'blue chip' tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the Council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.

5.14 Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more "liquid" asset, short term investment taking advantage of small capital growth, moving into different property classes, etc.

PRIORITIES & RISK IN PROPERTY INVESTMENT

5.15 The Priorities for the Council when acquiring property interests for investment purposes are (in order of importance):

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacements tenants at acceptable rental levels. Generally occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.

- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of PWLB borrowing (interest only).

- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.

- **Lease Terms** – The terms of leases vary and even those held on an "Institutionally acceptable basis" can be very different in nature particularly as such leases have developed over time. The Council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This will ensure a certain income/return to the Council.

- **Growth** - property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.

- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. Preference should be given to properties located within Warrington or in the wider north west of England. This does not prevent investment outside of Warrington, subject to the appropriate justification and business case and correct governance procedure.

- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.

- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

5.16 In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise Warrington and the North West.
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

5.17 The Council has invested in a number of investment property assets, as well as a Business Bank and a Property Holding Unit Trust. A fair value assessment was conducted on purchase and provides sufficient security for the underlying capital invested. These assets will be revalued per the Council's revaluation programme and appropriate provision will be made if there is a fall in the value of the assets.

Building Asset Maintenance Programme

5.18 The Council has historical data on the property portfolio to assess building condition and backlog maintenance. Although this data collection is not done on a rolling annual basis of survey due to revenue cuts in recent years, the Council retains an annual building maintenance programme of revenue funding.

Building Maintenance Programme Revenue Funding 2018:

5.19 The Council's Building Maintenance Programme (BMP) is an annually revised programme of typically around £1.2 million per year. It is primarily directed at operational buildings (non-Housing) and excludes ring fenced funding. The BMP is structured to fund the following scope of work over the next three years:

	Servicing and statutory compliance	Response repairs	Total
Operational business portfolio	£300,000	£900,000	£1,200,000
Schools portfolio	Funded through client directorate where local authority	Funded through client directorate where local authority	

Building Maintenance Programme Capital Funding 2018:

5.20 Allocation of capital to invest in, improve and ensure statutory compliance in the operational business portfolio is prioritised through the corporate CIPG meetings. Bids and applications are made through a directorate process to approval at CIPG and then Executive Board. The schools that remain under jurisdiction of the local authority and not academy programme, are similarly prioritised for capital investment through a structured professional assessment of condition and need. The capital programme of spend on buildings is structured as follows:

	Capital improvement and statutory compliance	Total
Operational business portfolio	£2,500,000	£2,500,000
Schools portfolio	£660,000	£660,000
Total		£3,160,000

Property Disposal Capital Receipts

5.21 Traditionally local authorities have maintained a property review and disposal programme to rationalise property holdings and raise capital. This traditional approach has changed significantly in recent years for many Councils. Warrington reflects this national trend.

5.22 In Warrington, property review and disposal programmes from 2006 onwards identified surplus or under used property. Our property disposal programme has resulted in capital receipts exceeding £13 million. This also enabled revenue savings (from the costs associated with empty or underused property) of around £1.5 million per year.

5.23 This process of review and disposal continues. However, the disposal element is now much more focused on revenue rather than capital in line with financial requirements.

5.24 Any surplus properties are prioritised to be used to generate revenue wherever possible. This can be done in a number of ways. For example rather than a freehold disposal, if there is an opportunity to improve Council services and generate revenue, this may be considered better value for the Council. This also means the Council retains ownership of the asset, ultimate control and long terms benefit for the town.

5.25 All such decisions are ultimately taken by Executive Board or the Executive Member for Corporate Property in line with the Constitution and appropriate audit and governance structure.

5.26 Based on recent years, future capital receipts will be formed around residential leasehold disposals (typically less than £1,000 each) and occasional windfalls from property where disposal is enabling of regeneration or last resort.

	Capital Receipt Forecast Per year 2018-2021	Total
Property disposal general	£300,000	£300,000
Residential freehold conversion	£50,000	£50,000
VAT Shelter	£1,500,000	
Total		£1,850,000 per year

6. GOVERNANCE FRAMEWORK

6.1 It is important given the risks surrounding Capital Projects that the appropriate Governance framework is in place hence the following processes are in place:

- The Capital Strategy itself to be presented annually alongside the Medium Term Financial Strategy at Council
- All schemes and the overall Capital Programme are subject to approval by the Executive Board
- Portfolio holders are assigned projects in line with their responsibilities
- A senior officer group exists known as the Capital Investment Planning Group which is chaired by the Chief Executive. The group monitors the delivery of the

capital programme on an ongoing basis. The group reports to the Executive Board on a quarterly basis

- The CIPG will receive post project completion reports to ensure that its limited resources have been used effectively
- Directorate Departmental Management Teams must agree all deletions and additions to their directorate capital programme before they go to CIPG. Each departmental Management have a Capital Group that meets to review the Capital Programme on a monthly basis
- The Capital Programme is guided by the Council's Capitalisation Policy and Financial Procedure Rules of the Council
- The Capital Programme is subject to Internal and External Audit Review
- Scrutiny Committee can call in Executive Board Reports

7. COMMERCIAL ACTIVITY

7.1 The Council has a strong reputation throughout Local Government for its commercial approach to service delivery and have also advised other authorities in this this area. In 2017 the Council was also used as a case study in the Local Government Association (LGA Publication) ''Enterprising Councils: Supporting Councils Income Generation Activity.

7.2 The Council has a strong governance framework that goes beyond the regulatory codes. We have a Treasury Management Board (TMB) in addition to the common local government audit and corporate governance committees. The TMB is made up of leading councillors from across the political divide, members have been integral in translating vision into delivery –and senior council officers who meet to discuss new investment products in detail.

7.3 Due diligence is of paramount importance. All of our commercial investments have individual business cases that are subject to thorough risk assessment and stress testing and we also stress test the whole investment portfolio to ensure all risks are captured and properly controlled. Where appropriate to the size and scale of the project we also commission independent technical and legal reviews.

7.4 Project Groups are set up for all commercial schemes and on-going performance monitoring takes place after the scheme is completed and is reported to members and senior officers on an ongoing basis.

7.5 Financial and social audits are carried out during the life cycle of investments.

7.6 The Council follows a beyond prudence approach to governance of commercial activities. We ensure that all our commercial schemes are fully aligned with priority outcomes.

7.7 Our innovative schemes form part of our Outcomes Based MTFP planning process, are subject to audit and assurance, stakeholder engagement and ongoing performance monitoring.

7.6 The strength of our Governance Framework is best evidence by the fact that Council will be one of a few Councils to introduce the Revised Prudential Code and Treasury Management Code into our budget and strategies from 1st April 2018.

7.7 The Council's commercial approach is covered in the Council's Commercial Strategy ''Enterprising Warrington 2017 -20.'' The strategy makes it clear that we will continue to invest wisely on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

8. **RISK APPITITE STATEMENT 2018**

8.1 This outlines Warrington Borough Council's risk appetite with regard to its investment and commercial activities.

8.2 For the purpose of this statement, we have adopted the Orange Book (UK government publication on the strategic management of risk within government) definition of Risk Appetite, namely "the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time." It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, one has to take some measure of risk. Therefore, risks need to be considered both in terms of threats to the Council as well as positive opportunities. It is worth noting that the Public Accounts Committee supports well-managed risk taking across government, recognising that innovation and opportunities to improve public services requires risk taking, providing that the ability, skills, knowledge and training to manage those risks well exist within the organisation or can be brought to bear.

8.3 Our risk appetite statement sets out how we balance risk and return in pursuit of achieving our objectives. It is intended to aid careful decision-making, such that the Council takes well thought through risks to aid successful delivery of its services and obligations, while also understanding the adverse aspects of risk undertaken and taking appropriate measures to mitigate these in line with its stated goals. Thereby, the Council's risk judgements are more explicit, transparent and consistent over time.

8.4 The risk appetite statement forms a key element of the Council's governance and reporting framework and is set full Council, which also reviews the statement annually. In addition, the risk appetite will be considered annually and monitored on an ongoing basis by senior management, external risk advisors, Corporate Governance Group and the Audit & Corporate Governance Committee as appropriate.

Relationship to Other Aspects of Risk Management

8.5 It is important to note that the risk appetite is a high level view on the key areas of risk and the qualitative quantum therein that the Council is willing to accept in pursuit of its objectives. In this, it is different to other key aspects of risk management, primarily:

- The risk universe – a detailed list of all the potential risks the Council is exposed to.
- Risk capacity – the maximum level of risk the Council can run given its reserves, revenues, and access to funding, liquidity, regulatory and legal constraints, and any other restrictions.
- Risk tolerance – the maximum amount and type of risk that the Council is willing to tolerate on a prudent assessment.

8.6 The latter two are usually quantified and given as a series of limits and analyses.

8.7 The risk appetite is also supported by the following:

- The Council's risk management framework
- The governance structure and responsibilities
- Risk reporting
- Monitoring and escalation procedures

8.8 It should be noted that aspects of these will be bespoke to individual areas where risk is undertaken, e.g. the treasury portfolio, loans made, housing etc.

Risk Appetite

8.9 In general, the Council's risk appetite is expressed through its tolerance to risk in respect of capital preservation, meaningful liquidity and income volatility. The Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements.

8.10 The Council is exposed to a range of broad buckets of risks:

- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

8.11 Managing the Council's risks is an area of significant focus for senior management and members, and the Council adopts an integrated view to the management and qualitative assessment of risk.

8.12 The Council aims to minimise its exposure to unwanted risks – those risks that are not actively sought and which carry no commensurate reward for the Council – through a range of mitigation strategies to the extent that it is cost-effective to do so. Specifically, the Council has no appetite for reputational risk, governance risk and currency risk.

8.13 For other risks, the Council's appetite is as follows:

Risk	Appetite
Financial	Moderate appetite for a range of asset classes, property and longer-term investments, subject to careful due diligence and an emphasis on security as well as matching with the Council's required liquidity profile. Low appetite for capital growth oriented investments versus income generating investments. No appetite for currency risk, emerging markets and high volatility investments.
Macroeconomic	High appetite for exposure to local economic growth. Moderate appetite for exposure to national and global growth. Low appetite for interest rate risk, and inflation risk. No appetite for geopolitical risks and tail risk events.
Credit and counterparty	High appetite for investment grade or secured credit risk, as well as exposure to highly rated counterparties and financial institutions with strong balance sheets. Low appetite for unsecured non-investment grade debt. All subject to careful due diligence and an assessment of the transaction versus the Council's resources, capacity, funding needs, broader goals and cashflow requirements.
Operational	Low appetite for BAU (Business as Usual) operational risks such as pricing errors, errors in administration, IT, cybersecurity etc. The Council maintains Risk Registers for key initiatives and significant investments to assess and mitigate specific risks on a more granular level. Business continuity plans have also been established to mitigate external

	occurrences. No appetite for fraud, regulatory breaches and exceeding risk tolerances.
Strategic	High appetite for strategic initiatives, where there is a direct gain to the Council's revenues or the ability to deliver its statutory duties more effectively and efficiently.
Environmental and Social	No appetite for environmentally negative risks. Low appetite for social risks, especially in the local region and always subject to full due diligence.

Relationship with other processes

8.14 Risk management is not a stand-alone discipline. In order to maximize risk management benefits and opportunities, it is integrated with existing business processes.

8.15 Some of the key business processes with which risk alignment exists are:

- Capital strategy
- Medium Term Financial Plan
- Internal Audit
- Business Planning (including budget)
- Performance Management
- Treasury management
- Council owned subsidiaries and joint ventures
- External Audit Review
- Credit Rating

8.16 The Council is one of a handful of authorities to have a Moody's (one of the world's leading credit rating agencies) credit rating. The Council's credit rating is Aa2 which is one of the highest possible credit rating and the same as Saudi Arabia and the Czech Republic. The rating is reviewed on an annual basis and acts as a barometer check of the risk of the Council's policies.

9. OTHER LONG-TERM LIABILITIES

Pension Guarantees

9.1 The Council has entered into a number of long-term contracts for services that have been outsourced to service providers. These often involve the transfer of Council employees to the new service provider. 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 following organisations, Livewire, Culture Warrington, Catalyst, Lafarge and Your Housing Group. 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.

9.2 All guarantees entered into need the approval of the Executive Board. The guarantees are reviewed annually as part of the closure of accounts process. The pension balance is assessed on an annual basis by the Cheshire 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.

9.3 The table below shows the pension position as at 31st December 2017 for all of the companies the Council guarantees. Of the five companies guaranteed only the pension for Lafarge is currently in deficit. The guarantees are monitored by the Corporate Services Departmental Management Team on a quarterly basis as part of the budget monitoring process.

Employer Name	Surplus/ Deficit (£000)	Funding Level (%)
Catalyst Choices	3,498.3	119.0
LaFarge	-51.9	93.4
Livewire	4,648.2	124.2
Warrington Cultural Trust	935.7	122.7
Your Housing	60.7	110.4

10. KNOWLEDGE AND SKILLS

10.1 The Capital Programme and Treasury Management Strategy are managed by a team of professionally qualified accountants with extensive Local Government finance experience between them. They all follow a Continuous Professional Development Plan (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities. He too is a professionally qualified accountant and follows an ongoing CPD programme.

10.2 All the Council's commercial projects have project teams from all the professional disciplines from across the Council and when required external professional advice is taken.

10.3 Internal and external training is offered to members on an annual basis to ensure they have up to date skills to make capital and treasury decisions. A register is also kept on member attendance. The Council also involves members at a very early stage of a projects life cycle.

10.4 The Council's Treasury Management Board (cross party and senior officer group) reviews all commercial and investment deals from inception right through to project completion and ongoing performance management.

10.5 The knowledge and skills of officers and members are commensurate with the Council's risk appetite.

11. TREASURY MANAGEMENT

11.1 The Council also produces a Treasury Management Strategy which is approved by full Council annually as part of the budget setting process.

11.2 There are close links between the Capital Strategy and Treasury Management Strategy. This capital programme determines the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

11.3 At the end of 2020/2021 it is forecast that the Council's debt will be £1.5bn.

11.4 The Council's Authorised Borrowing limit for 2018/19 which is £1.208bn represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.

11.5 The Council's Operational Boundary debt forecast for 2018/19 is £1.121bn. This represents the limit beyond which external debt is not normally expected to exceed.

11.6 The Council makes provision for the repayment of debt over the life of the asset that the borrowing is funding. Over the period 2018/2019 – 2020/2021 the Council has made provision of £21.2m for the repayment of debt. The bulk of Council borrowing is linked to the Invest to Save Programme, which generates a financial return to the Council above the borrowing cost and a lot of the schemes are asset backed.

Treasury Management Governance

11.7 The Council follows the requirements of The Local Government Act 2003 (the Act) and supporting regulations in managing its Treasury Management activities.

11.8 The Audit & Corporate Governance Committee are the body responsible for the Governance of Treasury Management within the Council. They recommend an annual Treasury Management Strategy to Council for approval as part of the annual approval of the budget. They also receive quarterly monitoring reports and a Mid-year Review Report which is also reported to full Council.

11.9 The Audit and Corporate Governance Committee also receive and send on to full Council for approval an annual Treasury Management Outturn Report.

11.10 Once a year they receive and agree a Treasury Management Practices Report which sets out in detail the Governance and Responsibilities of Treasury Management and the responsibilities of all those who are involved in the process.

11.11 The Council also operates a Treasury Management Board which is made up of cross party member representation and senior officers of the Council. The Group meets to allow the detailed evaluation of Treasury Management and future proposal.

11.12 The Council also employ Link Asset Services as its Treasury Management Advisors.

11.13 Treasury Management is also subject to regular Internal and External Audit Review.

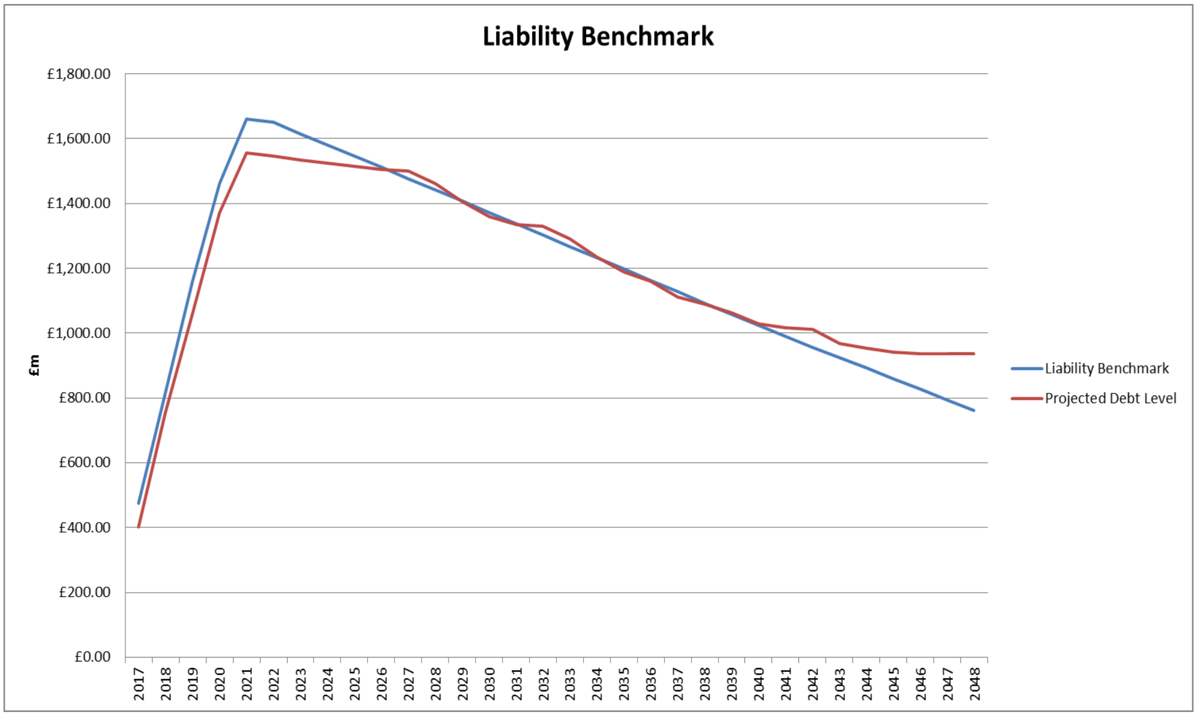
Loans

11.14 The Council make loans for a number of reasons primarily economic development and investment objectives.

11.15 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. This is set at £1.25 billion. This limit has been independently set following an independent review of the Council's Balance Sheet and risk exposure of the loans
- All loans are agreed by the Council's Executive Board

11.16 The Prudential Code requires the production of a liability benchmark which is shown in the graph below. The liability benchmark is the level of expected debt given current projections for capital expenditure up to year 2021/22. The projected debt levels show what the Council expects its debt level to be. Where the debt level is below the benchmark, the Council will be in an under-borrowed position, and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates and this can be used as a tool for scheduling future borrowing requirements.


Liability Benchmark
£m
£1,800.00
£1,600.00
£1,400.00
£1,200.00
£1,000.00
£800.00
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£400.00
£200.00
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2045
2046
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2048
Liability Benchmark
Projected Debt Level

12. BUDGET CONTRIBUTION

12.1 The Council's Invest to Save Programme and Commercial activities are forecast to contribute £10.5m to the Council's 2018 budget. When all the schemes are complete and reach maturity in five years' time they are forecast to contribute £25m to the Council's revenue budget.

12.2 The Council has a treasury management reserve and MTFP reserve that it contributes to on an annual basis from returns made from its Invest to Save Programme. Failure to meet budgeted returns would be met by drawings from these reserves.

13. SECTION 151 OFFICER ASSURANCE

13.1 This capital strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and 2018 Treasury Management Code.

13.2 The Section 151 Officer views the strategy to be prudent and affordable and it is fully integrated with the Council's 2018 Medium Term Financial Plan, Treasury Management Strategy and other Strategic Plans.

13.3 The risk associated with the strategy is covered by the Council Risk Appetite Statement above.

14. FINANCIAL CONSIDERATIONS

14.1 Dealt with in the body of the report.

15. RISK ASSESMENT

15.1 Contained within the body of the report. All schemes entering the programme are subject to a full risk assessment and on-going monitoring.

16. EQUALITY AND DIVERSITY / EQUALITY IMPACT ASSESSMENT

16.1 These are fully integrated into the Capital Programme.

17. CONSULTATION

17.1 A full officer and member consultation has taken place in developing the Capital Strategy.

18. REASONS FOR RECOMMENDATION

18.1 That the Executive Board approves the recommendations included in this report and refers the Capital strategy to Council on 26 February 2018.

18.2 To ensure the Council adopts the Prudential Code for Capital Finance 2017.

19. RECOMMENDATION

19.1 The Executive Board is recommended to:

(i) Propose the Capital Strategy to full Council on 26 February 2018 for agreement.

(ii) Propose that the 2018/19 – 2021/22 Capital Programme contained in Annexe 1 to this report be approved and recommended to full Council on 26 February 2018 for adoption.

(iii) Agree the Capital Receipts Flexibilities Policy contained within Annexe 2 of this report and recommend it to full Council on 26 February 2018 for adoption.

20. BACKGROUND PAPERS

Capital Programme Model

21.	**Clearance Details**			
	Name	**Consulted**		**Date Approved**
		Yes	**No**	
Relevant Executive Board Member	**Cllr R Bowden**			
SMT				
Relevant Director/S151 Officer	**Lynton Green**			
Head of Legal and Democratic Services & Monitoring Officer to the Council	**Matthew Cumberbatch**			

Annexe 1

1 2018/19 – 2020/21 CAPITAL PROGRAMME

1.1 The Council has a statutory responsibility to set a fully funded 3 year capital programme each year when agreeing the budget. There are largely two main funding streams to finance capital schemes, capital grants received from the government and direct funding from the Council (which is made up of Prudential Borrowing, Capital Receipts and Revenue Contributions).

1.2 Capital expenditure mainly includes spending on the acquisition or improvement of physical assets.

1.3 In agreeing the 2018/19 – 2020/21 capital programme it is proposed to follow the previous years practice of ring fencing government capital grants to the service that they are allocated to. The bulk of the capital grant allocation is accounted for by the Local Transport Plan and Children's Services allocations, which are all priority service areas.

1.4 The Council's strategic management of the capital programme allows new schemes to be added to the programme quarterly by agreement with the Executive Board.

1.5 The proposed 2018/19 – 2020/21 capital programme is £948.918m. As part of the budget process the programme has been reviewed to ensure it continues to meet Council priorities and remains affordable within the level of resources available.

1.6 The table below provides a summary of the 2018/19 – 2020/21 capital programme. A full copy of the draft capital programme on a scheme by scheme basis can be found at pages 24 – 27.

2018/19 – 2020/21 Capital Programme

Capital Programme Directorate Budgets	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Families & Wellbeing	10.202	6.790	2.575	**19.567**
Corporate Services	7.491	0.924	0.120	**8.535**
Economic Regeneration, Growth & Environment	60.556	53.171	10.280	**124.007**
Invest to Save Programme	311.293	283.101	202.415	**796.809**
Total - Capital Spending Plans	**389.542**	**343.986**	**215.390**	**948.918**

Financing the Capital Programme

1.7 The level and availability of capital funding determines the size of the overall capital programme and is heavily reliant on external funding, mainly in the form of capital grants from the Government. The programme is also reliant on internal funding to deliver more local priorities like town regeneration, Housing, Highways, Parks and Schools. These internal funds are largely in the form of prudential borrowing but can also include capital receipts and earmarked reserves. There are significant constraints on the availability of internal funds due to a finite asset base which puts pressure on delivering capital receipts from the sale of surplus assets.

1.8 Borrowing tends to pay for major Invest to Save schemes, for example the Time Square Scheme and Housing Schemes. All borrowing is done within agreed prudential limits and needs to be affordable and sustainable. A range of indicators are maintained to demonstrate this. These indicators are contained within the Council's Treasury Management Strategy and monitored and reported to the Audit & Corporate Governance Committee on a quarterly basis.

1.9 All Invest to Save schemes require the production of a detailed business case which is subject to stringent internal challenge before recommending to the Executive Board for approval. The Council's Invest to Save Programme has proved very successful. This can be evidenced by the positive financial return the schemes have generated to the Council and the increase in Balance Sheet worth to the Council that they have created.

1.10 The table below provides a summary of the funding of the 2018/19 – 2020/21 Capital Programme and pages 24 – 27 provides a breakdown of funding on a scheme by scheme basis.

Funding the 2018/19 – 2020/21 Capital Programme

Capital Programme Funding	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**Total £m**
Unsupported Borrowing - Corporate	40.641	32.690	7.729	**81.060**
Unsupported Borrowing - Invest to Save	311.258	283.101	202.415	**796.774**
Capital Grants & Reserves	13.262	11.678	4.491	**29.431**
Capital Receipts	5.941	-	-	**5.941**
External Funding	18.440	16.517	0.755	**35.712**
Total - Capital Funding Plans	**389.542**	**343.986**	**215.390**	**948.918**

1.11 It can be seen from the table above that the Council borrows for two types of schemes. Corporate borrowing, this is borrowing for schemes that generate a borrowing cost to the Council and do not generate additional revenue e.g. parks, highway schemes, building maintenance. Invest to Save borrowing is for schemes that generate a financial return to the Council after the repayment of borrowing costs. The largest allocation is for the Council's potential future loans programme. All loans entering the programme must be approved by the Executive Board.

1.12 The 2018/19 – 2020/21 Capital Programme generates an additional revenue borrowing cost to the Council of £5.671m a breakdown of which is given below:

- 2018/19 - £2.839m
- 2019/20 - £2.289m
- 2020/21 - £0.543m

These costs relate to schemes previously agreed by the Council the bulk of which can be accounted for by 3 schemes - Major Transport Projects, Highways Investment Strategy and Warrington Priority Infrastructure Schemes – and the new schemes contained within the New Corporate Schemes section.

New Corporate Schemes

1.13 The following projects are proposed for inclusion in the 2018/19 – 2020/21 Capital Programme:

- **Warrington Public Libraries Improvement Programme** – Investment into Warrington libraries. Total budget of £1.150m which will cost the Council an extra £81k per annum for a 25 year period.

- **Fearnhead Cross Community Centre Replacement Roof** – Replacement roof to the Community Centre. Total budget of £120k with prudential borrowing of £89k which will cost the Council an extra £7k per annum for a 25 year period.

- **Westy Park Pedestrian & Cycleway Improvements** - New shared footpaths and cycleways to provide key links to the new facilities and existing adjacent amenities bounding the park area. Total budget of £406k with prudential borrowing of £158k which will cost the Council an extra £11k per annum for a 25 year period.

- **Omega Local Highways Phase 3** – A series of highway improvements to key junctions around the Omega site. Total budget of £8.2m which will cost the Council an extra £574k per annum for a 25 year period.

- **Warrington East Phase 3** - To complete the dualling of Birchwood Way between the Moss Gate junction and Junction 11 of the M62. Total budget of £3m which will cost the Council an extra £210k per annum for a 25 year period.

- **Stadium Quarter Highways Improvements** – A series of highway improvements to facilitate servicing, pedestrian access routes, cyclists and private vehicles. Total budget of £2.5m which will cost the Council an extra £175k per annum for a 25 year period.

FAMILIES & WELLBEING - CAPITAL PROGRAMME

Project Description	2018/19 £m	2019/20 £m	2020/21+ £m	Total £m
Families & Wellbeing				
Warrington Youth Zone	3.000	-	-	3.000
Total	**3.000**	**-**	**-**	**3.000**
Education Services				
Additional primary places - South Warrington	-	2.925	0.075	3.000
Alderman Bolton Primary - Heating	0.016	-	-	0.016
Dallam Primary - External Improvements	0.257	0.010	-	0.267
Statham Primary - Flat Roof	0.014	-	-	0.014
Bradshaw Primary - Flat Roof	0.014	-	-	0.014
Ravenbank Primary - Heating	0.137	0.003	-	0.140
Culcheth Primary - Roof Works	0.230	0.005	-	0.235
Croft Primary - Roof Works	0.193	0.004	-	0.197
Brookacre Primary - Heating	0.086	0.002	-	0.088
Oughtrington Primary - replacement roof	-	0.261	-	0.261
Twiss Green Primary - replacement roof	-	0.234	-	0.234
Newchurch Primary - replacement roof	-	0.202	-	0.202
Secondary Places in West Warrington	1.007	0.064	-	1.071
Additional secondary places - South Warrington	-	3.000	2.500	5.500
Great Sankey High - School Expansion	2.925	0.075	-	3.000
Total Education Services	**4.879**	**6.785**	**2.575**	**14.239**
Integrated Commissioning				
Town Centre Cultural Asset Development	0.054	-	-	0.054
Warrington Public Libraries Improvement Programme	1.150	-	-	1.150
Total Integrated Commissioning	**1.204**	**-**	**-**	**1.204**
Public Health				
Acquisition of housing for use as temporary accommodation	1.000	-	-	1.000
Refurbishment of Fearnhead Cross Community Centre	0.115	0.005	-	0.120
Air Quality	0.004	-	-	0.004
Total Public Health	**1.119**	**0.005**	**-**	**1.124**
TOTAL FAMILIES & WELLBEING	**10.202**	**6.790**	**2.575**	**19.567**

CORPORATE SERVICES - CAPITAL PROGRAMME

Project Description	2018/19 £m	2019/20 £m	2020/21+ £m	Total £m
Finance				
Capitalisation of Redundancy & Pension Costs	1.000	-	-	1.000
Total Finance	**1.000**	**-**	**-**	**1.000**
Customer & Business Transformation				
Website Improvements - Phase 1	0.061	-	-	0.061
Warrington 2020 Transformation Programme	4.386	-	-	4.386
Network Improvement Programme	0.087	-	-	0.087
End User Computing - Management Systems & Technologies	0.850	0.811	-	1.661
ICT & Print Service	1.107	0.113	0.120	1.340
Total Customer & Business Transformation	**6.491**	**0.924**	**0.120**	**7.535**
TOTAL CORPORATE SERVICES	**7.491**	**0.924**	**0.120**	**8.535**

ECONOMIC REGENERATION, GROWTH & ENVIRONMENT - CAPITAL PROGRAMME

Project Description	2018/19 £m	2019/20 £m	2020/21+ £m	Total £m
Transport & Environment				
Road Maintenance	1.369	1.369	-	2.738
Bridge Maintenance	0.470	0.365	-	0.835
Traffic Signals - Maintenance	0.121	0.121	-	0.242

ECONOMIC REGENERATION, GROWTH & ENVIRONMENT - CAPITAL PROGRAMME				
Project Description	**2018/19 £m**	**2019/20 £m**	**2020/21+ £m**	**Total £m**
Transport & Environment				
Bus Stop - Maintenance	0.014	0.014	-	0.028
Street Lighting Structural Works	0.398	0.398	-	0.796
Footpath & Cycleway - maintenance	0.231	0.231	-	0.462
Pothole Action Fund	0.069	-	-	0.069
Capitalisation of Potholes	0.500	0.500	1.500	2.500
Chapelford Street Lighting Works (commuted sum)	0.049	-	-	0.049
Chapelford Highways Works (commuted sum)	0.100	0.100	-	0.200
Briarswood Remedial Works - Street Lighting	0.024	-	-	0.024
Highways Maintenance Investment	10.000	10.033	-	20.033
S106 Saxon Park	0.125	-	-	0.125
S106 Omega (Walking & Cycling)	0.133	-	-	0.133
S106 Omega (Burtonwood Village)	0.428	-	-	0.428
S106 Omega (HGV Order)	0.025	-	-	0.025
S106 Farrell Street South	0.313	-	-	0.313
S106 - Eagle Ottawa	0.035	-	-	0.035
S106 Riverside Point (Farrell Street)	0.100	-	-	0.100
S106 Land Adjacent Farmers Arms	0.012	-	-	0.012
S106 Former Ship Inn (Chester Road)	0.009	-	-	0.009
Greenways	0.164	0.164	-	0.328
Cycling Improvements	0.071	0.071	-	0.142
Pedestrian Improvements: PRoW	0.049	0.049	-	0.098
General Accessibility Improvements	0.053	0.053	-	0.106
Cycle Training - Bikeability	0.006	0.006	-	0.012
Travel Planning and Marketing	0.020	0.020	-	0.040
Rail Schemes & Studies	0.007	0.007	-	0.014
Bus Stop Enhancements	0.019	0.019	-	0.038
Parking Strategy	0.015	0.015	-	0.030
Safer Routes to Schools	0.120	0.120	-	0.240
Road Safety - Local Safety Schemes	0.305	0.305	-	0.610
Traffic Management - Minor Works	0.195	0.195	-	0.390
Pedestrian Improvements: (Crossings)	0.078	0.078	-	0.156
Traffic Signal Enhancements	0.102	0.102	-	0.204
UTMC Development	0.069	0.069	-	0.138
Network Management Plan	0.104	0.104	-	0.208
Monitoring & Strategic Studies	0.117	0.117	-	0.234
Centre Park Link	0.199	8.384	7.287	15.870
Warrington West Station	9.281	5.519	-	14.800
Birchwood Pinch Point	0.020	-	-	0.020
Omega M62 Junction 8	0.576	-	-	0.576
ITB Allocation 'top up'	-	0.243	-	0.243
ITB Smaller LST Scheme	0.493	-	-	0.493
Multi-modal Model	0.251	-	-	0.251
Mary Ann Meadows	0.001	-	-	0.001
Sports Pitch Drainage Projects	0.002	-	-	0.002
S106 G J Greenalls - Causeway Park	0.002	-	-	0.002
Culcheth Park Flood Alleviation	0.007	-	-	0.007
Victoria Park Improvement	0.400	0.214	-	0.614
Sankey Valley Park Improvement	0.128	0.125	-	0.253
Warrington Allotments Improvement Programme	0.034	-	-	0.034
Larkfield Park (Bruche S106)	0.010	-	-	0.010
Alexander Park Developments Phase 1 - Play Area Phase 2 - Pavilion	0.050	-	-	0.050
S106 Total Fitness	0.010	-	-	0.010
S106 G J Greenalls - Westy Park	0.254	0.095	-	0.349

ECONOMIC REGENERATION, GROWTH & ENVIRONMENT - CAPITAL PROGRAMME				
Project Description	**2018/19 £m**	**2019/20 £m**	**2020/21+ £m**	**Total £m**
Transport & Environment				
S106 Omega (Bericote Land)	0.048	0.048	-	0.096
S106 Wildlife Habitat Improvements	0.043	-	-	0.043
S106 Omega South (Zone 7)	0.090	-	-	0.090
Oakwood Avenue Park Refurbishment	0.200	-	-	0.200
Birchwood Forest Park Skate Area & Bike Pump Track	0.080	-	-	0.080
Longbarn Park Refurbishment	0.150	-	-	0.150
Enfield Park Refurbishment	0.200	-	-	0.200
Mee Brow Play Area Refurbishment	0.200	-	-	0.200
Victoria Park Bowling Pavilion Extension	0.150	-	-	0.150
Victoria Park Toy Library Refurbishment & Roof	-	0.100	-	0.100
Volunteer Support & Quick Win Projects	0.020	0.020	-	0.040
Lymm Dam Site Infrastructure Refurbishment	0.060	-	-	0.060
Shaw Street Recreation Ground Uplift	0.015	0.024	-	0.039
Culcheth Village Green Play Area Uplift	0.015	0.019	-	0.034
Birchwood Forest Park Ranger & Sports Changing Building Refurbishment	0.020	0.180	-	0.200
Flood Risk (contribution to Environment Agency scheme)	0.570	0.300	0.625	1.495
Grey to Green - Highways Improvements	1.259	-	-	1.259
Springfield Street Public Realm Improvements	0.358	0.016	-	0.374
Bank Park Enhancements & Improvement	0.135	-	-	0.135
Travellers transit site	0.300	0.818	0.818	1.936
Walton Estate Old Riding School	0.025	-	-	0.025
Walton Estate (Heritage Lottery Fund)	2.000	1.074	-	3.074
Cenotaph Riverbank Stabilisation	1.000	0.234	-	1.234
Walton Gardens CCTV Security Systems	0.044	-	-	0.044
Burtonwood Road/Kingswood Road - Omega Highway Gateways (NPIF)	2.628	0.307	-	2.935
Lingley Green Avenue/Liverpool Road - Omega Highway Gateways (NPIF)	1.765			1.765
Warrington East Phase 3 transport improvements (NPIF)	1.600	3.850	-	5.450
Active Travel Investment Strategy	0.841	1.826	-	2.667
Warrington East Phase 2	4.800	6.514	-	11.314
Omega Local Highway Schemes Phase 1	1.675	4.640	-	6.315
Omega Local Highways Phase 3	8.200	-	-	8.200
Warrington East Phase 3	-	3.000	-	3.000
Stadium Quarter Highways Improvements	1.690	0.760	0.050	2.500
Total Transport & Environment	**57.918**	**52.935**	**10.280**	**121.133**
Warrington & Co				
Building Maintenance Programme	0.249	-	-	0.249
Various Sites - Structural & Chimney Works	0.033	-	-	0.033
Broomfields Leisure Centre - All Weather Pitch	0.082	-	-	0.082
Birchwood Tennis Centre - Roof	0.068	-	-	0.068
Museum - Roof	0.320	0.128	-	0.448
Various Civic Build - Fire Alarm Systems	0.185	0.015	-	0.200
Town Hall Golden Gates Refurbishment & Repair	0.220	0.030	-	0.250
West Annexe - Structural Works	0.023	-	-	0.023
Drill Hall - Roof	0.125	0.025	-	0.150
Town Hall Fire Alarm System	0.100	0.018	-	0.118
Town Hall & Annexes - Windows	0.235	0.020	-	0.255
Maintenance Investment Estates Land (Roads and Footpaths)	0.118	-	-	0.118
Bewsey & Dallam Hub	0.625	-	-	0.625
Warrington Waterfront - Western Link (acquisition of land)	0.121	-	-	0.121
Town Centre - empty shops grant	0.134	-	-	0.134
Total Warrington & Co	**2.638**	**0.236**	**-**	**2.874**
TOTAL ECONOMIC REGENERATION, GROWTH & ENVIRONMENT	**60.556**	**53.171**	**10.280**	**124.007**

INVEST TO SAVE - CAPITAL PROGRAMME

Project Description	2018/19 £m	2019/20 £m	2020/21+ £m	Total £m
Corporate Services				
Shared Ownership Mortgages (Local Authority Partnership Purchase)	0.500	0.500	-	1.000
Loans to Housing Associations	200.000	200.000	156.072	556.072
Business Bank	10.000	10.000	-	20.000
Green Energy Programme	17.988	-	-	17.988
Housing Company	15.000	22.000	22.000	59.000
Wider Area Network (WAN) Redesign and Hardware Refresh	0.020	-	-	0.020
Total Corporate Services	**243.508**	**232.500**	**178.072**	**654.080**
Economic Regeneration, Growth & Environment				
Street Lighting Energy, Carbon & Asset Improvement	9.011	-	-	9.011
Strategic Property Investment Programme to support Regeneration & Investm	17.000	17.000	17.000	51.000
Time Square Project	38.037	30.033	7.343	75.413
Crematorium Garden of Remembrance	0.093	-	-	0.093
Walton Heritage Yard Developments	0.075	-	-	0.075
Waste Transfer Station	3.569	3.568	-	7.137
Total Economic Regeneration, Growth & Environment	**67.785**	**50.601**	**24.343**	**142.729**
TOTAL INVEST TO SAVE	**311.293**	**283.101**	**202.415**	**796.809**
TOTAL CAPITAL PROGRAMME	**389.542**	**343.986**	**215.390**	**948.918**

Annexe 2

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Introduction

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation. Guidance on the use of this flexibility was issued in March 2016 which applies to the financial years 2016/17 through to 2019/20. In the Provisional Local Government Settlement 2018/19 (announced 19 December 2017) the Government confirmed that the flexibility to use capital receipts to help meet the revenue costs of transformation will be extended for a further 3 years to April 2022. The Guidance requires local authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. This document constitutes the Warrington Council Strategy.

The Guidance

The Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified that;

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. Following the Provisional Settlement announcement 19 December 2017, the period of offer is 1st April 2016 to 31st March 2022. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

- Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

The Guidance provides a definition of expenditure which qualifies to be funded from the capital receipts flexibility. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.
There are a wide range of projects that could generate qualifying expenditure. The key determining criteria to use when deciding whether expenditure can be funded by the capital

receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure. Within the above definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

The Council's Proposals
The Council intends to use the capital receipts flexibility to fund or part fund the following project:

Warrington 2020 Service Transformation Programme

The expected savings generated by this project are set out in the table below.

Project	2017/18 £000	2018/19 £000	2019/20 £000
Warrington 2020 Service Transformation Programme	800	800	1,500
Total	**800**	**800**	**1,500**

The Prudential Code

The Council will have due regard to the requirements of the Prudential Code and the impact on its prudential indicators from implementing the proposed project. The capital expenditure prudential indicators will be amended and approved as appropriate.

The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this project within the Council's Statement of Accounts.

Monitoring the Strategy

The strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure is incurred.