Appendix 4 – Capital Strategy

WARRINGTON BOROUGH COUNCIL

FULL COUNCIL - 1 March 2021

Report of Cabinet Member: Councillor C Mitchell, Deputy Leader and Cabinet Member, Corporate Resources

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Key Decision No. N/A

Ward Members: All

TITLE OF REPORT: CAPITAL STRATEGY

1. PURPOSE

1.1 To seek Full Council approval of the Council's 2021/22 Capital Strategy which incorporates the 2021 – 2024 Capital Programme and the Capital Receipts Flexibilities Policy.

2. CONFIDENTIAL OR EXEMPT

2.1 This report is not confidential or exempt.

3. INTRODUCTION AND BACKGROUND

3.1 The Capital Strategy has been developed after having regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (2018 edition), as required in order to ensure that all amounts borrowed by the Council are affordable. The purpose of introducing a capital strategy is primarily to give a clear and concise explanation of the manner in which the Council determines its capital investment decisions and priorities. It is intended to give a high-level overview of how capital expenditure, capital/investment financing and treasury management strategies contribute to the Council's provision of services. It includes an overview of how associated risk is to be managed, and the implications for future financial sustainability.

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 regard to capital investment and the resources available in terms of funding. The Strategy projects what the Council plans to achieve, together with an indication of all relevant implications. It also focuses on the key issues and risks that will impact on the delivery of the Council's Capital plans, and the governance framework required to ensure that the Strategy objectives are delivered.

3.3 The Capital 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, the Corporate Plan, and its MRP Strategy.

3.4 The Capital Strategy aims to provide a central focus to the various individual strategies, in particular demonstrating how stewardship, value for money, prudence, sustainability and affordability will be satisfied.

3.5 The Capital Strategy will play a key role in delivering the four key pledges of the Council's Corporate Strategy with regards to:

- Opportunities for the most vulnerable
- Grow a strong economy for all
- Build strong, active and resilient communities
- Create a place to be proud of

It will do this by achieving or encouraging services such as regeneration, housing provision/improvement, transport, social care, and the Wellbeing of the residents of Warrington.

3.6 In addition, for the Council, responsible investment is a key added lens for capital investments. The Council has declared a Climate Emergency previously but beyond this, there is a growing appreciation that financial markets and investments cannot be removed from the wider environment and society within which they sit. This means articulating and clarifying the Council's approach towards responsible investment, sustainability, its impact on society and the environment, as well as other ethical and good governance considerations. These factors can collectively be termed ESG (Environmental, Social and Governance).

3.7 Integrating ESG will allow the Council to deliver on key goals and also improve the long-term resilience of its investments, particularly as it is now increasingly clear that there are financial benefits to be gained in the long-term from recognising the impact of climate change, efficient energy consumption, sustainable resources, inclusion, diversity, equality and strong corporate governance.

4. CHANGES TO EARLIER STRATEGY

4.1 This is the third year the Council has produced a Capital Strategy. A change that is reflected in the 2021/22 Strategy compared to the 2020/21 Capital Strategy is a clearer recognition that the Council's successful policy of commercial acquisitions and the making of loans primarily for financial gain are legally "statutory" investments governed by S.12 of the Local Government Act 2003, whilst their substance reflects a status of capital investments requiring full recognition and consideration as part of the Capital Strategy. Further, the Council has also more explicitly now integrated its approach to responsible investment and managing ESG risks into the Capital Strategy.

5. 2021-2024 CAPITAL PROGRAMME

5.1 The Council's Capital Programme for the years 2021/22 – 2023/24, together with their associated financing and Capital Flexibilities Policy, is attached as Appendix 1 to this report.

6. ASSET MANAGEMENT PLANNING

6.1 The Council has a wide property portfolio. This consists of operational property, property held for an investment purpose, and property held for specific community, service or regeneration purposes. The Council has specific reasons for owning or otherwise having access to the following types of 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

7. PROPERTY INVESTMENT STRATEGY

7.1 The Council's Property Investment Strategy is a locally determined means of considering a particular type of activity. It derives either from reliance upon S.12, LGA 2003 (investments) or from other appropriate powers, according to the purpose of acquisition. The full Strategy will be reported to Cabinet for approval in April 2021.

7.2 The Property Investment Strategy is primarily identifying property which either has the purpose of promoting regeneration, or to generate a financial return. Each of these objectives is governed by different powers. It may be the case that properties acquired for regeneration purposes also provide an ancillary financial return, but it is necessary to distinguish these from properties that are acquired solely for the purpose of achieving a financial return.

7.3 The Council adopted its first Property Investment Strategy in 2017. The overall general requirement in the case of properties acquired solely for investment purposes is that there is an existing tenant with good financial standing, and a sound lease period in a commercially popular location, offering a stable future source of income. All of the Council's commercial property investments have taken place in Warrington or in neighbouring authorities in the North West.

7.4 The Council will normally increase its aggregate amount of external borrowing as a consequence of acquiring such property, which in turn requires consideration of affordability through comparison of likely increased borrowing costs in future years against anticipated increased levels of income. All commercial property decisions are subject to extensive Due Diligence and are approved by Cabinet.

7.5 Historically, property has also proved to offer real capital growth.

7.6 The formal Property Investment Strategy:

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

7.7 Acquisition for investment and treasury management purposes, to generate an income stream is a natural progression from acquisition for regeneration purposes where a property may also offer a financial return.

7.8 The reasons for acquiring property under this Strategy include:

- Benefit to the residents of Warrington
- Increase Gross Value Added (GVA) of Warrington
- Financial gain to fund our services to local people
- Market and economic opportunity – subject to optimum timing
- Economic development and regeneration activity in Warrington

OPERATING IN THE PROPERTY INVESTMENT MARKET

7.9 Property acquired primarily for investment 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 likely to offer the least risk of investment.

7.10 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.

7.11 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.

7.12 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.

7.13 The Council’s property Investment Strategy may primarily concentrate on investments which produce the best return 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.

7.14 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

7.15 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 the investment element of their strategy is financial gain. The underlying principles here assumes prioritising 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. Presently the tendency is for tenants to seek to limit lease periods to 110-15 years, unless longer leases have acceptable break clauses.

- **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** – the rate of return should be considered as secondary to the extent of risk. In general, the higher the level of return from an investment, the higher level of risk that it is likely to carry. 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 will seek 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 will be identified. The general nature of institutional leases is that rent review clauses are upward only. This 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 useof 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.

RESERVE

7.16 The Council is not required to set aside amounts of Minimum Revenue Provision (MRP) in respect of investments made in reliance upon S.12, LGA 2003. It will, however, set aside an amount each year from surplus income earned from properties acquired solely for an investment purpose. This reserve will act as a sinking fund for future repair and maintenance, void period and impairment losses.

MINIMUM REVENUE PROVISION (MRP)

7.17 In cases where a property is acquired primarily for regeneration purposes, the associated expenditure will be capital expenditure and, as such, liable to consideration for an annual prudent provision for debt redemption. The necessary consideration of the Council in this respect will be made in accordance with their MRP Strategy, which forms part of their Investment Strategy.

Building Asset Maintenance Programme

7.18 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. This is primarily a response repairs budget with a specific statutory compliance budget alongside. There is no element of planned and structured maintenance as part of this budget.

Building Maintenance Programme Revenue Funding 2021-22:

7.19 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 with approximate allocations of funding typically:

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

Building Maintenance Programme Capital Funding 2021-24:

7.20 Allocation of capital to invest in and improve 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 Cabinet. The schools that remain under jurisdiction of the local authority and not academy programme, are separately funded with current figures as shown below. The capital programme of spend on buildings is structured as follows:

	Capital improvement	Total
Operational business portfolio	£3,700,000	£3,700,000
Schools portfolio	£1,800,000	£1,800,000
Total		£5,500,000

Property Disposal Capital Receipts

7.21 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.

7.22 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 £13.5 million. This also enabled revenue savings (from the costs associated with empty or underused property) of around £1.5 million per year.

7.23 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.

7.24 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.

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

7.26 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 2021-2024	Total
Property Disposal General	£150,000	£150,000
Other Receipts	£3,900,000	£3,900,000
Total		£4,050,000

8. GOVERNANCE FRAMEWORK

8.1 The wide range of matters to be demonstrated by the Capital Strategy are inextricably linked with the Council's Governance framework, whereby the following processes are in place:

- The Capital Strategy is presented annually alongside the Medium Term Financial Strategy at Full Council for approval
- All schemes and the overall Capital Programme are subject to approval by the Cabinet
- Portfolio holders are assigned projects in line with their responsibilities
- A senior officer group (the Capital Investment Planning Group, chaired by the Chief Executive) monitors the delivery of the capital programme on an ongoing basis. The group reports to Cabinet 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 Cabinet Reports

8.2 The Council's Governance Framework was subject to a detailed appraisal by PwC in October 2020, which found that it was consistent with wide evidence of good practice.

9. COMMERCIAL ACTIVITY

9.1 The Council has a strong reputation throughout Local Government for its commercial approach to service delivery and has 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".

9.2 Most of this commercial activity will fall within what statutory Guidance and CIPFA refer to as "non-financial investments", made in reliance upon the S.12 investment power. These investments are also likely to have the effect of increasing the extent of external borrowing, requiring regard to be had to the Prudential Code (the Code). Importantly, the Code is stated to be based on principles, rather than prescription.

9.3 Whilst non-financial investments do not represent capital expenditure, the Code recognises that they represent "capital investment" of a type to be taken into account when considering affordability, and in setting longer term prudential indicators, with appropriate investment appraisal techniques to be determined by the professional judgement of the CFO. The Code more specifically suggests that commercial activity investments should be proportional to available resources. This capital strategy will therefore include sufficient information to allow readers to understand the extent of commercial activity that the Council is or plans to be involved in, with a view to providing assurance that robust decision making procedures are in place.

9.4 The Council has a strong governance framework that goes beyond the regulatory codes. It has 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.

9.5 Due diligence is of paramount importance. All commercial investments (property acquisitions, loans, etc) have individual business cases that are subject to thorough risk assessment and stress testing, together with stress testing the whole investment portfolio to ensure all risks are captured and properly controlled. Where appropriate to the size and scale of a transaction, the Council also commissions independent technical and legal reviews.

9.6 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.

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

9.8 The Council follows a beyond prudence approach to governance of commercial activities. It ensures that all commercial schemes are fully aligned with priority outcomes.

9.9 Innovative schemes form part of the Outcomes Based MTFP planning process. They are subject to audit and assurance, stakeholder engagement and ongoing performance monitoring.

9.10 The strength of the Governance Framework was previously evidenced when the Council was one of a few Councils to introduce the Revised Prudential Code and Treasury Management Code into their budget and strategies from 1st April 2018.

COMMERCIAL ACTIVITY GOVERNANCE

9.11 Due to the nature and associated risks of the Council's Commercial Programme (comprising both property acquisitions and loans to other persons/bodies) the Council have an increased Governance Framework for individual transactions. Whilst all Commercial Schemes follow a common governance process with all other capital schemes, their higher risk profile necessitates a more stringent governance procedure being followed. Appendix 3 to this report outlines the governance process for commercial schemes.

9.12 During 2020/21 the Council commissioned Price Waterhouse Coopers (PwC) to carry out an independent review of the Council's Commercial Governance processes. PwC concluded:

"***A framework for governance is in place and the strategic direction of the Council is clearly defined and understood by members and officers.'" (PwC Governance Review October 2020)***

10. RISK APPETITE STATEMENT 2021

10.1 This Statement outlines the Council's risk appetite with regard to its investment and commercial activities.

10.2 The Statement adopts 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, it is unavoidable for some measure of risk to exist. Therefore, risks need to be considered both in terms of potential threats to the Council and positive opportunities. **It is worth noting that the Governments 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.**

10.3 The Council's Risk Appetite Statement sets out how they balance risk and return in pursuit of achieving their objectives. It is intended to aid careful decision-making, such that the Council takes risks fully into account when pursuing successful delivery of its services and obligations, while also understanding any adverse aspects of risk undertaken. Appropriate measures to mitigate risk is taken in line with stated goals. Thereby, the Council's risk judgements are more explicit, transparent and consistent over time.

10.4 The Risk Appetite Statement forms a key element of the Council's governance and reporting framework and is determined by full Council. The Statement is agreed annually. In addition, the risk appetite will be considered annually and monitored on an ongoing basis by senior management, external risk advisors, the Corporate Governance Group and the Audit & Corporate Governance Committee, as appropriate.

10.5 The climate emergency and ESG more generally are a key focus of emerging risk for the Council. The Council's officers recognise that besides financial risks, there are other risks of material importance from an environmental, social and governance perspective. It is important, therefore, to assess these risks as well and to understand if these create potential longer-term financial and reputational risks for the Council, and if there are any commonalities with the Council's key objectives in this regard.

10.6 We note that CIPFA has also indicated that it intends to integrate aspects of this into future iterations of the Prudential Code. This is most likely to take the form of monitoring and disclosure requirements, coupled with having regard to considering these factors as part of the Council's prudent approach to investment.

10.7 Given the above considerations and the Council's growing focus on responsible investment, the Council has integrated ESG risks into its risk appetite statement. The Council will use information sources and its advisors as appropriate to assist it in scrutinising and understanding these risks as they relate to its investments, both as part of due diligence where appropriate and over time, as part of the ongoing monitoring and management of these investments.

Relationship to Other Aspects of Risk Management

10.8 It is important to note that the Council's risk appetite represents a high- level view on the key areas of risk and the qualitative quantum that the Council is willing to accept in pursuit of its objectives. In this respect, 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.

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

10.10 The Council's risk appetite is also supported by the following:

- Their risk management framework
- The governance structure and responsibilities
- Risk reporting
- Monitoring and escalation procedures
- The Council's approach to assessing and managing ESG related risks

10.11 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

10.12 In general, the Council's risk appetite is expressed through its tolerance to risk in respect of capital preservation, meaningful liquidity, income volatility and ESG profile. The Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Resources are 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.

10.13 The Council capital and investment plans are exposed to a range 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.

10.14 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.

10.15 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.

10.16 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 as well as its key policy and ESG objectives where possible. Low appetite for capital growth-oriented investments versus income generating investments. No appetite for long-term 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. Always subject to full due diligence and subsequent monitoring of risks and key appropriate metrics.
Governance	No appetite for investments and initiatives that are not accompanied by careful due diligence and an assessment of the transaction versus the Council's resources, capacity, funding needs, cashflow requirements, ESG risk preferences and broader goals. All subject to ongoing monitoring of risks and key relevant metrics to manage the Council's exposure and respond to any emerging risks. Depth and frequency of monitoring should be proportional to the complexity and capital at risk for the Council.

Relationship with other processes

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

10.18 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

10.19 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 A1 which is one of the highest possible credit rating and the same as Saudi Arabia, China and Japan. The rating is reviewed on an annual basis and acts as a barometer check of the risk of the Council's policies.

11. OTHER LONG-TERM LIABILITIES

Pension Guarantees

11.1 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.

11.2 All guarantees entered into need the approval of the Cabinet. 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.

11.3 The table below shows the pension position as at 31st December 2020 for all of the companies the Council guarantees. Of the five companies guaranteed only the pension for Tarmac Trading Ltd is currently in deficit.

Employer Name	Surplus/ Deficit £'000	Funding Level %
Catalyst Choices	1,354	105
Tarmac Trading Ltd	-122	90
LiveWire	2,942	111
Warrington Cultural Trust	1,186	124
Your Housing	128	122

Together Energy

11.4 Together Energy has a hedge agreement with its energy supplier Orsted. As a part-owner of Together Energy the Council has been requested by Orsted to act as a guarantor to the liability. The guarantee is limited to 80% of the amounts owed. Current forecasts show the maximum exposure to the Council (as in Jan 2021) as £10.2m.

11.5 There is an additional guarantee of approximately £1m for ‘day one exposure’ under the current contract.

12. KNOWLEDGE AND SKILLS

12.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (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.

12.2 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. These teams consist of Officers with many years’ experience of commercial schemes. Succession Planning is also in operation with Junior Officers shadowing and being involved in all stages of the commercial programme.

12.3 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.

12.4 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.

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

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

13. TREASURY MANAGEMENT

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

13.2 There are close links between the Capital Strategy and Treasury Management Strategy. The 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 investment obligations. This management of longer-term cash may involve arranging long or short- term loans, or longer- term cash flow surpluses. On occasion any borrowing previously drawn may be restructured to meet Council risk or cost objectives. The Treasury Management Strategy also takes into account both financial risks, such as credit risk and counterparty risk, as well as non-financial risks, such as climate risk.

13.3 At the end of 2023/2024 it is forecast that the Council's external borrowing will be £2287.842m.

13.4 The Council's Authorised Borrowing limit for 2020-1/22 which is £2514.119m represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.

13.5 The Council's Operational Boundary debt forecast for 2020/21 is £2296.701m. This represents the limit beyond which external debt is not normally expected to exceed.

13.6 The Council makes provision for the repayment of its capital debt liability over the life of the asset that can be nominally assessed as having caused the capital debt level to increase. The bulk of Council debt liability is linked to the Invest to Save Programme, which generates a financial return to the Council above the borrowing cost. Most transactions are asset backed. Not all of the outstanding debt liability is subject to MRP provisions. More detail with regard to this may be found by reference to the Council's MRP Policy.

13.7 In assessing the Council's debt and borrowing position, it should be borne in mind that the Council is a very large organisation. It has been identified by CIPFA that if it were a company, it would fall within the FT 250 category. Also, all the Council's main commercial borrowing and regeneration borrowing is asset backed. Properties acquired primarily for investment purposes can be disposed of where circumstances dictate this to be appropriate. Investments made as loans which are related to particular assets or securities are made after having regard to the availability of adequate security. For example, the Council's 33% shareholding in Redwood Bank could be disposed of. It is a successful challenger bank with a banking licence of value. The Time Square scheme, as with most fixed assets, represents a valuable Council owned asset that could be sold with proceeds used to reduce outstanding capital debt liability. The Council is pursuing an ambitious borrowing policy because it offers the best VFM option. Many Councils are funding their regeneration by previously popular PFI schemes or Income Strip arrangements/ other private sector funding mechanisms. However, such arrangements may introduce greater uncertainty with regard to future revenue cost obligations.

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

13.9 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 a Mid-year Review Report and an Outturn report which is also reported to full Council.

13.10 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.

13.11 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.

13.12 The Council also employ Link Asset Services as its Treasury Management Advisors. Other specialist advice is taken on an ad/hoc basis driven by using organisations with the best experience linked to a particular project.

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

Loans

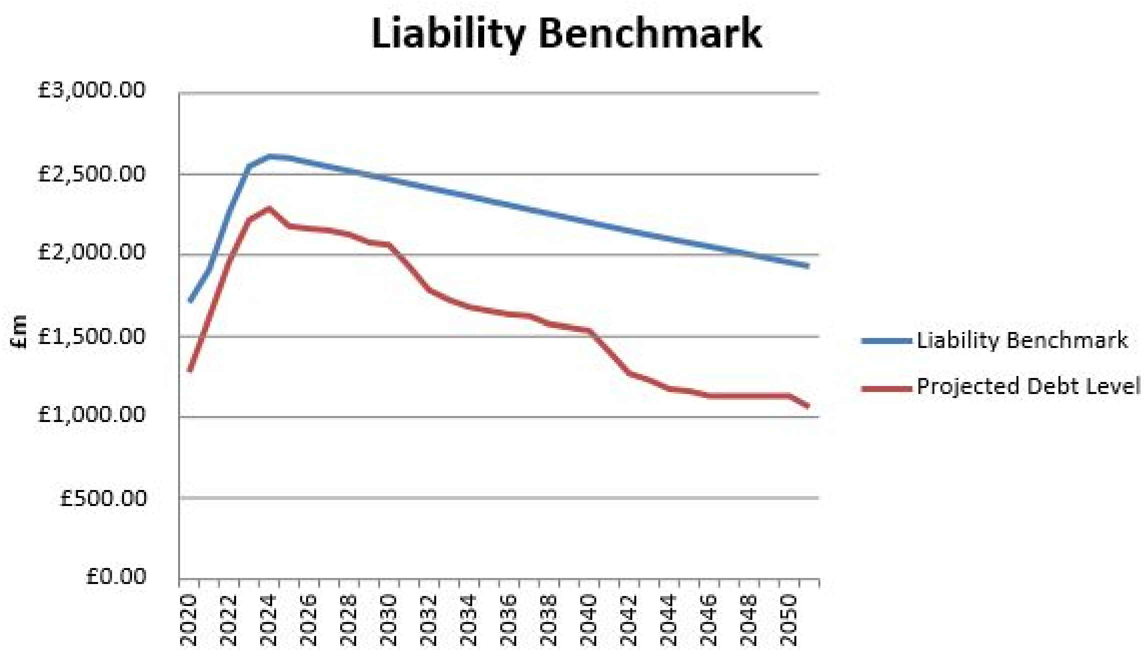
13.14 The Council make loans for a number of reasons primarily economic development and investment objectives.

13.15 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 Cabinet

13.16 The Prudential Code recommends the production of a liability benchmark, which is shown in the graph below. The liability benchmark is the level of expected external borrowing given current projections for capital investment up to year 2023/24. The projected borrowing levels show what the Council expects it level to be. Where the aggregate borrowing 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



13.17 The liability benchmark is the level of expected borrowing given current projections for capital investment up to year 2023/24. The projected borrowing levels show what the Council expects its borrowing level to be. Where the borrowing 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.

14. PREVAILING GUIDANCE

14.1 Under this Strategy and others, the Council have due regard to prevailing Guidance and the Prudential and Treasury Management Codes. In those cases where transactions are carried out primarily for an investment/financial gain purpose, the Council is required by statute to have regard to the Investment Guidance.

14.2 To the extent that local circumstances may cause any actual or perceived variation from Guidance, full explanation of reasons for this will be provided. Council consideration of transactions is carried out on an individual basis following detailed due diligence, risk assessment and legal advice.

14.3 The Investment Guidance recognises that there are circumstances where investments may be viewed as having been financed through an increase in aggregate external borrowing. The

Guidance recommends that in such cases the Council should establish appropriate local indicators that are most appropriate. Whilst there is no direct link between an investment and borrowing, in cases where aggregate external borrowing may increase as a consequence of investment decisions, the Investment Guidance recommends that the extent of potential funding cost increase should be taken into account. This aspect is more specifically covered by the statutory requirement to consider the affordability of all new borrowing.

14.4 Paragraph 42 of Guidance allows departure from Guidance as long as the reasons are stated. Examples of possible reasons for establishing local variations to Guidance suggestions are:

- The investment power, under Section 12 of LGA 2003, applies irrespective of the location of the investment. It applies equally inside or outside an authority's area to transactions where the achievement of profit or financial gain is the sole or primary purpose of the transaction.

- Whilst the major reason for investing in certain instances is for financial return, there is no link that should properly be made with present costs of borrowing.

- Investments may have overriding significance for funding regeneration or other services in Warrington.

- Particular pressure has been placed upon the Council's ability to provide essential services following the significant reduction in Government funding. The National Audit Office estimates the Council's real term reduction in such funding is 23.3%. The surplus generated from investments is used to fund critical services and regeneration.

- The requirement for an investment return may override other factors in cases involving economic development in Warrington.

- The Investment Guidance wording under the heading of "Borrowing in Advance of Need" has questionable relevance to situations where an investment is made which, directly or indirectly, may be reasonably viewed as having caused the aggregate amount of external borrowing to increase. Apart from the title referring to a long held acceptable practice aimed to limit risks inherent in new borrowing requirements, the actual wording of paragraphs 46/47 seems to conflate the question of source of power with the further question whether a particular transaction pursuant to that source of vires is speculative and unreasonable on that account. It also seems to confuse the lawfulness of an investment and the lawfulness of borrowing. Paragraph 41 of Guidance also states: ''Where a local authority borrows to invest in yield bearing opportunities the strategy should explain:''. The draft Guidance therefore seems to acknowledge that local authorities do and can borrow in advance of need, and that what is required is not prohibition but rather greater transparency.

- With regard to paragraph 34, it appears clear that the Investment Guidance can lawfully only have relevance to transactions carried out in reliance upon S.12. Loans made under separate powers which do not have profit or financial gain as their primary purpose cannot be subject to the statutory requirement to have regard to the Investment Guidance.

- The reference in paragraph 37 to investment property can only be related to circumstances provided for within ACOP. Investment property is that which provides an economic as distinct from a purely financial benefit to a local authority. Reference to such properties is made within the section of ACOP that is concerned with expenditure that may be capitalised. Properties acquired solely for profit do not qualify under the ACOP definition of investment properties.

- Borrowing in Advance of Need is not the same concept as borrowing in order to invest. There is a need to invest in order to make a return. Where both the financial pressure and the investment opportunity currently exist the borrowing in our mind is not borrowing in advance of need.

- The reference in paragraph 37 to fair value considerations, whilst representing an approach that might be considered, cannot in itself represent a valid recommendation with regard to practices to be followed where an investment is made in a physical asset. The circumstances, for example in the case of a freehold property acquisition made for investment purposes, do not reflect those which are necessary for a transaction to be categorised as a financial instrument.

15. PROPORTIONALITY

15.1 The table shows the proportion of the Council's budget that is funded from Commercial Income over the MTFP period. A full assessment of the risks and opportunities of commercial income schemes is incorporated into Cabinet business cases when the schemes are approved. The risks are also assessed on an on-going basis via the Council's risk management framework.

	19/20	**20/21**	**21/22**	**22/23**	**23/24**
Cumulative Commercial Income in Base Budget	20,551	30,370	38,504	44,915	45,769
% of Base Budget	15.45	21.60	26.25	31.49	31.39

15.2 Although this Capital Strategy looks forward, it is worth noting the significant level of investment activity that the Council has already undertaken. The Council's Non Treasury Management Investments (commercial investment) is summarised in the table below as at 31.1.2021:

Investments in Group Entities		£'000
	Investment in Warrington Borough Transport Shares	888
	Investment in Wire Regeneration (JV)	3,790
	Investment in Warrington Wolves Rugby League Club Shares	1,331
	Together Energy	18,207
	Redwood Bank Shares	30,923
	Birchwood Park	225,883
	York Solar Farm	44,341
	Hull Solar Farm	665
Total Investments in Group Entities		**324,699**
Loans to Housing Associations & Commercial Loans		247,892
Purchase of Investment Properties		303,717
Total Non-Treasury Investments		**876,308**

15.3 The Non-financial investment portfolio makes the following contribution to the Council:

- Social Impact - all yield / profit is re-invested in front line services
- Improves Wellbeing of the residents of Warrington
- Improves Gross Value added of the borough
- Regeneration
- Economic Benefit / business rate growth
- Responding to market failure
- Mitigating environmental risk, notably climate risk
- Environmental Social and Governance (ESG) impact
- Value for Money
- Delivery of United Nations Policy (Green Energy Programme)
- Asset Backed Security

15.4 Whilst the bulk of the Council's Invest to Save Programme is funded by debt and the Council's debt at the 31 December 2020 was £1,272,862. The Council has a treasury management reserve, a property investment 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 and the strategic reserve.

15.5 The key basic metric is whether the Council is making a return in excess of its borrowings. Currently, the investment yield is 1.98% after the cost of borrowings (as of December 2020). This yield is largely a cash yield, though a small portion is accrued income. It is important to note that this yield also accounts for the cost of all borrowings, not just those made for investment purposes. Therefore, the council is able to currently meet all of its borrowing costs through the investment income it currently generates. The Council is also making an above inflation return currently. Based on current commitments and anticipated borrowings, the net investment yield is expected to improve to 2.01% once fully invested. We also expect further improvements after the future investments, given the criteria laid out by the Council.

15.6 The Council at 31 March 2020 had reserves of £84.5m. The reserves to net income ratio is 3.16, which indicates the Council can sustain a complete loss of net income for over three years if needed without any impact on the budget. The reserves to borrowing costs ratio is 2.53 for current borrowings. This indicates that in the absence of no investment income at all –a deeply bearish tail scenario – the Council would still be able to pay its borrowing costs for circa 2.5 years. If all the positions are fully invested and additional borrowings undertaken, the reserves to borrowing costs ratio is 1.80. In other words, the Council would be able to fund its borrowing costs in the complete absence of income for almost 2 years.

15.7 The Council's Non-financial Investments are fully secured against the properties purchased or the assets/equity of companies/persons loaned to. The Council's Non-financial assets are designed to be capable of disposal when circumstances are appropriate or otherwise warrant this.

15.8 The Council's level of debt is also reflective of the considerable amount of economic regeneration that taken place in the borough over recent years and is a major factor contributing to the high GVA of Warrington. The £150m investment in Time Square is an example of that. Again this is a valuable asset which could be sold, leased, etc if the Council chose to do so.

15.9 The Council regardless of its current level of debt have a positive Balance Sheet. At the 31 March 2020 the Council have a positive Net Worth of £306.457m.

16. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY

16.1 As noted, the Council is committed to being a responsible investor at all times. Responsible investment means to recognise the importance of the long-term health and stability of the financial markets, and to understand that this depends on key external non-financial factors, such as the environment, social stability and strong governance. Collectively, these factors are often referred to under the umbrella of ESG (Environmental, Social and Governance).

16.2 The Council's objective is to recognise all these risks, to mitigate them where possible and thereby improve the security of its portfolio in the long-term.

16.3 Within these, the Council has identified climate change as a long-term, material and systemic financial risk with the potential to significantly impact the Council's investment and financial resilience over time. Therefore, the Council seeks to:

- Minimise exposure to counterparties and investments heavily impacted by climate change risk
- Increase exposure to sectors, counterparties and investments, such as renewables, whose activities aid the transition to a lower carbon world and economy.
- Contribute meaningfully to an improved economically sustainable future locally and nationally, without sacrificing security.

16.4 This is not to ignore other non-financial risks. The Council sees positive social impact also as a key mitigant to aid long-term financial stability, and as a meaningful contribution to the local, regional and national economy. Good governance meanwhile is also critical to safeguarding the Council's reputational risk and long-term resilience.

16.5 The Council's objective is to recognise all these risks, to mitigate them where possible and thereby improve the security of its portfolio in the long-term.

16.6 The Council's core ESG principles are set out below in full:

- The Council recognises the potential impact of its counterparties and investments on the environment, workers, communities and society, as well as the potential impact of climate change on the counterparties and businesses into which the Council invests, the Council itself and its local economy and community.
- The Council will, and seek to ensure where possible that its investment counterparties will act responsibly with respect to the environment, aiming for a sustainable approach to the use of resources, avoiding irresponsible disposal of hazardous products and unnecessary waste.
- The Council and its counterparties will be non-discriminatory (whether on grounds of gender, race or disability), and adopt equality and diversity in their employment practices
- The Council seeks to ensure it and its counterparties always respect human rights and ensure no exploitation of child labour.
- The Council and its counterparties will seek to act with integrity at all times in their dealings.
- The Council will seek to encourage positive ESG behaviour, engaging with counterparties and investments where appropriate to encourage best practice and drive change.
- The Council will comply with any industry standard ESG guidelines that may arise and otherwise, always seek to ensure best practices, actively managing ESG considerations and risks alongside its financial considerations and risks.

16.7 The Council will Incorporate ESG issues into its analysis and decision making processes when considering investments. The Council will seek to use data and analysis to determine the type and materiality of relevant issues where relevant and their alignment with the Council's core principles. It is important to note that the Council shall invest on the collective basis of its investment criteria and priorities, as laid out earlier in the Council's risk appetite statement, having considered all factors contributing to the risk of its investments, including ESG factors.

16.8 The Council will also seek to develop appropriate reporting and monitoring to provide transparency on its ESG profile as well as engage to encourage best practice. This will be through supporting investments and counterparties aligned with the Council's objectives, reviewing the ESG policies of funds and counterparties where appropriate, and the sourcing of suitable metrics where relevant such as for example, social impact metrics, external ratings and quantifying the investments in assets and businesses contributing to climate change reduction.

17. INDICATORS

17.1 Appendix 4 to this report presents a range of indicators that enable greater understanding to the Council's total exposure from borrowing and investment decisions. The Council intends to add to these over time to reflect its focus on responsible investment and managing ESG risks.

18. SECTION 151 OFFICER ASSURANCE

18.1 This Capital Strategy is compiled in line with the recommendations or suggestions contained within the latest CIPFA Prudential Code and Treasury Management Codes.

18.2 The Section 151 Officer views the Strategy to be prudent and affordable and it is fully integrated with the Council's 2020 Medium Term Financial Plan, Treasury Management Strategy and other Strategic Plans.

18.3 The risk associated with the Strategy is covered by the Council Risk Appetite Statement above.

19. FINANCIAL CONSIDERATIONS

19.1 Dealt with in the body of the report.

20. RESPONSIBLE INVESTMENT AND ESG CONSIDERATIONS

20.1 Dealt with in the body of the report.

21. RISK ASSESMENT

21.1 Contained within the body of the report. All schemes entering the programme are subject to a full risk assessment and on-going monitoring. The Council has expanded its risk appetite statement to reflect its focus on responsible investment and managing additional non-financial risks, notably ESG related risks (e.g. climate risk). These are being integrated into the Council's due diligence and monitoring where appropriate.

22. EQUALITY AND DIVERSITY / EQUALITY IMPACT ASSESSMENT

22.1 These are fully integrated into the Capital Programme.

23. CONSULTATION

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

24. REASONS FOR RECOMMENDATION

24.1 That Full Council approves the recommendations included in this report.

25. RECOMMENDATION

25.1 Full Council is recommended to:

(i) Note material changes to the 2021/22 Capital Strategy contained within section 4 of the Capital Strategy.

(ii) Approve the 2021/22 Capital Strategy.

(iii) Approve the 2021/22 – 2023/24 Capital Programme contained in Appendix 1 to this report.

(iv) Agree the Capital Receipts Flexibilities Policy contained within Annexe 1 of this report for adoption.

26. BACKGROUND PAPERS

Capital Programme Model

Contacts for Background Papers:

Name	E-mail	Telephone
Danny Mather	dzmather@warrington.gov.uk	01925 442344

27. Clearance Details	Name	Consulted		Date Approved
		Yes	No	
Relevant Cabinet Member	**Cllr C Mitchell**	✓		
SLT		✓		
Relevant Director	**Lynton Green**	✓		
Council Monitoring Officer	**Matthew Cumberbatch**	✓		
S151 Officer	**Lynton Green**	✓		
Relevant Assistant Director				

1 2021/22 – 2023/24 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 2021/22 – 2023/24 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 Cabinet.

1.5 The proposed 2021/22 – 2023/24 capital programme is £786.385m. 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 2021/21 – 2023/24 capital programme. A full copy of the draft capital programme on a scheme by scheme basis can be found at pages 30 – 33.

2021/22 – 2023/24 Capital Programme

Capital Programme Directorate Budgets	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**	**Total £m**
Families & Wellbeing	4.028	0.414	-	**4.442**
Corporate Services	2.940	2.000	1.588	**6.528**
Environment & Transport	44.511	15.913	6.196	**66.620**
Growth	7.164	0.127	-	**7.291**
Invest to Save Programme	335.458	290.452	75.594	**701.504**
Total Capital Spending Plans	**394.101**	**308.906**	**83.378**	**786.385**

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 Cabinet 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 2021/22 – 2023/24 Capital Programme and pages 30 - 33 provides a breakdown of funding on a scheme by scheme basis.

Funding the 2021/22 – 2023/24 Capital Programme

Capital Programme Funding	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Unsupported Borrowing - Corporate	34.409	11.236	6.231	**51.876**
Unsupported Borrowing - Invest to Save	335.458	290.452	75.594	**701.504**
Capital Grants & Reserves	12.658	0.508	-	**13.166**
Capital Receipts	4.861	2.125	1.553	**8.539**
External Funding	6.715	4.585	-	**11.300**
Total Capital Funding Plans	**394.101**	**308.906**	**83.378**	**786.385**

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 Cabinet.

1.12 The 2021/22 – 2023/24 Capital Programme generates an additional revenue borrowing cost to the Council of £2.957m a breakdown of which is given below:

- 2021/22 - £1.961m
- 2022/23 - £0.640m
- 2023/24 - £0.355m

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

New Corporate Schemes

1.13 The following projects are proposed for inclusion in the 2021/22 – 2023/24 Capital Programme:

- **Bus Depot Relocation** – To relocate the existing Bus Depot to a Council owned parcel of land located north of the town centre. Total budget of £9.963m with £7.032m external funding, the remaining balance of £2.931m is borrowing which will cost the Council an extra £105k per annum for a 25 year period.

FAMILIES & WELLBEING - CAPITAL PROGRAMME

Project Description	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Education and Early Help				
Additional primary places - St Phillips	0.300	-	-	**0.300**
Grappenhall Heyes Expansion	2.905	0.075	-	**2.980**
Additional Primary Places	-	0.339	-	**0.339**
The Cobbs Infant - Flat Roof	0.010	-	-	**0.010**
The Cobbs Infant - Electrics	0.010	-	-	**0.010**
Appleton Thorn - Flat Roof	0.010	-	-	**0.010**
S106 Culcheth High - Astroturf	0.048	-	-	**0.048**
ASD - Free School demolition of existing building	0.100	-	-	**0.100**
SEND - Oakwood CP KS1	0.072	-	-	**0.072**
SEND - Secondary SEMH Designated Provision	0.250	-	-	**0.250**
SEND - Post 19 Offer	0.190	-	-	**0.190**
SEND - Post 1 vocational offer (WLV)	0.060	-	-	**0.060**
SEND - Sandy Lane Nursery	0.054	-	-	**0.054**
Children's Residences Maintenance Works	0.019	-	-	**0.019**
Total Education and Early Help	**4.028**	**0.414**	**-**	**4.442**
TOTAL FAMILIES & WELLBEING	**4.028**	**0.414**	**-**	**4.442**

CORPORATE SERVICES - CAPITAL PROGRAMME

Project Description	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Finance				
Corporate Redundancy Costs	2.000	2.000	1.553	**5.553**
Total Finance	**2.000**	**2.000**	**1.553**	**5.553**
Customer and Business Transformation				
Warrington 20:20 Transformation Programme	0.500	-	-	**0.500**
ICT & Print Service	0.440	-	0.035	**0.475**
Total Customer and Business Transformation	**0.940**	**-**	**0.035**	**0.975**
TOTAL CORPORATE SERVICES	**2.940**	**2.000**	**1.588**	**6.528**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Environment and Transport				
Road Maintenance	1.368	-	-	**1.368**
Bridge Maintenance	0.438	-	-	**0.438**
Traffic Signals - Maintenance	0.456	-	-	**0.456**
Bus Stop - Maintenance	0.015	-	-	**0.015**
Street Lighting Structural Works	0.398	-	-	**0.398**
Footpath & Cycleway - maintenance	0.231	-	-	**0.231**
Pothole Action & Flood Resilience Fund	0.050	-	-	**0.050**
Capitalisation of Potholes	0.576	0.500		**1.076**
S278 Walton Locks	0.012	-	-	**0.012**
Chapelford Street Lighting Works (commuted sum)	0.030	-	-	**0.030**
Chapelford Highways Works (commuted sum)	0.100	-	-	**0.100**
Briarswood Remedial Works - Street Lighting	0.018	-	-	**0.018**
Flood Risk (contribution to Environment Agency scheme)	0.510	-	-	**0.510**
Highways Maintenance Investment	4.292	-	-	**4.292**
Penketh/Whittle Brook Flood Risk Management	0.420	-	-	**0.420**
Challenge Fund 2020/21 - Bus Quality Partnership Improvements	0.083	-	-	**0.083**
Refurbishment of The Forge Car park	0.686	-	-	**0.686**
S106 Eagle Ottawa	0.035	-	-	**0.035**
Cycling Improvements	0.250	-	-	**0.250**
Pedestrian Improvements: PRoW	0.050	-	-	**0.050**
General Accessibility Improvements	0.050	-	-	**0.050**
Cycle Training - Bikeability	0.005	-	-	**0.005**
Travel Planning and Marketing	0.035	-	-	**0.035**
Bus Priority Schemes	0.050	-	-	**0.050**
Bus Stop Enhancements	0.010	-	-	**0.010**
New Bus Priority Measures	0.050	-	-	**0.050**
Parking Strategy	0.015	-	-	**0.015**
Safer Routes to Schools	0.075	-	-	**0.075**
Road Safety - Local Safety Schemes	0.150	-	-	**0.150**
Traffic Management - Minor Works	0.250	-	-	**0.250**
Pedestrian Improvements: (Crossings)	0.100	-	-	**0.100**
UTMC Development	0.050	-	-	**0.050**
Network Management Plan	0.200	-	-	**0.200**
Monitoring & Strategic Studies	0.129	-	-	**0.129**
Freight	0.010	-	-	**0.010**
Cleaner Fuels	0.015	-	-	**0.015**
Local Transport COVID Restart - Patching	0.070	-	-	**0.070**
Local Transport COVID Restart - Drainage	0.030	-	-	**0.030**
Local Transport COVID Restart - Main Lane	0.015	-	-	**0.015**
Local Transport COVID Restart - Complementary Path Widening	0.331	-	-	**0.331**
Challenge Fund 2020/21 - Traffic Management	0.067	-	-	**0.067**
EATF Tranche 2 Central 6 LTNs Scheme 1	0.110	-	-	**0.110**
EATF Tranche 2 A562 Cycle Scheme 2	0.240	-	-	**0.240**
EATF Tranche 2 Town Centre Scheme 3	0.120	-	-	**0.120**
Centre Park Link	0.172	-	-	**0.172**
Warrington West Station	0.175	-	-	**0.175**
Birchwood Pinch Point	-	0.015	-	**0.015**
Omega to Burtonwood Accessibility Improvements	0.035	-	-	**0.035**
Chester Road Cycle Route	0.392	-	-	**0.392**
Trans Pennine Trail Upgrade	0.340	-	-	**0.340**
Warrington West Cycle Accessibility	0.242	-	-	**0.242**
Daten Avenue Birchwood Path Cycle Improvement	0.150	-	-	**0.150**
Longbarn Park to College Place Path Cycle Improvement	0.080	-	-	**0.080**
Victoria Park Improvement	0.405	-	-	**0.405**
Sankey Valley Park Improvement	0.254	-	-	**0.254**
Warrington Allotments Improvement Programme	0.011	-	-	**0.011**
Bruche S106 - Various Parks/Areas	0.013	-	-	**0.013**
Alexander Park Developments Phase 1 - Play Area Phase 2 - Pavilion	0.020	-	-	**0.020**
S106 Gatewarth 300 (Omega South Zone 7)	0.064	0.064	-	**0.128**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Environment and Transport				
Oakwood Avenue Park Refurbishment	0.076	-	-	**0.076**
Birchwood Forest Park Skate Area & Bike Pump Track	0.002	-	-	**0.002**
Longbarn Park Refurbishment	0.013	-	-	**0.013**
Enfield Park Refurbishment	0.039	-	-	**0.039**
Birchwood Brook Footpath	0.003	-	-	**0.003**
Victoria Park Bowling Pavilion Extension	0.009	-	-	**0.009**
Volunteer Support & Quick Win Projects	0.023	-	-	**0.023**
Lymm Dam Site Infrastructure Refurbishment	0.037	-	-	**0.037**
Shaw Street Recreation Ground Uplift	0.009	0.030	-	**0.039**
Culcheth Village Green Play Area Uplift	0.004	0.030	-	**0.034**
Birchwood Forest Park Ranger & Sports Changing Building Refurbishment	0.034	-	-	**0.034**
Old Hall Park Refurbishment	0.032	-	-	**0.032**
Rixton Clay Pits Footpath Upgrade PROW to PFA	0.003	0.027	-	**0.030**
Western Link Blight Claims	1.000	5.497	-	**6.497**
Western Link Pre construction	8.873	9.277	6.196	**24.346**
Warrington East Phase 2	0.428	-	-	**0.428**
Warrington East Phase 3 (NPIF)	0.180	-	-	**0.180**
Omega Local Highways Phase 1 - Lingley Green Avenue/Omega Boulevard Junction Improvements	1.409	0.323	-	**1.732**
Omega Local Highways Phase 2A - Burtonwood Road/Kingswood Road	0.088	-	-	**0.088**
Omega Local Highways Phase 2B - Lingley Green Avenue/A57 Liverpool Road Junction Improvements	1.253	-	-	**1.253**
Omega Local Highways Phase 3 - Lingley Green Avenue/Whittle Avenue/Burtonwood Road Junction Improvements	1.613	-	-	**1.613**
Stadium Quarter Improvements	0.937	0.025	-	**0.962**
Victoria Park 3G Pitch	0.050	-	-	**0.050**
Community Recycling Centres Infrastructure Investment	0.160	-	-	**0.160**
Travellers transit site	1.814	-	-	**1.814**
Depot Amalgamation	11.874	0.125	-	**11.999**
TOTAL ENVIRONMENT & TRANSPORT	**44.511**	**15.913**	**6.196**	**66.620**

GROWTH - CAPITAL PROGRAMME

Project Description	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Growth				
Capital Building Maintenance Programme	0.040	-	-	**0.040**
Museum - Roof	0.424	0.030	-	**0.454**
Various Civic Build - Fire Alarm Systems	0.080	0.017	-	**0.097**
St Werburghs Boiler & Heating System	0.034	-	-	**0.034**
Orford Youth Base - Boiler	0.015	-	-	**0.015**
Various Changing Rooms - Showers	0.065	-	-	**0.065**
Birchwood Tennis Ctr - Water Heater	0.013	-	-	**0.013**
Walton Crematorium Building Works	0.068	0.010	-	**0.078**
Parr Hall Ventilation Tower Repairs	0.009	-	-	**0.009**
Padgate House Boiler	0.110	-	-	**0.110**
East Annexe Drill Hall Roofing	0.161	0.010	-	**0.171**
New Electric Sub-station Town Hall Complex	0.240	0.013	-	**0.253**
Town Hall Golden Gates Additional Work	0.015	-	-	**0.015**
Town Hall Fire Alarm System	0.020	0.007	-	**0.027**
NTH/Quattro Demolition	0.548	0.040	-	**0.588**
Maintenance Investment Estates Land (Roads and Footpaths)	0.045	-	-	**0.045**
Bewsey & Dallam Hub	0.080	-	-	**0.080**
Regeneration Acquisition - Causeway	0.433	-	-	**0.433**
Green Homes Grant	1.615	-	-	**1.615**
Warrington Youth Zone	2.621	-	-	**2.621**
Warrington Public Libraries Improvement Programme	0.500	-	-	**0.500**
Viola Beach Memorial	0.028	-	-	**0.028**
TOTAL GROWTH	**7.164**	**0.127**	**-**	**7.291**

INVEST TO SAVE - CAPITAL PROGRAMME

Project Description	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Corporate Services				
Loans to Housing Associations	200.000	200.000	70.822	**470.822**
Warrington/Northwest Region Investment	84.723	-	-	**84.723**
Total Corporate Services	**284.723**	**200.000**	**70.822**	**555.545**
Environment & Transport				
Street Lighting Energy, Carbon & Asset Improvement	1.000	1.000	4.772	**6.772**
Total Environment & Transport	**1.000**	**1.000**	**4.772**	**6.772**
Growth				
Capital Investment	28.745	61.180	-	**89.925**
Birchwood Park	11.370	-	-	**11.370**
Housing Companies	9.620	28.272	-	**37.892**
Total Growth	**49.735**	**89.452**	**-**	**139.187**
TOTAL INVEST TO SAVE	**335.458**	**290.452**	**75.594**	**701.504**
TOTAL CAPITAL PROGRAMME	**394.101**	**308.906**	**83.378**	**786.385**

Annexe 1

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 assets to fund the revenue costs of service reform and transformation. Guidance on the use of this flexibility was issued in March 2016 which applied 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 this flexibility will be extended for a further 3 years to March 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 projects:

- Warrington 2020 Service Transformation Programme
- Corporate Redundancy Costs

Project	Estimated Expenditure 2021/22 £000	Estimated Annual Savings £000
Warrington 2020 Transformation Programme	1,500	1,500
Corporate Redundancy Costs	2,000	2,000
Total	3,500	3,500

The previously agreed saving target of £1.5m has been removed by a corresponding pressure entry in the MTFP. The MTFP will be updated pending the outcome of the ongoing review of the Business Transformation Programme.

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.

Commercial income indicators

A Debt to net service expenditure (NSE) ratio

This indicator shows the gross debt as a percentage of the next service expenditure of the Council. This shows the level of debt relative to the financial size and strength of the authority.

	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate
Gross Debt	1612.730	1945.762	2227.056	2287.842
Net Service Expenditure	140.618	146.679	142.652	145.804
Gross Debt to net service expenditure ratio	1146.89%	1326.54%	1561.18%	1569.12%

B Commercial Income to NSE

This indicator is to show the dependence on income that is not from fees and charges. Fees and charges income is netted off the NSE and compared to the non-fees and charges income. Commercial Income in this case refers to all commercial income budgeted.

	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate
Commerical Income (budgeted)	30.370	30.378	30.385	30.385
Gross Service Expenditure less Fees and Charges	368.310	370.239	372.134	373.995
Commercial income to NSE ratio	8.25%	8.21%	8.16%	8.12%

C Interest Cover Ratio

This indicator shows the ratio of income from commercial property investments compared to the interest expense incurred by them. Please note Birchwood Park is included within this

	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate
Net Commerical Property Income (before interest)	24.289	25.066	27.027	29.587
Commerical Property Interest	13.520	13.520	14.475	16.385
Interest cover ratio (times)	1.80	1.85	1.87	1.81

D Loan to Value Ratio

This indicator compares the amount borrowed against the value of the commercial property assets bought. All Council Invest to Save Schemes are 100% loan to value and interest is charged on the full amount of the purchase price and associated costs.

	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate
Gross Debt related to Property investments	£545,428	£545,254	£643,133	£643,133
Commerical Property Purchase Costs	£545,428	£545,254	£643,133	£643,133
Loan to Value Ratio	100.00%	100.00%	100.00%	100.00%

E Target Income Returns

This indicator measures the yield for the portfolio of properties. This is measured by comparing the net income received, before interest, to the purchase costs. This is shown in totality for the whole of the Commercial Property portfolio. Purchase costs are the total for the portfolio not new purchases.

	20/21 Estimate	21/22 Estimate	22/23 Estimate	23/24 Estimate
Net Commerical Income from Property Investments	37.808	38.586	41.502	45.972
Commerical Property Purchase Costs	545.428	545.254	643.133	643.133
Target Income Returns	6.93%	7.08%	6.45%	7.15%

F Gross and Net Income/Operating Costs from Commercial Investments

This indicator shows the Gross Income received from Commercial activities, the Operating Costs of running them, and then the resulting Net Income received in monetary terms.

Gross Commerical Income from Property Investments	17.696	18.768	21.872	25.908
Operating Costs including Interest	20.258	20.392	21.484	23.533
Net Commercial Income from Property Investments	10.769	11.547	12.553	13.202

G Occupancy Levels

The following table shows the expected average level of occupancy over the period. These are not expected to fluctuate over the next 3 years, except in the case of Birchwood Park which is very fluid due to the Park having multiple units.

Commercial Property	Occupancy Rate
1-2 Fennel Street (Pure Gym)	100%
DW Sports	0%
Birchwood Park	94%
Matalan	100%
Eddie Stobarts	100%
Stanford House	100%
Appleton House/Atlantic House	100%
Tesco Farnworth	100%
Tesco Widnes	100%
Apollo Gemini	100%
Movianto Haydock	100%
Asda Hulme	100%
Sainsburys Sale	100%