WARRINGTON BOROUGH COUNCIL

FULL COUNCIL - 28 February 2022

Report of Cabinet Member:	Councillor C Mitchell, Deputy Leader and Cabinet Member, Corporate Resources	
Director:	Lynton Green, Deputy Chief Executive & Director of Corporate Services	
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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 2022/23 Capital Strategy which incorporates the 2022 - 2025 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 (2021 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 Strategy, 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 priorities of the Council's Corporate Strategy which pledges to ensure:

- Our residents live healthy, happy and independent lives
- Everyone benefits from our thriving economy
- Communities are safe, strong and our most vulnerable are protected
- Our town is clean, green and vibrant

It will do this by supporting 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 A change that is reflected in the 2022/23 Strategy compared to the 2021/22 Capital Strategy

in that the Council will now pay a voluntary Minimum Revenue Provision Charge (MRP) on its Commercial Property Investment portfolio. The Council will also follow the new revised CIPFA Prudential Code which was published in December 2021. The Council will introduce the changes in the New Prudential Code in 2022/23 which will be a year earlier than the 2023/24 target date.

5. 2022-2025 CAPITAL PROGRAMME

5.1 The Council's Capital Programme for the years 2022/23 – 2024/25, together with their associated financing and Capital Flexibilities Policy, is attached as Appendix 1 to this report. Please note that at the time of issuing this report the Government had not issued formal guidance on the extension of the Capital Flexibilities into 2022/23. The Government have informally stated that the scheme will be expanded into 2022/23 and to incorporate it into Capital Strategies.

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 2022.

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 and updated this in 2020. 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.
- Includes a performance monitoring approach, portfolio balance and individual asset business plans
- 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
- Increasing property ownership for the Council to enable, control and influence land use

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 for 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 5 to 10 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. The property will also need to produce an annual return in excess of the cost of the borrowing costs after taking into consideration regeneration factors.

- **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.

- **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.

Corporate Risk Reserve

7.16 The Council makes a contribution each year from surpluses it makes on its investments into a Corporate Risk Reserve. This reserve will be used to offset any losses if any of the investments run into difficulties or to make back dated voluntary MRP charges. At 31 January 2022 this reserve stood at £28.8m.

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.

Building Maintenance Programme Revenue Funding 2022-25

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 commercial investment property) 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 2022-2025	Response repairs 2022-2025	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 2022-25

7.20 Allocation of capital to invest in and improve the operational business portfolio is prioritised through the corporate Capital Investment Planning Group (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 2022-2025	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 delegated to 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 (proceeds from property sales) 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 2022-2025	Total
Property Disposal General	£300,000	£300,000
Other Receipts	£3,900,000	£3,900,000
Total		£4,200,000

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
- In year, the Capital Programme is monitored and reported to the Senior Leadership Team and then to Cabinet on a quarterly basis, as part of the Council's monitoring process.
- All schemes and the overall Capital Programme are subject to approval by the Strategic Leadership Team and Cabinet
- Portfolio holders are assigned projects in line with their responsibilities
- A senior officer group the Capital Investment Planning Group (CIPG), chaired by the Chief Executive, monitors the delivery of the capital programme on an ongoing basis. The Group is a cross-departmental group consisting of officers from each service department, finance, property and procurement. CIPG oversees the development and delivery of the Council's capital programme.
- 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
- A stringent governance system is in place for commercial schemes
- The capital programme is integrated into the Council's risk management system

8.2 The Council's Commercial Governance Framework was subject to a detailed appraisal by Price Waterhouse Coopers (PwC) in October 2020, which found that it was consistent with wide evidence of good practice. PwC will carry out a further review in 2022 on the success of the Council in implementing its recommendations.

8.3 Governance arrangements, including risk management are reviewed annually to ensure that it remains fit for purpose and is in line with best 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.

9.4 The Council has a strong governance framework that goes beyond the regulatory codes. It has a consultative Treasury Management Board (TMB) in addition to the common local government audit and corporate governance committees.

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 prudent 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. The Council will also be one of the first Councils to introduce the new Prudential Code in 2022/23. This a year in advance of CIPFA target date of 2023/24.

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)***

9.13 The Council in 2022/23 will again commission a further review on the Council's progress in implementing its recommendations. A full report of this is to go to Cabinet and the Audit and Corporate Governance Committee.

9.14 During 2021/22 the Director of Law and Governance carried out a review of the governance arrangements of the Council's companies. This will form part of a wider review to be carried out by independent experts in 2022. The results of this review will be reported to Cabinet and the Audit & Corporate Governance Committee.

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 it balances risk and return in pursuit of achieving its objectives, all through the lens of prudence. 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, with a focus on prudent assessment and management throughout.

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 by Full Council. 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, which could have long-term consequences for the Council's exposures and therefore, should be integrated into any prudent assessment to provide a holistic view of the Council's risk profile. 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:

- Its 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. Within these, as the pandemic and other recent events have shown, it is also important to consider extreme tail risk scenarios that could have significant knock-on impacts for the economy, financial markets and the Council's own exposures.
- **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 cash flow 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 the ability to deliver the Council's statutory duties more effectively and efficiently or a direct gain to the Council's revenues alongside the delivery of its duties.
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 A2, The sixth highest rating in Moody's Long-term Corporate Rating. Organisations rated A2 are considered upper-medium grade and are subject to low credit risk. The rating is reviewed on an annual basis and acts as a barometer check of the risk of the Council's policies and therefore, the external perception of its balance sheet as well as suitability as a counterparty.

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 2021 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	2,161	108
Tarmac Trading Ltd	-42	97
LiveWire	2,863	109
Warrington Cultural Trust	1,412	127
Your Housing	163	126

Together Energy

11.4 Together Energy was placed into administration in February 2022 as a result of the extreme price volatility in the energy markets over recent months. The Council have £18m of preferred equity investment in Together Energy classed as capital. In its capacity as shareholder in Together Energy, the Council has also issued a guarantee in favour of Orsted (Together Energy's wholesale gas and electricity supplier) which was capped at £29.3m in January 2022. The current exposure of this guarantee is believed to be significantly less following the Council's assessment of Together Energy's financial position, and the probability of the guarantee being called is perceived to be low but this issue will be dealt with by the administrator during 2022. The Council will not know the future of this investment/exposure and what proportion will be recovered until the final stages of the administration process, which is anticipated to proceed through 2022 and 2023. It is important to note that the Council holds security over the assets of Together Energy and will continue to engage with the administrator to clarify the definitive position as a secured creditor over the course of the process.

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. External consultancy expertise is bought in when it does not exist across the Council.

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

12.5 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 2024/2025 it is forecast that the Council's external borrowing will be £2.5bn.

13.4 The Council's Authorised Borrowing limit for 2021/22 which is £2.7bn 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 2021/22 is £2.4bn. 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.

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 the Audit & Corporate Governance Committee 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.

13.12 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

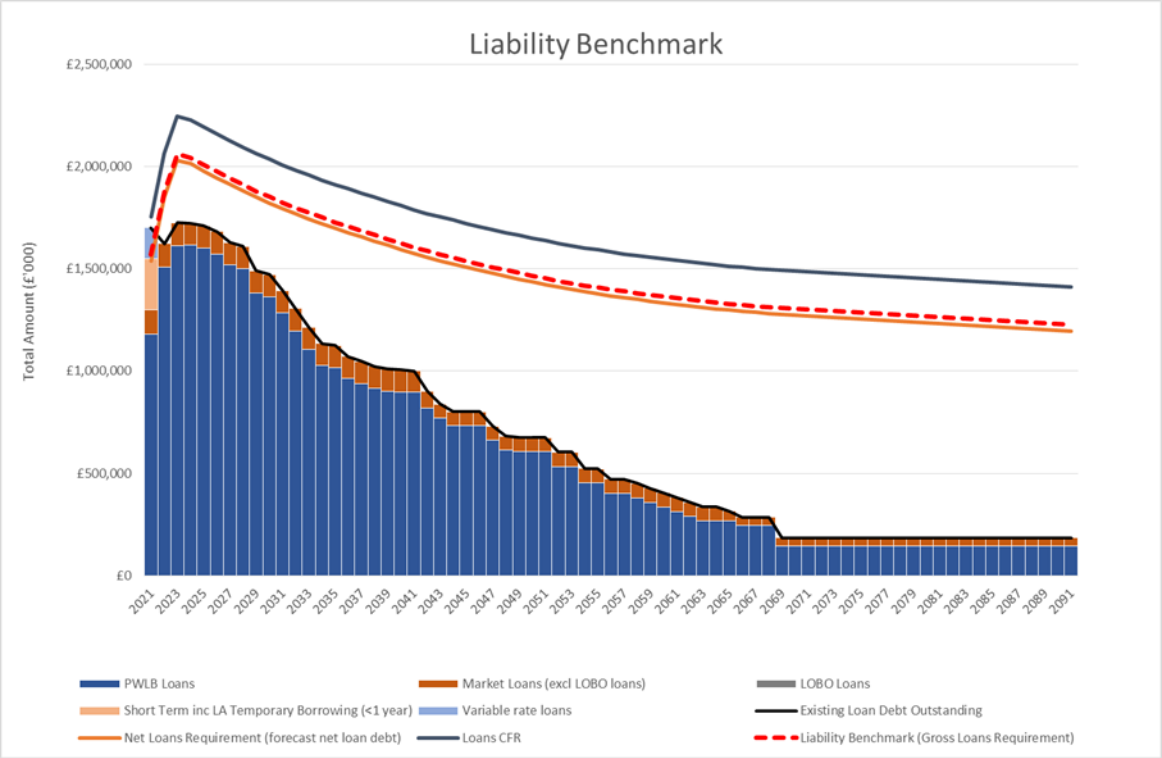
13.14 The Council make loans for a number of reasons primarily economic development and investment objectives.

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
- All loans are agreed by the Council's Cabinet

13.16 The Prudential Code (2021 Edition) recommends the production of a liability benchmark by 2023/24, 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 2024/25. 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. At the time of writing this report CIPFA had not issued their Guidance on how to calculate the Liability Benchmark. The benchmark below is calculated using consultation guidance that was issued in 2021.

Liability Benchmark



13.17 The table shows the existing maturity profile of the current loan portfolio, represented by bars then broken down further by the type of loan. The peaks of this are joined to show the existing loans and the forecast borrowing over the next three years.

13.18 The top line shows the expected level of borrowing given the current Capital Programme, with the lower line next of investments. The liability benchmark in between this takes account of a liquidity buffer to help cashflow.

13.19 The space between the existing loan maturities and the liability benchmark represents future borrowing need.

14. PREVAILING GUIDANCE

14.1 In applying the Capital Strategy the Council must have regard to all relevant guidance. In particular where a proposal involves investment pursuant to s.12 LGA 2003, or borrowing pursuant to s.1 LGA 2003, then in compliance with s.15 LGA 2003, the Council is under a specific duty to have regard to guidance issued by the Secretary of State and other guidance as may be specified.

14.2 In the context of any actions taken pursuant to s.1 and s.12 LGA 2003 the relevant guidance is primarily the Statutory Guidance On Local Government Investments 3rd Edition ("Statutory Guidance") and the CIPFA Prudential Code for Capital Finance in Local Authorities 2021 ("Prudential Code").

14.3 Both sets of guidance will be considered on a project by project basis and all decisions taken will clearly cover the application of the guidance in respect of each matter. Whilst departures from such guidance is not anticipated, any departures from either set of guidance will be fully explained. Para.47 of the Statutory Guidance specifically permits departures from the guidance in respect of the prohibition on borrowing in advance of need, as long as such a departure is explained. This is to ensure external auditors, tax payers and other interested parties are able to understand why the local authority has chosen to disregard the Statutory Guidance, and to hold the authority to account should they believe there is not sufficient reason for doing so.

14.4 Examples of possible departures from guidance are set out, but not limited to the examples below:

14.5.1 The investment power, under s.12 of LGA 2003, applies irrespective of the location of the investment i.e. 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;

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

14.5.4 Where no borrowing is required, the Statutory Guidance is only applicable to matters where s.12 LGA 2003 has been relied upon. If alternate powers have been relied upon, such as the General Power of Competence under the Localism Act 2011, the Statutory Guidance will not be applicable;

14.5.5 Where an investment is made in order to generate a financial return which will itself be utilised in order to meet existing capital requirements.

15. PROPORTIONALITY

15.1 The below 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	24/25	25/26
Commercial Income in Base Budget (£000)	14,829	19,552	22,462	14,383	15,537	17,037	17,037
Base Budget (£000)	132,998	140,618	150,177	157,264	155,346	160,082	163,758
% of Base Budget	11.15	13.90	14.96	9.15	10.00	10.64	10.40

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 31.1.2022:

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
	Municipal Bond Agency	200
	Together Energy	18,207
	Redwood Bank Shares	16,000
	Birchwood Park	225,906
	York Solar Farm	14,265
	Hull Solar Farm	8,052
	Cirencester Solar Farm	217
	Housing Company	11,000
Total Investments in Group Entities		**299,856**
Loans to Housing Associations & Commercial Loans		505,965
Purchase of Investment Properties		380,201
Total Non-Treasury Investments		**1,186,022**

15.3 The Non-financial aspects of the investment portfolio support the wider aspirations of the Council in the following areas:

- 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 2021 was £1.701 bn. The Council has a Corporate Risk Reserve which at the 31 January 2022 stood at £28.8m to help offset any failures in its investment portfolio.

15.5 it is important to note that prudence lies at the heart of the Council's risk assessment and decision-making, and that the Council applies a twin principle of proportionality to its investments and borrowings. In other words, for any investment, the prudent assessment and consideration of the investment and its associated risks should be proportional to:

- The size of the investment, any proposed funding needs and the cashflow requirements of the Council.

- The complexity (including the volatility) of the proposed investment strategy.

15.6 The key basic metric is whether the Council is making a return in excess of its borrowings, with an overlay of scenario analysis depending on the complexity and size of the underlying investment, as noted above. It is important to note that this yield also accounts for the cost of all borrowings, not just those made for investment purposes. The Council makes a positive return on its investments Therefore, the council is able to meet all of its borrowing costs through the investment income it currently generates.

15.7 Borrowings are largely long-dated with an average maturity of 22.1 years, providing the Council with ample time to prudently plan its repayment, refinancing and asset disposal strategies as needed and so as to ensure it is not at risk of an unexpected mismatch between the profile of its assets and its liabilities. The vast majority of borrowings – over 90% - are at a fixed rate, removing interest rate risk and protecting the Council from any inflation risk. Where there is some inflation, namely the CPI bond issued by the Council, this has a cap to control exposures and has been subject to rigorous scenario analysis at the time to ensure that potential exposures were prudently assessed. The key basic metric is whether the Council is making a return in excess of its borrowings, which it is, has historically and forecast to do in the future.

15.8 Borrowings are largely long-dated with an average maturity of 22.1 years, providing the Council with ample time to prudently plan its repayment, refinancing and asset disposal strategies as needed and so as to ensure it is not at risk of an unexpected mismatch between the profile of its assets and its liabilities. The vast majority of borrowings – over 90% - are at a fixed rate, removing interest rate risk and protecting the Council from any inflation risk. Where there is some inflation, namely the CPI bond issued by the Council, this has a cap to control exposures and has been subject to rigorous scenario analysis at the time to ensure that potential exposures were prudently assessed.

15.9 The Council at 31 March 2021 had reserves of £134.6m. The reserves to net income ratio is 6.32, which indicates the Council can sustain a complete loss of net income for over six years if needed without any impact on the budget. This is a significant improvement from the previous reserves to net income ratio of 3.14. The reserves to borrowing costs ratio is 4.00 for current borrowings, compared to a ratio of 2.53 previously. 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 4 years. If all the projected 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 from reserves only. It should be noted from a proportionality perspective, the Council undertakes specific analysis on the financial resilience of key and complex investments, and to ensure that assets and borrowings are carefully matched to minimise risk to the Council.

15.10 The Council regardless of its current level of debt has a positive Balance Sheet. At the 31 March 2021 the Council had a positive Net Worth of £127.824m.

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 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 2022 - 2026 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 and the wider on going Corporate Governance system of the Council.

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 are recommended to:

(i) Note material changes to the 2022/23 Capital Strategy contained within section 4 of the Capital Strategy.

(ii) Approve the 2022/23 Capital Strategy.

(iii) Approve the 2022/23 – 2024/25 Capital Programme contained in Appendix 1 to this report.

(iv) Agree the Capital Receipts Flexibilities Policy contained within Appendix 2 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		✓		
Section 151 Officer	**Lynton Green**	✓		
Council Monitoring Officer	**Matthew Cumberbatch**	✓		

Appendix 1

1 2022/23 – 2024/25 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 2022/23 – 2024/25 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 2022/23 – 2024/25 capital programme is £728.973m. 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 2022/23 – 2024/25 capital programme. A full copy of the draft capital programme on a scheme by scheme basis can be found in the following pages.

2022/23 – 2024/25 Capital Programme

Capital Programme Directorate Budgets	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**Total £m**
Families & Wellbeing	6.472	0.564	0.222	**7.258**
Corporate Services	3.144	2.801	1.596	**7.541**
Environment & Transport	63.173	53.922	8.500	**125.595**
Growth	22.976	3.405	1.970	**28.351**
Invest to Save Programme	319.634	204.772	35.822	**560.228**
Total Capital Spending Plans	**415.399**	**265.464**	**48.110**	**728.973**

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.

1.9 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.

1.10 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.

1.11 The table below provides a summary of the funding of the 2022/23 – 2024/25 Capital Programme and the following pages provide a breakdown of funding on a scheme by scheme basis.

Funding the 2022/23 – 2024/25 Capital Programme

Capital Programme Funding	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**Total £m**
Unsupported Borrowing - Corporate	48.803	36.195	1.596	**86.594**
Unsupported Borrowing - Invest to Save	319.634	204.772	35.822	**560.228**
Capital Grants & Reserves	35.302	16.997	2.192	**54.491**
Capital Receipts	4.490	2.000	-	**6.490**
External Funding	7.170	5.500	8.500	**21.170**
Total Capital Funding Plans	**415.399**	**265.464**	**48.110**	**728.973**

1.12 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.

1.13 The 2022/23 – 2024/25 Capital Programme generates an additional revenue borrowing cost to the Council of £3.550m a breakdown of which is given below:

- 2022/23 - £2.001m
- 2023/24 - £1.484m
- 2024/25 - £0.065m

These costs relate to schemes previously agreed by the Council the bulk of which can be

accounted for by 3 areas - Major Transport Projects, Warrington Priority Infrastructure Schemes and Zero Emission Bus Regional Area (ZEBRA) Projects. These also include the new schemes detailed below.

New Corporate Schemes

1.14 At the Cabinet meeting 14 February 2022, the following projects were approved for inclusion in the 2022/23 – 2024/25 Capital Programme:

- **LCWIP Network Delivery** – Delivery of selected key corridors of the Local Cycling and Walking Infrastructure Plan (LCWIP) for Warrington. Total budget of £17m with £15m external funding, the remaining balance of £2m is borrowing which will cost the Council an extra £100k per annum for a 25 year period.

- **Replacement of Lymm Church Wall** – To return the church yard to a safe environment and prevent further damage and slippage to the wall. Total budget of £330k which will cost the Council an extra £21k per annum for a 25 year period.

- **Vehicle and Plant Replacement Programme** - Replacement of current vehicle fleet equipment and plant that is coming to the end of the economic life. Total budget of £2m which will cost the Council an extra £336k per annum for a 7 year period.

FAMILIES & WELLBEING - CAPITAL PROGRAMME

Project Description	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Education and Early Help				
School Priority Maintenance Programme	0.010	-	-	**0.010**
Grappenhall Heyes Expansion	2.951	0.211	-	**3.162**
Additional Primary Places	0.339	-	-	**0.339**
The Cobbs Infant - Flat Roof	0.016	-	-	**0.016**
The Cobbs Infant - Electrics	0.097	-	-	**0.097**
Appleton Thorn - Flat Roof	0.005	-	-	**0.005**
Callands CP - Roof Works	0.400	0.056	-	**0.456**
Cherry Tree CP - Toilet block extension	0.101	0.014	-	**0.115**
Dallam CP - Roof Works	0.131	0.009	-	**0.140**
Locking Stumps Roof Works	0.030	-	-	**0.030**
Bradshaw Primary Lights & Ceiling Works	0.165	-	-	**0.165**
S106 Culcheth High	0.048	-	-	**0.048**
Lymm High School - Performance Arts Building	0.180	-	-	**0.180**
ASD - Free School demolition of existing building	0.110	-	-	**0.110**
Woolston Brook - Roof Works	0.378	0.052	-	**0.430**
SEND - Secondary SEMH Designated Provision	0.171	-	-	**0.171**
SEND - Sir Thomas Boteler	0.010	-	-	**0.010**
SEND - Woolston Community Primary	0.130	-	-	**0.130**
SEND - Designated Provision	0.121	-	-	**0.121**
SEND - Post 19	0.290	-	-	**0.290**
SEND - Post 16 relocation of WSF	0.250	-	-	**0.250**
Children Centres Works	0.297	-	-	**0.297**
Total Education and Early Help	**6.230**	**0.342**	**-**	**6.572**
Public Health				
Culcheth Bungalows	0.020	-	-	**0.020**
Supported Housing Project	0.222	0.222	0.222	**0.666**
Total Public Health	**0.242**	**0.222**	**0.222**	**0.686**
TOTAL FAMILIES & WELLBEING	**6.472**	**0.564**	**0.222**	**7.258**

CORPORATE SERVICES - CAPITAL PROGRAMME

Project Description	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Finance				
Corporate Redundancy Costs	2.000	2.000	-	**4.000**
Total Finance	**2.000**	**2.000**	**-**	**4.000**
Customer and Business Transformation				
Change Delivery	0.340	-	-	**0.340**
ICT & Print Service	0.070	0.035	-	**0.105**
IT Rolling Hardware Replacement Programme	0.734	0.766	1.596	**3.096**
Total Customer and Business Transformation	**1.144**	**0.801**	**1.596**	**3.541**
TOTAL CORPORATE SERVICES	**3.144**	**2.801**	**1.596**	**7.541**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Environment and Transport				
Capitalisation of Potholes	0.500	-	-	**0.500**
S278 Walton Locks	0.012	-	-	**0.012**
Chapelford Street Lighting Works (commuted sum)	0.059	-	-	**0.059**
Briarswood Remedial Works - Highways	0.069	-	-	**0.069**
Briarswood Remedial Works - Street Lighting	0.024	-	-	**0.024**
Knutsford Road Highway Drainage	0.025	-	-	**0.025**
Pepper Street Reconstruction	0.375	-	-	**0.375**
Grappenhall Road Footway Resurfacing	0.185	-	-	**0.185**
Challenge Fund 2020/21 - Bus Quality Partnership Improvements	0.083	-	-	**0.083**
S106 Birchwood Shopping Centre	0.004	-	-	**0.004**
S106 Farrell Street South	0.231	-	-	**0.231**
S106 Eagle Ottawa	0.035	-	-	**0.035**
Warrington West Station	0.485	-	-	**0.485**
ITB Smaller LST Scheme	0.702	-	-	**0.702**
Multi-modal Model	0.070	-	-	**0.070**
Omega to Burtonwood Accessibility Improvements	0.205	-	-	**0.205**
Chester Road Cycle Route	0.477	-	-	**0.477**
Trans Pennine Trail Upgrade	0.544	-	-	**0.544**
Daten Avenue Birchwood Path Cycle Improvement	0.067	-	-	**0.067**
TPT Upgrade – Lymm Phase 1	0.300	-	-	**0.300**
Warrington West Cycle Accessibility	0.234	-	-	**0.234**
Victoria Park Improvement	0.350	-	-	**0.350**
Warrington Allotments Improvement Programme	0.006	-	-	**0.006**
S106 Bruche - Various Parks/Areas	0.007	-	-	**0.007**
Alexander Park Developments Phase 1 - Play Area Phase 2 - Pavilion	0.013	-	-	**0.013**
Westy Park - G J Greenalls	0.012	-	-	**0.012**
S106 Gatewarth 300 (Omega South Zone 7)	0.057	0.064	-	**0.121**
Oakwood Avenue Park Refurbishment	0.071	-	-	**0.071**
Enfield Park Refurbishment	0.029	-	-	**0.029**
Volunteer Support & Quick Win Projects	0.013	-	-	**0.013**
Lymm Dam Site Infrastructure Refurbishment	0.026	-	-	**0.026**
Shaw Street Recreation Ground Uplift	0.039	-	-	**0.039**
Culcheth Village Green Play Area Uplift	0.030	-	-	**0.030**
Birchwood Forest Park Ranger & Sports Changing Building Refurbishment	0.020	-	-	**0.020**
Old Hall Park Refurbishment	0.027	-	-	**0.027**
Rixton Clay Pits Footpath Upgrade PROW to PFA	0.027	-	-	**0.027**
Western Link Blight Claims	5.497	-	-	**5.497**
Western Link Pre construction	9.277	6.196	-	**15.473**
Omega Local Highways Phase 1	0.823	-	-	**0.823**
Omega Local Highways Phase 2B	0.803	-	-	**0.803**
Omega Local Highways Phase 3	4.000	0.664	-	**4.664**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Environment and Transport				
Zero Emission Bus Regional Area (ZEBRA)	15.195	35.455	-	**50.650**
Stadium Quarter Improvements	0.025	-	-	**0.025**
Travellers transit site	1.914	-	-	**1.914**
Depot Amalgamation	12.084	-	-	**12.084**
Risley Moss Tower Plus	0.466	-	-	**0.466**
Fleet Replacement Programme - Specialist Passenger Transport Vehicles	0.281	-	-	**0.281**
Sankey Street Gateway (WTD)	1.000	0.500	-	**1.500**
Accessibility Improvements (WTD)	0.142	0.142	-	**0.284**
Wayfinding Improvements (WTD)	0.070	0.070	-	**0.140**
TPT Upgrade - South of Greenalls Avenue (WTD)	0.560	-	-	**0.560**
Kingsway Bridge Area Improvements (WTD)	-	0.900	-	**0.900**
Bewsey Road - Sankey Way to Town Centre (WTD)	0.900	-	-	**0.900**
Wilderspool Causeway Bus Priority Corridor (WTD)	-	1.431	-	**1.431**
Community Cycle Hub (WTD)	0.200	-	-	**0.200**
Cardinal Newman 3G Pitch (WTD)	0.960	-	-	**0.960**
LCWIP Network Delivery	1.000	7.500	8.500	**17.000**
Replacement of Lymm Church Wall	0.330	-	-	**0.330**
Vehicle and Plant Replacement Programme	1.000	1.000	-	**2.000**
Disabled adaptations to private housing (BCF)	1.181	-	-	**1.181**
Air Quality	0.052	-	-	**0.052**
TOTAL ENVIRONMENT & TRANSPORT	**63.173**	**53.922**	**8.500**	**125.595**

GROWTH - CAPITAL PROGRAMME

Project Description	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Growth				
Building Capital Programme	0.080	-	-	**0.080**
Town Hall Building Works	0.007	-	-	**0.007**
NTH/Quattro Demolition	0.502	-	-	**0.502**
Fiddlers Ferry Yacht Haven Refurbishment	0.025	-	-	**0.025**
Walton Hall Estate Roof Repairs	0.025	-	-	**0.025**
Cheshire Coroner Service Relocation to Museum Street	0.745	-	-	**0.745**
Warrington Bus Interchange Roof	0.258	-	-	**0.258**
Town Hall Electric Mains & Sub Station	1.145	-	-	**1.145**
Bewsey & Dallam Hub	0.075	-	-	**0.075**
Green Homes Grant	2.503	-	-	**2.503**
Bus Depot Relocation	8.543	-	-	**8.543**
Warrington Public Libraries Improvement Programme	0.350	-	-	**0.350**
Health & Social Care Academy (WTD)	0.577	-	-	**0.577**
Health & Wellbeing Hub (WTD)	2.310	-	-	**2.310**
Advanced Construction & Civil Engineering Centre (WTD)	2.531	0.990	-	**3.521**
Digital Enterprise Hub (WTD)	2.470	0.402	-	**2.872**
Pyramid Remastered (WTD)	0.770	1.973	1.955	**4.698**
Programme Management (WTD)	0.060	0.040	0.015	**0.115**
TOTAL GROWTH	**22.976**	**3.405**	**1.970**	**28.351**

INVEST TO SAVE - CAPITAL PROGRAMME

Project Description	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Corporate Services				
Loans to Housing Associations	200.000	200.000	35.822	**435.822**
Loan to Wire Regeneration	5.000	-	-	**5.000**
Foster Carer Loans	1.482	-	-	**1.482**
Total Corporate Services	**206.482**	**200.000**	**35.822**	**442.304**
Environment & Transport				
Street Lighting Energy, Carbon & Asset Improvement	1.000	4.772	-	**5.772**
Total Environment & Transport	**1.000**	**4.772**	**-**	**5.772**
Growth				
Capital Investments	61.180	-	-	**61.180**
Birchwood Park	20.000	-	-	**20.000**
Housing Companies	30.972	-	-	**30.972**
Total Growth	**112.152**	**-**	**-**	**112.152**
TOTAL INVEST TO SAVE	**319.634**	**204.772**	**35.822**	**560.228**
TOTAL CAPITAL PROGRAMME	**415.399**	**265.464**	**48.110**	**728.973**

Appendix 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 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.

Per Paragraph 5.1 of this report, it must be noted that at the time of issuing this report the Government had not issued formal guidance on the extension of the Capital Flexibilities into 2022/23. The Government have informally stated that the scheme will be expanded into 2022/23 and therefore confirmed Council's should incorporate it into Capital Strategies, however to date, the guidance has not been updated to confirm the exact details of the extension. This policy is therefore based upon existing guidance ("The Guidance") noting a further update will be provided to Cabinet once the formal extension and associated guidance is published

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 (i.e. those accumulated prior to 1st April 2016) 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

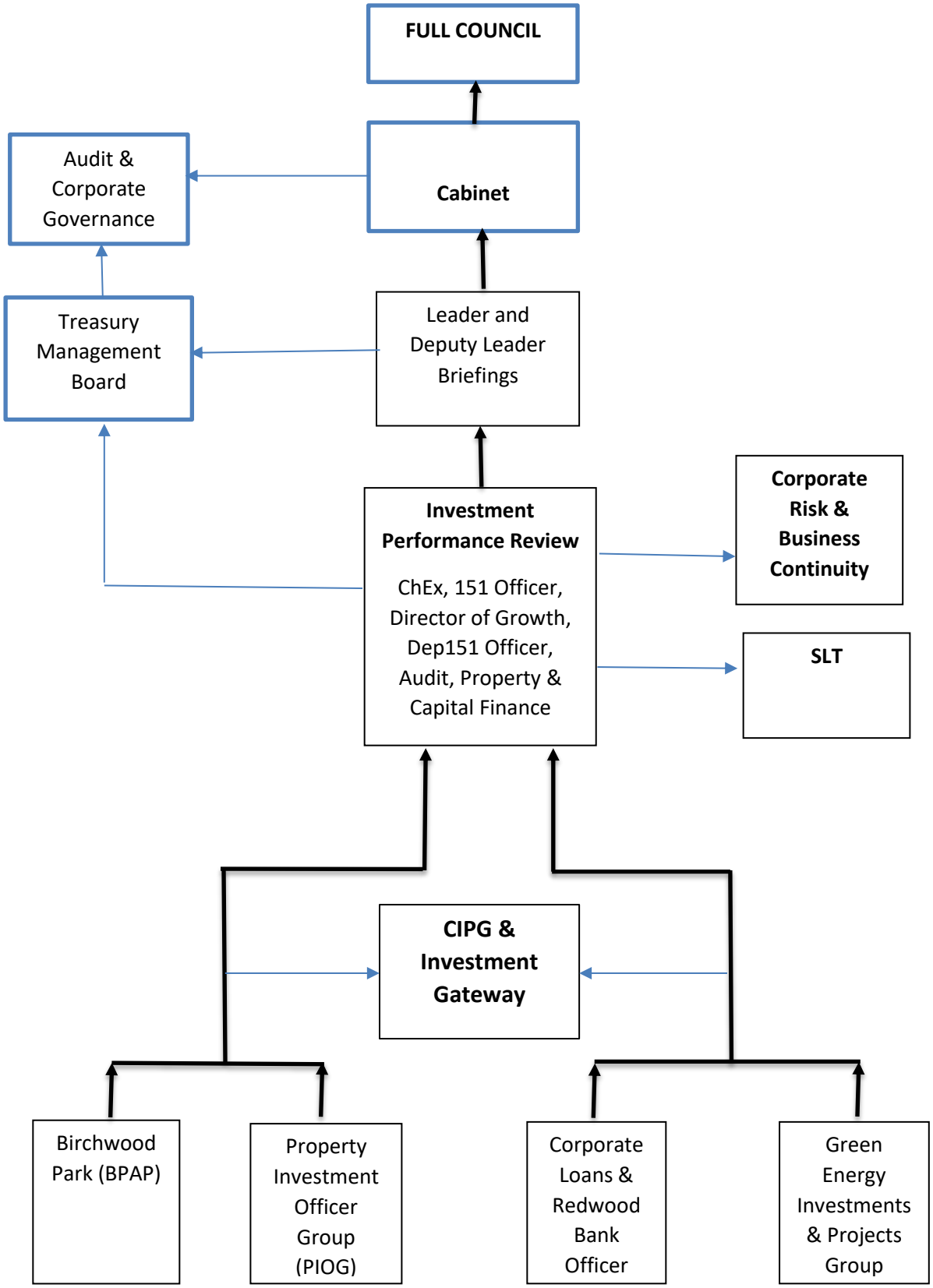
The Council intends to use the capital receipts flexibility to fund or part fund the following projects:

- Change Delivery (previously known as Warrington 2020 Service Transformation Programme)
- Corporate Redundancy Costs

Project	Estimated Expenditure 2022/23 £000	Estimated Annual Savings £000
Change Delivery	340	340
Corporate Redundancy Costs	2,000	2,000
Total	2,340	2,340

Appendix 3

COMMERCIAL INVESTMENTS GOVERNANCE STRUCTURE



Appendix 4

Commercial income indicators

A Debt as a percentage of net service expenditure (NSE)

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

These figures are estimates taken from the Treasury Management Strategy and the MTFP.

	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m	24/25 Estimate £m
Gross Debt	1606.254	1753.074	2095.347	2312.410
Net Service Expenditure (NSE)	150.177	157.084	155.346	160.082
Gross Debt to net service expenditure ratio	1069.57%	1116.01%	1348.83%	1444.52%

B Commercial Income as percentage of 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.

Gross Commercial Income in this case refers to all interest and fees from loans to Housing Associations and other commercial entities, plus rental received from commercial property investments as identified in the MTFP.

	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m	24/25 Estimate £m
Commercial Income	38.504	36.225	37.379	38.879
Gross Service Expenditure less Fees and Charges	304.561	304.242	303.818	303.286
Commercial income to NSE ratio	12.64%	11.91%	12.30%	12.82%

C Interest Cover Ratio

This indicator shows the ratio of estimated net income from commercial property investments before interest compared to the estimated interest expense incurred by them.

	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m	24/25 Estimate £m
Net Commercial Property Income before interest	25.737	28.257	31.309	31.309
Commercial Property Interest	14.083	15.576	17.726	17.726
Interest cover ratio (times)	1.83	1.81	1.77	1.77

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.

	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m	24/25 Estimate £m
Gross Debt related to Property investments	£619,141	£694,978	£694,978	£694,978
Commercial Property Purchase Costs	£619,141	£694,978	£694,978	£694,978
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.

	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m	24/25 Estimate £m
Net Commercial Income from Property Investments before interest	25.737	28.257	31.309	31.309
Commercial Property Purchase Costs	619.141	694.978	694.978	694.978
Target Income Returns	4.16%	4.07%	4.50%	4.50%

F Gross and Net Income/Operating Costs from Commercial Investments

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

Please note for Gross Commercial Income, Birchwood Park gross rental income is shown before costs deducted within the trust. These costs are included in operating costs although they are not Council expenditure.

	21/22 Estimate £m	22/23 Estimate £m	23/24 Estimate £m	24/25 Estimate £m
Gross Commercial Income from Property Investments	30.548	33.068	36.119	36.119
Operating Costs including Interest	18.894	20.387	22.537	22.537
Net Commercial Income from Property Investments before interest	25.737	28.257	31.309	31.309
Net Commercial Income from Property Investments after interest	11.654	12.681	13.583	13.583

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, and DW Sports which has now be vacated and maybe reclassed as regeneration not commercial property.

Commercial Property	Occupancy Levels
1-2 Fennel Street (Pure Gym)	100%
DW Sports	0%
Birchwood Park	91%
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%
Royal Mail Omega	100%
Decathlon	100%
BT New Bailey	under construction

DW Sports went into liquidation in 2020/21. The site is now held as a regeneration site by the Council.