WARRINGTON BOROUGH COUNCIL

CABINET - 12 February 2024

Report of Cabinet Member:	Councillor D Matthews Cabinet Member, Corporate Resources	
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Senior Responsible Officer:	Danny Mather – Deputy Director of Finance (Corporate Finance)	
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Key Decision No.	N/A	
Ward Members:	All	

TITLE OF REPORT: 2024/25 CAPITAL STRATEGY

1. PURPOSE

1.1 To seek Cabinet approval of the Council's 2024/25 Capital Strategy which incorporates the 2024 - 2027 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, 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 our pledges and priorities of the Council's Corporate Strategy which pledges to ensure:

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 There are no major material changes to the 2024/25 Capital Strategy when compared to the 2023/24 strategy. The emphasis for 2024/25 will be on regeneration, housing, transport, waste and climate change.

5. 2024-2027 CAPITAL PROGRAMME

5.1 The Council's Capital Programme for the years 2024/25 – 2026/27, together with their associated financing and Capital Receipts Flexibilities Policy, is attached as Appendix 1 & 2 to this report.

6. ASSET MANAGEMENT

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 and other returns to the Council
- Community – to support specific local community projects
- Regeneration – enabling strategic place shaping and economic growth
- Housing – to provide affordable homes
- Solar Farms – Climate Change reasons

6.2 The Council manages and operates its property in accordance with the Corporate Plan, Capital Strategy Constitution and Financial Regulations. All officer groups involved in managing property use terms of reference utilising these principles and corporate objectives. These groups all incorporate officers from the property, finance and legal teams. Asset management work on the operational estate is focused on having the right property for the organisation, fit for purpose, suitable and sufficient for service delivery.

6.3 This approach to property strategy provides a long term strategic management of the Council's estate. It aims to maximise commercial and social returns by re-aligning the property assets, ensuring they act as a catalyst for development and inclusive economic growth and underpin the social fabric of communities across the Warrington.

6.4 The Council also has a track record of acquiring significant assets on the basis of future regeneration projects or to secure strategic options. It is recognised that the acquisition of new assets could gain or lose value in the intervening period. However, the overarching aim of the Council is to release the value in the asset once the regeneration has been completed, and such benefits may be wider than financial considerations.

6.5 The Council will assess ESG and Climate Change factors when investing in property and other fixed assets.

6.6 The Council has set up a number of senior officer groups that aim to provide assurance to Cabinet by embedding strategic asset management activity as a corporate activity. This covers activities such as property asset management, property commercial investment, housing delivery, school organisation, planning transport and solar farms.

6.7 Regular reviews of the property portfolio will be carried out by the estates team to identify properties or land which could potentially be disposed of. In line with best practice, Cabinet will consider development of plans for highways and other infrastructure assets during 2024/25 and updates on property asset management plans already developed. The Council's approach to asset management and stewardship of assets will be supported by targeted internal and external reviews to assess the effectiveness of asset management practices including governance, risk management and control.

Corporate Risk Reserve

6.8 The Council makes a contribution each year from surpluses it makes on its investments into several risk reserves. These reserves 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 2024 these reserves stood at £34.6m.

Building Asset Maintenance Programme

6.9 The Council stopped collecting annual data on the property portfolio to assess building condition and backlog maintenance due to revenue cuts in 2011/12. However, 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 2024-27:

6.10 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 (excluding housing and commercial investment property where the lease makes the tenant liable for maintenance) and excludes ring fenced funding. The BMP is structured to fund the following scope of work with approximate allocations of funding typically:

	Servicing and Statutory 2024-2027	Response Repairs 2024-2027	Total
Operational business portfolio (referred to as "civic buildings")	£300,000	£900,000	£1,200,000 per year
SPECIFICALLY EXCLUDED FROM THE REVENUE BMP			
Livewire (excluded from the BMP as at February 2024 but subject to transfer of Livewire services back to the Council, these services will be included in the BMP from 1 March 2024).	Funded by Livewire Clients select site specific statutory servicing work on an annual basis	Funded by Livewire / WBC based on a Division of Responsibility Agreement under the Lease	
Culture Warrington	Funded by Culture Warrington Clients select site specific statutory servicing work on an annual basis	Funded by Culture Warrington / WBC based on a Division of Responsibility Agreement under the Lease	
Catalyst	Funded by Catalyst Clients select site specific statutory servicing work on an annual basis	Funded by Catalyst	
Academies	Funded by Academies Clients select site specific statutory servicing work on an annual basis	Funded by Academies	
Schools portfolio	Funded by locally held school budgets	Funded by locally held school budgets	

Building Maintenance Programme Capital Funding 2024-27:

6.11 Allocations of capital to invest in and improve the operational business portfolio (civic buildings) is prioritised through the corporate Capital Investment Planning Group (CIPG). Bids and applications are made through a directorate process to approval at CIPG and then Cabinet.

6.12 It is important to note that the Capital Maintenance budget is not a planned programme. The individual projects that make up the sum total below are borne of reactions to instances of component failure (e.g. boilers) or end of life material impact on business continuity (e.g. roof leaks). In other words, when something fails, a bid is submitted to CIPG. There are no condition surveys informing a planned approach to capital maintenance.

6.13 The schools that remain under jurisdiction of the local authority and not academy programme, are separately funded with current figures as shown below. Colleagues in Families & Wellbeing hold the schools maintenance budget.

6.14 The capital programme of spend on buildings is currently estimated as follows:

	Capital Improvement 2024-2027	Total
Operational business portfolio	£1,600,000	£1,600,000
Schools portfolio	£2,120,000	£2,120,000
Total		£3,720,000

Property Disposal Capital Receipts

6.15 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.

6.16 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 £14 million. This also enabled revenue savings (from the costs associated with empty or underused property) of around £1.5 million per year.

6.17 Important note: despite the property rationalisation programme, the cost of maintaining the retained civic building stock is increasing. This is due to:

- The worsening (wear and tear) condition of the buildings
- The increasing cost of materials and labour
- The absence of a planned programme of capital investment
- New, more demanding and ever changing legislation relating to statutory compliance in buildings

6.18 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.

6.19 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. 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.

6.20 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 2024-2027	Total
Property Disposal General	£3,850,000	£3,850,000
Other Receipts	£5,680,000	£5,680,000
Total		£9,530,000

7. GOVERNANCE FRAMEWORK

7.1 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

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

8. COMMERCIAL ACTIVITY – NON-TREASURY INVESTMENTS

8.1 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".

8.2 Most of this commercial activity will fall within what statutory Guidance and CIPFA refer to as "non-financial investments". 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.

8.3 The Council has a strong governance framework that goes beyond the regulatory codes. It has a consultative Treasury Advisory Panel (TAP) in addition to the common local government audit and corporate governance committees.

8.4 Due diligence is of paramount importance. All commercial investments (property acquisitions, loans, solar farms 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.

8.5 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.

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

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

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

8.9 The Council will comply with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

COMMERCIAL ACTIVITY GOVERNANCE

8.10 Due to the nature and associated risks of the Council's Commercial Programme (comprising both property acquisitions, solar farm development 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.

8.11 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)***

8.12 The Council in 2024/25 hope to report on the DLUHC Review carried out on the Councils capital risk in 2023 the Council will also implement the DLUHC recommendations.

8.13 The recommendations of the Legal Services Review of Council Company Governance will implement further recommendations in 2024/25.

9. RISK APPETITE STATEMENT 2024

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

9.2 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.

9.3 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.

9.4 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.

9.5 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.

9.6 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

9.7 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.

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

9.9 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

9.10 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

9.11 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.

9.12 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.

9.13 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.

9.14 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 and governance risk.

9.15 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. Low appetite for 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. Medium / Low appetite for unsecured 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

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

9.17 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

9.18 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 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.

9.19 For large complex projects, professional external advice and services would be sourced to undertake due diligence to understand risks and inform decision making. Capital investment to be undertaken can be broadly split into [two] types: 1. Expenditure on existing assets to ensure they meet the requirements of service delivery, are fit for purpose, meet health and safety guidance, and reduce future costs. 2. Expenditure on specific projects or non-treasury investments to meet strategic aims.

9.20 Non treasury investment to meet service or Council obligations could include loans or equity towards capital expenditure incurred by external bodies, Council subsidiaries or joint ventures. In respect of 1 and 2, the Council recognises that achieving these aims will require consideration of alternative delivery structures and of all forms of funding including additional borrowing. Financial austerity and economic turmoil have had a significant impact on affordability, however taking the town forward is not just a consideration of how we manage decline. Capital investment funded by borrowing will be undertaken in priority areas to meet Regeneration Ambition, whilst at all times clearly understanding how the affordability of such expenditure can be managed over the longer term supported by robust due diligence, business cases, risk management and monitoring.

9.21 Non treasury investment funded by additional borrowing would only be undertaken after:

- Cabinet approval of a robust business case supported by independent advice
- Consideration of the legal basis on which the expenditure is being incurred
- Affordability and risk assessment of such expenditure over the longer term

The Council's Capital Investment Governance structure aims to provide assurance to Cabinet by reviewing business cases in respect of Capital schemes.

9.22 The Council's Capital Investments inherently carry risk, most of which is outside the Council's control. The Council's planning and governance processes have been developed in such a way as to mitigate these risks. The table below sets out these risks and mitigations:

Risk	Mitigation
Interest Rate	The Council's capital portfolio is heavily dependent on borrowing and is therefore exposed to fluctuations in interest rates. Interest rates are variable, and a rise would push future capital programme costs up. The Council has used prudent interest estimates in order to mitigate the risk. The Council borrowed long term when interest rates were low currently generating large PWLB premiums.
Inflation	Capital delivery costs are vulnerable to inflation. In costing the capital portfolio, therefore, a level of contingency has been built into each scheme to mitigate this risk, as well as negotiating fixed price contracts wherever possible. Close monitoring of the portfolio through the governance processes will lead to early highlighting and mitigation of further risks.
Legislative	Changes in statute and regulations will impact capital projects, as they must comply with current legislation. As mitigation, the Council must horizon scan and remain aware of any changes in the pipeline which might affect projects and make amendments accordingly through proper governance channels.
Market	The portfolio is complex, and the successful delivery of various aspects depends to a large extent on the commercial environment. Examples are property related income, capital receipts and future health of the property market. Assumptions are made which underpin projections. The Council relies on expert advice to mitigate this risk.
Transfer	Increasingly, major projects are not delivered by the Council itself, but by developers – either alone or jointly with the Council or its delivery subsidiary. Whilst using a developer transfers risk away from the Council, this means extra costs and therefore a careful balance is required. Risks associated with newly incorporated subsidiaries will decrease with time as they gain experience.
Risk Based Analysis on MTFP	Focused scenario planning will take place in 2024/25 of the positive and negative impacts on the MTFP. Using independent external third party advice to maximise objectivity.
Project delivery	In the main, these are unforeseen delays and increases in costs. Apart from building in contingencies there is a range of measures that can mitigate the risks. Effective scrutiny of business cases at the outset will ensure robustness of projects included in the portfolio. During the life of the project, risks are monitored with risk registers being properly maintained and updated. Regular highlight reporting keeps key stakeholders informed to allow early intervention where necessary. In the case of complex major projects, professional experts are used at all necessary stages to ensure effective delivery.
Portfolio delivery capacity	The investment portfolio set out in this Capital Strategy totals over £2bn. A priority is to ensure sufficient project delivery expertise, enabling support and supply chain capacity is available to deliver the Council's investment portfolio outcomes, on time and to agreed costs. The Council will continue its existing arrangements which mean senior responsible officers and dedicated project delivery resources are allocated to key investment programmes and projects.

	Appropriate resource plans are developed to provide sufficient enabling expertise. Supply chain capacity will primarily be managed at the project and programme level – with residual risks escalated through the Council's governance as necessary.
Board Level Governance	Nationally many Council companies fail because they failed to have adequate skilled board representation. During 2022/23 a review of the Governance arrangements of the Council was carried out by legal services. The recommendations of that review to strengthen Board Governance will be implemented during 2023/24.
Officer Capacity	Succession planning in operation on all major project groups. Consultancy used. Audit review and outside agency review reports will review capacity. Appropriate action will be taken to increase capacity if needed.
Impairments	Scenario modelling takes place when carrying out business cases. IFRS9 over-ride is in place for treasury management assets. Annual Impairment reviews take place as part of the closure of accounts process. Impairments only charged to the revenue account at the point of sale.
Taxonomy of investment portfolio	Kept under review with attempts to be best in class. Audit recommendations and review agency recommendations will be implemented. A corporate dashboard will be developed for 2024/25.
Reputational	The Council due to have an ambitious capital programme and a large amount of secured debt often are often subject to incorrect articles by the press and pressure groups particularly in contrast to other failing authorities. The Council's Communications team will respond in a professional way.

10. OTHER LONG-TERM LIABILITIES

Pension Guarantees

10.1 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 companies in the table below which shows the position at 31 March 2023. 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.

10.2 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.

10.3 The table below shows the pension position as at 31st March 2023 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

11. KNOWLEDGE AND SKILLS

11.1 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.

11.2 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.

11.3 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 project's life cycle.

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

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

12. TREASURY MANAGEMENT

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

12.2 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.

12.3 At the end of 2026/2027 it is forecast that the Council's external borrowing will be £2.278bn.

Over the next three years borrowing is forecast to increase by £322.5m to fund the capital programme. The bulk of this additional borrowing £261.2m is to fund the Invest to Save Programme. Also £239.4m is for possible secured drawn downs on Housing Association and regeneration loans previously negotiated. These amounts may or may not be drawn down. The Council have operated a successful secured loans programme since 2009 and no loan as ever got into difficulty.

12.4 The Council's Authorised Borrowing limit for 2024/25 which is £2.311bn represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council.

12.5 The Council's Operational Boundary debt forecast for 2024/25 is £2.110bn. This represents the limit beyond which external debt is not normally expected to exceed.

12.6 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.

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

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

12.9 Once a year the Audit & Corporate Governance Committee receive 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.

12.10 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.

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

Loans

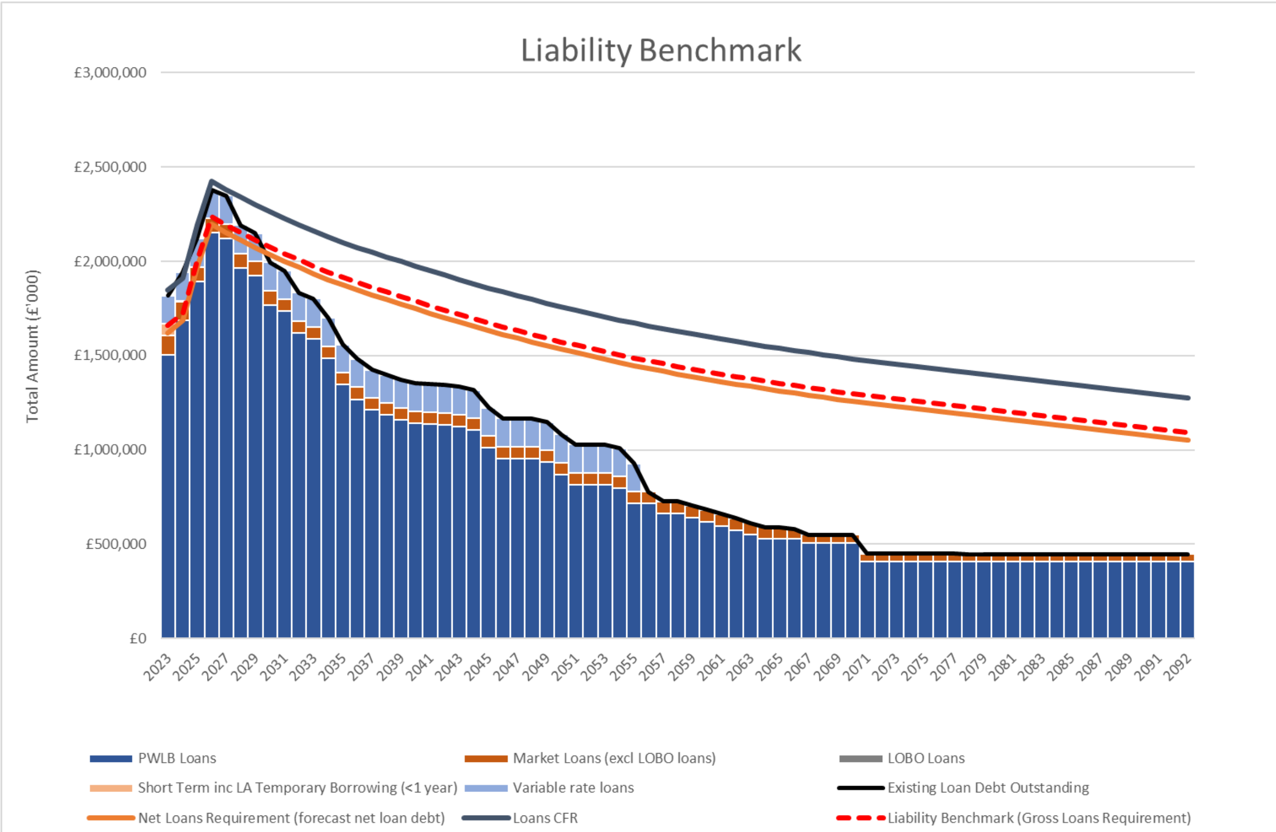
12.12 The Council make loans for a number of reasons, primarily economic development and investment objectives. The Council have been successfully giving secure loans for regeneration and housing purposes since 2009. At 31 December 2023 the Council have given loans to 16 Housing Associations and 8 regeneration loans with facilities of £920.7m and £640.8m drawn down to date.

12.13 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

12.14 The Prudential Code (2021 Edition) 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 2025/26. 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



12.15 The liability benchmark is the level of expected debt given current projections for capital expenditure up to year 2026/27. The projected debt levels show what the Council expects its debt level to be. Where the debt level is below the benchmark, the Council will be in an under-borrowed position, and when it is above it will be over-borrowed.

12.16 In the graph above it shows an over-borrowed position for the current period and the next couple of years – this is mainly due to slippage in the capital programme and borrowing late in the financial year.

12.17 This makes assumptions regarding repayment dates, and this can be used as a tool for scheduling future borrowing requirements.

12.18 The bars represent the maturity profile of current loans and the white space between the existing loans and the Net loan requirement is the borrowing requirement for future years.

13. AFFORDABILITY

13.1 It is recognised that the Council cannot afford to do everything, however where revenue resources are deemed available to increase the level of Council borrowing, where it needs to do so, this will be considered.

13.2 The percentage of the Council's revenue budget that is committed to capital financing costs is increasing in the long term. Given the pressure on revenue budgets, this clearly limits the affordability for additional borrowing in future years and must be a factor considered by members when determining the Capital Programme. Together with the collateral being invested in and the key outcomes.

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.

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.

	22/23	23/24	24/25	25/26	26/27	27/28
Commercial Income in Base Budget (£000)	14,383	16,914	16,921	17,320	17,320	17,320
Base Budget (£000)	157,264	183,009	196,541	214,986	225,584	233,163
% of Base Budget	9.15%	9.24%	8.61%	8.06%	7.68%	7.43%

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 (policy, commercial investment & capital loans) is summarised in the table below as at 31.12.2023:

Non-Treasury Investments Counter Party	Balance 31/12/2023 £
Warrington Sports Holding Ltd	1,331,375
Municipal Bond Agency	200,000
Warrington Borough Transport Shares	3,388,000
Redwood Bank	32,034,036
Birchwood Business Park	246,788,098
Joint Venture with Wire Regeneration	3,789,971
Together Energy	8,898,565
York Solar Farm	14,718,389
Hull Solar Farm	7,622,454
Housing Company	17,000,000
Cirencester Solar Farm	764,358
Total Investments in Group Entities	**336,535,245**
Loans to Housing Associations & Commercial Loans	600,247,380
Purchase of Investment Properties	420,679,655
Total of Non-Treasury Investment	**1,357,462,279**

15.3 The Council's secured Non Treasury Management Investments make a positive financial return to the Council whilst delivering policy objectives. The prudential indicator published in the Treasury Management Strategy, Net income from commercial and service investments as a percentage of the net revenue stream, highlights this.

15.4 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

15.5 Non treasury investment funded by additional borrowing would only be undertaken after:

- Cabinet approval of a robust business case supported by independent advice

- Consideration of the legal basis on which the expenditure is being incurred
- Affordability and risk assessment of such expenditure over the longer term
- Ongoing governance arrangements are put in place

15.6 Whilst the Non-Treasury Investment portfolio is funded by borrowing it is secured on assets that could be sold to pay down the debt. The Council also pay MRP on the debt and when the debt is paid off the Council will own the assets. With regards to the Council's property portfolio, the Council took advantage of previously low interest rates to purchase high value strategic property assets that would be un-affordable now and in the future due to a high interest rate environment. The properties have the characteristics of stable income streams with rents linked to inflation increases. They performed well during and after Covid 19 and during the recent economic turmoil. Property investments by their very nature are seen as a medium / long-term investment. Fluctuations in value and income generation can be expected over their lifespan. The Council have funded its Non-treasury Investments by prudently locking into long term loans when interest rates were low. This prudent borrowing policy as resulted in the loan portfolio generating PWLB discounts to the Council in the region of £225m (subject to gilt movements). The table below shows a summary of the Council's borrowing and investment position at 31 December 2023. The table shows that if the secured non-treasury investments are sold the forecast indicative borrowing level for the Council would be £306.4m.

Current Portfolio Position	**Principal £m**	**Total £m**
Fixed Rate Funding		
- Public Works Loans Board	1,465.480	
- Money Market	114.119	
- Temporary Borrowing	47.140	1,626.740
Variable Rate Funding		
- Public Works Loans Board		
- Money Market	150.000	150.000
TOTAL BORROWING		**1,776.740**
Council Investments		
- Long Term Investments (Commercial/Pooled Funds)	(126.138)	
- Short Term Investments	(0.549)	
- Call Accounts	(84.677)	(211.364)
TOTAL INVESTMENTS		**(211.364)**
NET BORROWING		**1,565.376**
Non-Treasury Investments		
- Group Entities	(306.021)	
- Loans to Housing Assoc. & Commercial	(542.075)	
- Investment Properties	(410.854)	**(1,258.951)**
Indicative Net Borrowing (after deduction of non-treasury investments)		**306.425**

15.7 The Council monitor their non-treasury investments on an ongoing basis. A detailed monitoring report also goes to Cabinet on a quarterly basis. This report also includes assessing options for disinvesting in non-treasury assets.

15.8 The legal powers relied upon to make the Non-Treasury Investments are a combination of:

- Section 12 of The Local Government act 2003
- Section 1 of the Local Government Act 2003
- General Power of Competence under the Localism Act 2011

15.9 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.
- Collateral of the asset
- Reserves level of the Council and associated subsidiary reserve levels

15.10 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.

15.11 Borrowings are largely long-dated with an average maturity of 23 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.

15.12 The Council at 31 March 2023 had reserves of £128.5m. The reserves to net income ratio is 5.40, which indicates the Council can sustain a complete loss of net income for over five years if needed without any impact on the budget. This is a decrease from the previous reserves to net income ratio of 6.92 due to use of reserves in 2022/23. The reserves to borrowing costs ratio is 3.27 for current borrowings, compared to a ratio of 5.14 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 3 years. The decrease is mainly due to an increase in interest rates. If all the projected positions are fully invested and additional borrowings undertaken, the reserves to borrowing costs ratio is 2.45. In other words, the Council would be able to fund its borrowing costs in the complete absence of income for over 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.

15.13 The Council regardless of its current level of debt has a positive Balance Sheet. At the 31 March 2023 the Council had a positive Net Worth of £421.707m.

15.14 The bulk of the Council's non-treasury investment programme is secured on physical assets largely property which can be sold in the future to repay debt. The Council also makes provision to repay debt each year via its Minimum Revenue Provision charge and makes a contribution to a Corporate Risk Reserve to meet revenue costs if any of the investments get into difficulty.

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 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 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.

16.6 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.

16.7 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. EXTERNAL PARTNER INFLUENCES

18.1 The Council works closely with regional, local authority partners in the Warrington and the regional area. The Council has significant partnerships with other public sector bodies, Housing Associations, charities, universities and colleges to support the delivery of services for its residents, communities and businesses. Key partnerships are those with the NHS, Local Enterprise Partnership and Wire Regeneration.

18.2 The Council will continue to work with Government to align key priorities and to make a case for a much longer-term financial support to capital investment that not only supports Warrington's vital infrastructure, but also projects that can make a stepped change in helping to drive the Warrington, region and nation forward.

18.3 The Council will continue to use its enabling role to harness skills and private funding, in order to take forward capital investment to deliver improvements and inclusive growth which would not otherwise be deliverable or affordable. It will set out its vision and co-ordinate activity between business and government bodies to develop a more productive and innovative platform for investment in Warrington.

18.4 During 2024 the Council will continue its positive discussions and work with DLUHC and CIPFA in understanding the Council's Capital Strategy and capital risk profile.

19. SECTION 151 OFFICER ASSURANCE

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

19.2 The Section 151 Officer views the Strategy to be prudent and affordable and it is fully integrated with the Council's 2024 - 2027 Medium Term Financial Plan, Treasury Management Strategy and other Strategic Plans.

19.3 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.

20. FINANCIAL CONSIDERATIONS

20.1 Dealt with in the body of the report.

21. RESPONSIBLE INVESTMENT AND ESG CONSIDERATIONS

21.1 Dealt with in the body of the report.

22. RISK ASSESMENT

22.1 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.

23. EQUALITY AND DIVERSITY / EQUALITY IMPACT ASSESSMENT

23.1 These are fully integrated into the Capital Programme.

24. CONSULTATION

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

25. REASONS FOR RECOMMENDATION

25.1 To set the 2024/25 – 2026/27 Capital Programme.

26. RECOMMENDATION

26.1 Cabinet are recommended to:

(i) Approve the 2024/25 Capital Strategy and it be presented to Full Council at their meeting of 26 February 2024.

(ii) Approve the 2024/25 – 2026/27 Capital Programme contained in Appendix 1 to this report.

(iii) Approve the Capital Receipts Flexibilities Policy contained within Appendix 2 of this report for adoption.

27. BACKGROUND PAPERS

Capital Programme Model

Contacts for Background Papers:

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Appendix 1

1. 2024/25 – 2026/27 CAPITAL PROGRAMME

1.1 The Council has a statutory responsibility to set a fully funded three-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 2024/25 – 2026/27 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 2024/25 – 2026/27 capital programme is £480.819m. 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 2024/25 – 2026/27 capital programme. A full copy of the draft capital programme on a scheme by scheme basis can be found in the following pages.

2024/25 – 2026/27 Capital Programme

Capital Programme Directorate Budgets	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Families & Wellbeing	27.382	2.466	-	29.848
Corporate Services	3.056	1.366	0.150	4.572
Environment & Transport	109.640	42.038	13.746	165.424
Growth	17.489	2.330	-	19.819
Invest to Save Programme	101.345	81.950	77.861	261.156
TOTAL - Capital Spending Plans	**258.912**	**130.150**	**91.757**	**480.819**

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 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. The main prudential indicators are also summarised in section 12.4 & 12.5 of the capital strategy.

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.

1.10 The table below provides a summary of the funding of the 2024/25 – 2026/27 capital programme.

Funding the 2024/25 – 2026/27 Capital Programme

Capital Programme Funding	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**Total £m**
Unsupported Borrowing - Corporate	78.087	19.334	11.874	109.295
Unsupported Borrowing - Invest to Save	101.345	81.950	77.861	261.156
Capital Grants & Reserves	71.836	26.298	-	98.134
Capital Receipts	3.183	-	-	3.183
External Funding	4.461	2.568	2.022	9.051
TOTAL - Capital Funding Plans	**258.912**	**130.150**	**91.757**	**480.819**

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 fully secured potential future loans programme (£231.7m). All loans entering the programme must be approved by Cabinet.

1.12 The 2024/25 – 2026/27 Capital Programme generates an additional revenue borrowing cost to the Council of £10.110m a breakdown of which is given below:

- 2023/24 - £7.223m
- 2024/25 - £1.788m
- 2025/26 - £1.098m

1.13 These costs relate to schemes previously agreed by Cabinet the bulk of which can be accounted for by 2 areas - Major Transport Projects and Zero Emission Bus Regional Area (ZEBRA).

Appendix 1

Capital Programme 2024/25 – 2026/27

FAMILIES & WELLBEING - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Adult Social Care				
Supported Housing Project	0.222	-	-	0.222
Digital Call Units for CareCall	0.369	0.166	-	0.535
Total Adult Social Care	**0.591**	**0.166**	**-**	**0.757**
Education and Early Help				
Grappenhall Heyes Refurbishment S106	0.010	-	-	0.010
The Cobbs Infant - Electrics	0.010	-	-	0.010
Culcheth Primary - Boiler Works	0.010	-	-	0.010
Barrowhall Additional Primary Places	0.429	0.010	-	0.439
Christ Church - S106	0.116	-	-	0.116
Great Sankey Primary Places S106	1.700	0.100	-	1.800
Chapelford Additional Primary Places	0.350	-	-	0.350
Bewsey Lodge - Various works	0.160	-	-	0.160
Primary School Additional Places	3.000	-	-	3.000
Primary Schools Maintenance Programme	1.200	-	-	1.200
Lymm High School - Performance Arts Building	0.186	-	-	0.186
Penketh High School Rebuild	1.426	1.000	-	2.426
Secondary School Additional Places	6.000	-	-	6.000
ASD - Clearing of grounds	0.330	0.010	-	0.340
Peace Centre Post 16/19 Education & ASC Provision	8.538	1.080	-	9.618
Woolston Learning Village - Exit to site	0.060	-	-	0.060
Woolston Brook - Various Works	0.400	-	-	0.400
Greenlane - Flat Roof	0.240	-	-	0.240
SEND - Cardinal Newman	0.789	0.100	-	0.889
SEND - Woolston Learning Village	0.017	-	-	0.017
SEND - Early Years	0.010	-	-	0.010
SEND - Woolston Brook Refurb	0.140	-	-	0.140
SEND - Bewsey Lodge DP	0.090	-	-	0.090
SEND - Woolston Learning Village	0.100	-	-	0.100
SEND - Kassia Delenty Drive	1.000	-	-	1.000
SEND - Dallam	0.100	-	-	0.100
SEND - Meadowside	0.040	-	-	0.040
SEND - Woolston Community	0.240	-	-	0.240
Children Centres Works	0.100	-	-	0.100
Total Education and Early Help	**26.791**	**2.300**	**-**	**29.091**
TOTAL FAMILIES & WELLBEING	**27.382**	**2.466**	**-**	**29.848**

CORPORATE SERVICES - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Finance				
Corporate Redundancy Costs	1.000	-	-	1.000
Torus Solar PV Scheme	0.196	-	-	0.196
Walton Hall Decarbonisation Scheme	0.033	-	-	0.033
Total Finance	**1.229**	**-**	**-**	**1.229**
Customer and Business Transformation				
IT Rolling Hardware Replacement Programme	0.943	0.905	-	1.848
IT 5yr Rolling Infrastructure Replacement Programme	0.884	0.461	0.150	1.495
Total Customer and Business Transformation	**1.827**	**1.366**	**0.150**	**3.343**
TOTAL CORPORATE SERVICES	**3.056**	**1.366**	**0.150**	**4.572**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Environment and Transport				
Capitalisation of Potholes	0.500	0.500	1.000	2.000
Chapelford Highways Works (commuted sum)	0.113	-	-	0.113
Penketh/Whittle Brook Flood Risk Management (FRM)	0.353	-	-	0.353
Knutsford Road Highway Drainage	0.047	-	-	0.047
Higham Avenue Pump Station Replacement	0.003	-	-	0.003
Pepper Street Reconstruction	0.375	-	-	0.375
Reddish Lane Flood Risk Management (FRM)	0.035	-	-	0.035
Quick Wins Environment Agency Schemes	0.062	-	-	0.062
Highways Investment Strategy	3.000	3.000	2.880	8.880
Falcondale Road Flood Risk Management (FRM)	0.060		-	0.060
Grant Close Flood Risk Management (FRM)	0.030			0.030
Woolston Park Flood Risk Management (FRM)	0.105			0.105
Network North Resurfacing	0.507			0.507
Bus Service Improvement Plan - Bus Priority Measures	8.450	1.500	-	9.950
Centre Park Link	0.270	-	-	0.270
Warrington West Station	0.100	-	-	0.100
ITB Smaller LST Scheme	0.323	-	-	0.323
Multi-modal Model	0.036	-	-	0.036
Levelling Up Fund - Transport Match Funding	15.250	15.250	-	30.500
Omega to Burtonwood Accessibility Improvements	0.050	-	-	0.050
Chester Road Cycle Route	0.085	-	-	0.085
LCWIP Network Delivery	8.500	8.300	-	16.800
Victoria Park Improvement	0.332	-	-	0.332
Sankey Valley Park Improvement	0.005	-	-	0.005
Warrington Allotments Improvement Programme	0.011	-	-	0.011
Alexander Park Developments Phase 1 - Play Area Phase 2 - Pavilion	0.016	-	-	0.016
Westy Park - G J Greenalls	0.004	-	-	0.004
Oakwood Avenue Park Refurbishment	0.071	-	-	0.071

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Environment and Transport				
Longbarn Park Refurbishment	0.007	-	-	0.007
Lymm Dam Site Infrastructure Refurbishment	0.015	-	-	0.015
Shaw Street Recreation Ground Uplift	0.038	-	-	0.038
Culcheth Village Green Play Area Uplift	0.033	-	-	0.033
Birchwood Forest Park Ranger & Sports Changing Building Refurbishment	0.012	-	-	0.012
Risley Moss Tower Plus	0.200	-	-	0.200
Old Hall Park Refurbishment	0.027	-	-	0.027
Rixton Clay Pits Footpath Upgrade PROW to PFA	0.028	-	-	0.028
Playground Projects	0.704	-	-	0.704
Western Link Blight Claims	3.462	3.424	-	6.886
Western Link Preconstruction *	5.212	5.629	9.866	20.707
Omega Local Highways Phase 1	0.270	-	-	0.270
Omega Local Highways Phase 2A	0.050	-	-	0.050
Omega Local Highways Phase 2B	0.350	-	-	0.350
Omega Local Highways Phase 3	2.084	3.602	-	5.686
Victoria Park 3G Pitch	0.126	-	-	0.126
Zero Emission Bus Regional Area (ZEBRA)	41.245	-	-	41.245
Travellers transit site	1.914	-	-	1.914
Depot Amalgamation *	12.084	-	-	12.084
Replacement of Lymm Church Wall	0.270	-	-	0.270
Sankey Street Gateway (WTD)	0.719	0.700	-	1.419
Accessibility Improvements (WTD)	0.106	0.088	-	0.194
Wayfinding Improvements (WTD)	0.047	0.045	-	0.092
Kingsway Bridge Area Improvements (WTD)	0.687	-	-	0.687
Bewsey Road - Sankey Way to Town Centre (WTD)	0.197	-	-	0.197
Wilderspool Causeway Bus Priority Corridor (WTD)	0.912	-	-	0.912
Cardinal Newman 3G Pitch (WTD)	0.148			0.148
TOTAL ENVIRONMENT & TRANSPORT	**109.640**	**42.038**	**13.746**	**165.424**

* Subject to full Business Case

GROWTH - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Growth				
Town Hall & Annex Water Mains Replacement	0.104	-	-	0.104
Town Hall Electric Mains & Sub Station	1.139	-	-	1.139
Birchwood Park Modernisation & Improvements	5.189	-	-	5.189
Fiddlers Ferry Yacht Haven Refurbishment	0.220	-	-	0.220
Hood Manor Local Centre Roof Repair	0.355	-	-	0.355
Specialist Housing Programme - Children's Complex Needs Hub	0.541	-	-	0.541
Specialist Housing Programme - Children's 4 Bed Care Home	0.899	-	-	0.899

GROWTH - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Growth				
Single Homeless Accommodation - Longshaw Street and Troutbeck Avenue	2.472	-	-	2.472
Specialist Housing Programme - Lodge Lane	1.750	-	-	1.750
Warrington Public Libraries Improvement Programme	0.070	-	-	0.070
Birchwood Leisure and Library Hub	0.065	-	-	0.065
Health & Wellbeing Hub (WTD)	0.094	-	-	0.094
Advanced Construction & Civil Engineering Centre (WTD)	0.645	-	-	0.645
Digital Enterprise Hub (WTD)	2.001	0.050	-	2.051
Pyramid Remastered (WTD)	1.900	2.239	-	4.139
Programme Management (WTD)	0.045	0.041	-	0.086
TOTAL GROWTH	**17.489**	**2.330**	**-**	**19.819**

INVEST TO SAVE - CAPITAL PROGRAMME

Project Description	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Corporate Services				
Loans to Housing Associations	77.000	77.000	77.861	231.861
Loan to Local Enterprise Partnership	7.500	-	-	7.500
Total Corporate Services	**84.500**	**77.000**	**77.861**	**239.361**
Environment & Transport				
Street Lighting Energy, Carbon & Asset Improvement	0.550	4.950	-	5.500
Total Environment & Transport	**0.550**	**4.950**	**-**	**5.500**
Growth				
Housing Companies *	16.295	-	-	16.295
Total Growth	**16.295**	**-**	**-**	**16.295**
TOTAL INVEST TO SAVE	**101.345**	**81.950**	**77.861**	**261.156**

* Future schemes are subject to full Business Case & Cabinet approval

TOTAL CAPITAL PROGRAMME	**258.912**	**130.150**	**91.757**	**480.819**

Appendix 2

FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY

Purpose

To approve the Council's Flexible Use of Capital Receipts Strategy.

Background

This report provides information with regards to statutory guidance on the flexible use of Capital Receipts and its application for the authority. As part of the 2015/16 Spending Review, the government announced a new flexibility 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. This Direction allows for the following expenditure to be treated as capital:

"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."

This originally applied to the financial years 2016/17 through to 2019/20. The direction was extended in 2018/19 for a further 3 years to March 2022. Then, in February 2021, the Local Government Finance Settlement announced the continuation of the capital receipts flexibility programme for a further three years commencing April 2022, to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.

The use of capital receipts to fund transformational costs (to the value of available capital receipts), rather than applying revenue resources and reserves allows for these to be directed to service areas and mitigates the financial pressures of the authority for the current and future years until March 2025. To take advantage of this direction, 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 Department of Levelling Up Housing, and Local Communities (DLUH) issued a consultation on 18 December 2023 regarding giving Council's more capital flexibility powers. The Consultation closes on 31 January 2024. This policy subject to member approval may be updated in year for any proposed changes.

Guidance

The Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specifies 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.

- 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 Secretary of State directs, in exercise of his powers under sections 16(2)(b) and 20 of the Local Government Act 2003 ("the Act"), that the local authorities listed in Annex A ("the Authorities") treat as capital expenditure, expenditure which:

i. is incurred by the Authorities 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; and
ii. is properly incurred by the Authorities for the financial years that begin on 1 April 2022, 1 April 2023 and 1 April 2024.
iii. is not incurred with respect to redundancy payments, except where such redundancy costs are necessarily incurred and limited to the amounts available as statutory redundancy payments.

The Council's Proposals

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

- Change Delivery
- Statutory Redundancy Costs

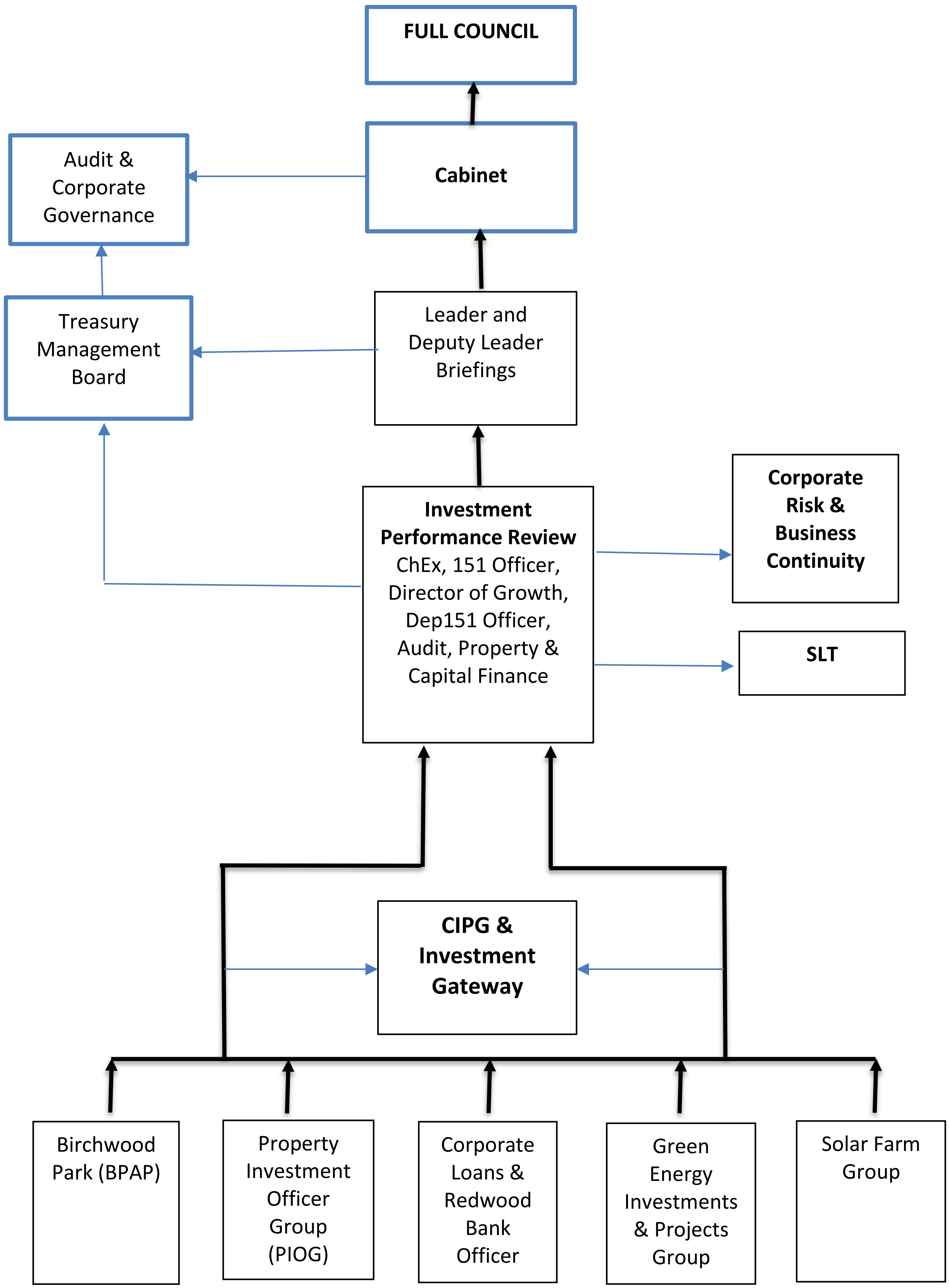
Project Description	Estimated Expenditure 2024/25 £000
Change Delivery	1,000
Statutory Redundancy Costs	1,000
Total	2,000

Since the flexibility was introduced, the Council has applied £8.8m of capital receipts for transformation and change delivery projects which have generated cumulative savings estimated at £6.1m. Planned usage for 2024/25 is currently being evaluated.

If capital receipts generated are insufficient to meet these commitments other funding sources will need to be identified or expenditure will be reduced.

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.

The estimates are taken from the Treasury Strategy and the MTFP.

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Gross Debt	1954.977	2097.405	2198.357	2481.689
Net Service Expenditure (NSE)	183.009	196.541	214.986	2255.784
Gross Debt to net service expenditure ratio	1068.24%	1067.16%	1022.56%	110.01%

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.

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

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	25/26 Estimate £m
Commercial Income MTFP	16.914	16.921	17.320	17.320
Gross Service Expenditure less Fees and Charges	313.935	323.353	333.053	343.045
Commercial income to NSE ratio	5.39%	5.23%	5.20%	5.05%

C Interest Cover Ratio

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

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Net Commercial Property Income before interest	31.549	28.580	28.680	29.037
Commercial Property Interest	16.331	14.596	19.330	19.330
Interest cover ratio (times)	1.93	1.96	1.48	1.50

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.

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Gross Debt related to Property investments	£714,969	£666,913	£666,913	£666,913
Commercial Property Purchase Costs	£714,969	£666,913	£666,913	£666,913
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 and Minimum Revenue Provision, 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.

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Net Commercial Income from Property Investments before interest and MRP	31.549	28.580	28.680	29.037
Commercial Property Purchase Costs	714.969	666.913	666.913	666.913
Target Income Returns	4.41%	4.29%	4.30%	4.35%

Figure after MRP but before interest

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Net Commercial Income from Property Investments before interest but after MRP	25.388	22.760	22.737	22.945
Commercial Property Purchase Costs	714.969	666.913	666.913	666.913
Target Income Returns	3.55%	3.41%	3.41%	3.44%

Figure after MRP and interest

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Net Commercial Income from Property Investments after interest and MRP	14.043	14.563	9.707	9.559
Commercial Property Purchase Costs	714.969	666.913	666.913	666.913
Target Income Returns	1.96%	2.18%	1.46%	1.43%

F Gross and Net Income/Operating Costs from Commercial Investments

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

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.

	23/24 Estimate £m	24/25 Estimate £m	25/26 Estimate £m	26/27 Estimate £m
Gross Commercial Income from Property Investments	**36.536**	**34.980**	**34.980**	**34.980**
Operating Costs	4.986	6.400	6.300	5.943
Net Commercial Income from Property Investments before interest	**31.549**	**28.580**	**28.680**	**29.037**
Commercial Property Interest	16.331	14.596	19.330	19.330
Net Commercial Income from Property Investments after interest	**15.218**	**13.984**	**9.350**	**9.707**
MRP	6.162	5.820	5.943	6.091
Net Commercial Income from Property Investments after interest & MRP	**9.056**	**8.163**	**3.408**	**3.616**

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. BT New Bailey is now completed.

Commercial Property	Number of units	Occupancy Levels
1-2 Fennel Street (Pure Gym)	1	100%
Birchwood Park	275	92%
Matalan	1	100%
Eddie Stobarts	1	100%
Stanford House	1	100%
Appleton House/Atlantic House	2	100%
Tesco Farnworth	1	100%
Tesco Widnes	1	100%
Apollo Gemini	5	100%
Movianto Haydock	1	100%
Asda Hulme	5	100%
Sainsburys Sale	1	100%
Royal Mail Omega	1	100%
Decathlon	1	100%
BT New Bailey	1	100%