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Report of the Assistant Director Finance and Procurement to the meeting of Executive to be held on 20 February 2018 and Council to be held on 22 February 2018

Subject: Document: BB

The Council's Capital Investment Plan for 2018-19 onwards

Summary statement:

This report presents the Capital Investment Plan for 2018-19 to 2021-22. Appendix A sets out the Council's Capital Strategy to date.

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Portfolio:

Leader of the Council

Overview & Scrutiny Area:

Corporate

1. SUMMARY

1.1 This report outlines the Council's proposed Capital Investment Plans from 2018-19 to 2021-22. These plans are part of the overall 2018-19 budget proposal for the Council which includes:

- The Council's Revenue Estimates for 2018-19 (Document AZ)
- Allocation of the Schools Budget 2018-19 Financial Year (Document BA)
- Section 151 Officer's Assessment of proposed budgets (Document BC)

1.2 This report is submitted to enable the Executive to make recommendations to Budget Council on the setting of the budget and Council Tax for 2018-19 as required by Article 4 and Part 3C of the Council's Constitution.

2. CAPITAL INVESTMENT PLAN (CIP) BACKGROUND

2.1 The Capital Investment Plan (CIP), provides for investment in assets like buildings and vehicles. It impacts on the district over many years, in contrast to the annual Revenue Estimates, which details the annual budget for day to day expenditure.

2.2 The overriding purpose of the CIP is investment in assets to enable service delivery. Examples include investment in schools to deliver education, buildings to provide care and affordable housing.

2.3 Overall the CIP aims to maximise service delivery based on the Council's overall vision: Great start, good schools; Better health, better lives; Better skills, more good jobs and a growing economy; Safe, clean and active communities; A well run Council.

2.4 Another increasing consideration for the CIP is to generate income. Currently the Council is investigating options on how to invest in property to generate income (9 January 2018 Executive; A strategy for Growth in income from Council Tax, Business Rates and Investment, Document AP). Such income can be used to support the Revenue Estimates when the Revenue Support Grant is reducing.

2.5 Further there are a number of other reasons that the Council invests in assets. This includes regenerating the local economy and working jointly with other public sector bodies in the district. Such reasons are further explored in the Capital Strategy within Appendix A of this report.

3 FUNDING BACKGROUND

3.1 Funding sources for the CIP are limited. The largest source of funding is capital grants provided by other parts of the public sector and the Government.

3.2 Another funding source is capital receipts from the sale of the Council's assets, such as land, which is recycled directly back into the new capital expenditure proposed in the CIP.

3.3 Any other funding apart from capital grants and capital receipts has an implication for the Revenue Estimates. For example, one of the allowed funding sources is to fund capital expenditure directly from a budget line in the Revenue Estimates (Direct Revenue Financing).

3.4 Another allowed funding source is to use earmarked reserves. However, this means the funding is not being used to support day to day expenditure in the Revenue Estimates.

3.5 The most significant funding source for the CIP is borrowing because this has the largest impact on the Revenue Estimates. This impact is from the repayment of the principal as well as the interest, which are both charges in the Revenue Estimates. (Appendix 1 shows the borrowing limits and prudential indicators)

3.6 Some of the borrowing in the CIP is to fund the purchase of assets, that once operational make a saving for the Council (Invest to Save Borrowing). This saving pays for the principal and interest charges of the borrowing. As an example, the affordable housing scheme generates rental income to pay the principal and interest.

3.7 However, other borrowing cannot be paid for from additional income or savings (Corporate Borrowing). The principal repayments and the interest are additional charges for the Revenue Estimates.

4 PROPOSED CAPITAL INVESTMENT PLAN 2018-22

4.1 Please see Appendix 2 for the detail on the proposed CIP.

4.2 The proposed CIP removes the District Heating scheme. The original purpose of the scheme was to recycle energy from the Council's buildings back into the national grid. It is proposed to remove this scheme from the plan because it is currently deemed to be unfeasible due to the lack of appropriate sites.

4.3 Further the CIP proposes to continue the annual £10m allocated for property investment – called Strategic Acquisitions – into 2021-22. The CIP also proposes to add a new £3.5m scheme for traffic management called the National Productivity Investment Fund, previously approved by Officers as there is no requirement for new Corporate borrowing (£2.3m grant funded and £1.2m vired from another highway scheme).

4.2 In addition, the proposed CIP includes £98m of other new schemes for approval. Some of these proposed new capital schemes have no net impact on the total expenditure in the Revenue Estimates. This is because they are funded from Capital Grants, receipts or Invest to Save schemes. These schemes are listed below:

- (1) Odeon
- (2) Affordable Housing
- (3) Roydsdale Way car park

- (4) Depot reorganisation, Parry Lane

4.3 Some of the schemes will increase the total cost of the Revenue Estimates. This is because the proposed schemes rely in part or wholly on Corporate borrowing. They are listed below:

- (5) Relocation of Coroner's Office
- (6) Learning Development home
- (7) Sports Pitches Rationalisation
- (8) City Hall Rugby Football League project
- (9) New Builds at Top of Town
- (10) Additional funding for St Georges Hall
- (11) Additional funding Markets

4.6 The schemes for Affordable Housing, Roydsdale Way car park and St Georges Hall have already been subject to detailed business cases. The remaining schemes are all subject to further work and a detailed, costed business case. Also all the new schemes (1) to (9) are held in the Reserves & Contingencies section of the CIP and as such cannot be released to budget managers until further approval from Executive.

4.7 To pay for the additional Corporate borrowing for these new schemes, an additional £2m costs have been set aside in the 2018-19 Revenue Estimates. It is expected that the cost of the Corporate borrowing for these schemes will be contained within this £2m estimate.

4.8 The overall funding sources of the 2018-22 CIP are summarised in Table 1 below.

Table 1: Analysis of funding sources

Funding source	£m
Capital Grants	208.223
Corporate Borrowing	121.173
Invest to Save Borrowing	125.511
Capital Receipts	25.874
Direct Revenue Financing	10.804
Reserves	4.859
Total	496.444

4.9 As noted in table 1 above total expenditure in 2018-19 to 2021-22 is planned at £529.114m. There may be further Government funding allocations announced prior to the start of 2018-19 and the outcome of specific grant bids will be announced. There may also be the opportunity to bid for additional funding. The Council may identify other funding sources, including capital receipts, to finance additional capital expenditure.

4.10 Further it is recommended that the £2m repairs and maintenance budget in the Reserves & Contingency section of the CIP is spent as set out in the Property Programme.

5 CIP CAPITAL FINANCING COSTS INCLUDED IN THE REVENUE ESTIMATES

5.1 As described above, the CIP impacts on the revenue estimates through Capital Financing costs. Therefore the new recommended CIP and the additional Corporate borrowing required has an incremental impact on the Revenue Estimates through increased Capital Financing costs.

5.2 These Capital Financing costs comprise repayment and interest costs for borrowing. They exclude Capital Grants, Capital Receipts and Direct Revenue Financing.

5.3 Invest to Save borrowing is financed by compensating savings. However, there is an incremental impact on the Revenue Estimates from 2018-19 to 2021-22 due to the new Corporate Borrowing financing the additional capital expenditure.

5.4 Table 2 below shows the Capital Financing costs included in the Revenue Estimates for Corporate Borrowing only.

Table 2: Capital Financing Costs

		2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
Principal & interest from Corporate Borrowing		31.818	36.028	38.056	38.971

5.5 The Capital Financing costs shown in table 2 are already included in the 2018-19 Revenue Estimates.

5.6 The estimates in table 2 also assume that interest rates will be 3% in 2018-19 and 3.8% in the following financial years. This is based on projections from the Council's Treasury Management advisers. Further for any new borrowing, the principal will be repaid in equal instalments over the life of the asset that has been purchased. It is also assumed that the Council will not borrow to replace £10m of debt that is due to be repaid in February 2018. However, it is also assumed the Council will borrow to fund any new capital expenditure from 2018-19 onwards.

5.7 There is a risk that interest rates will be higher than projected. However, the risk from interest rate increases is partly mitigated if some of the capital schemes shown in the CIP to be delayed.

6 RATIO OF CAPITAL FINANCING COSTS TO THE NET REVENUE STREAM

6.1 CIPFA sets out the methodology to calculate the ratio of the Capital Financing costs as a proportion of the net revenue stream. The main difference to the figures set out in table 5 above is that CIPFA's Capital Financing costs include the impact of finance leases, including the Private Finance initiative (PFI). Finance leases are where the Council has formally rented an asset, but the underlying economic reality is that it has been purchased, with the borrowing and related interest repaid via rental payments.

6.2 The repayment of the borrowing and interest for finance leases are already budgeted for as rental payments within the Revenue Estimates. As part of accounting for these assets in accordance with CIPFA's guidelines, these rental payments are shown as repayments of borrowing and interest within the Council's Statement of Accounts and shown as Capital Financing costs.

6.3 There are also some other minor adjustments included in CIPFA's methodology. Table 3 below shows the Council's ratio of Capital Financing costs to the Net Revenue Stream.

Table 3: Ratio of Capital Financing costs to the Net Revenue Stream

		2018-19 £m	**2019-20 £m**	**2020-21 £m**	**2021-22 £m**
Principal & interest from Corporate Borrowing (per table 2)		31.818	36.028	38.056	38.971
Finance Leases and PFI borrowing		25.871	25.000	24.500	24.300
Other		(0.170)	(0.170)	(0.170)	(0.170)
Total Capital Financing costs		**57.519**	**60.858**	**62.386**	**63.101**
Ratio to Net Revenue stream of £357m		16%	17%	17%	17%

6.4 Previously the Council set a long term objective of reducing its Capital Financing costs, with a long term objective to reduce Capital financing costs to below 15%. This was achieved in previous years due to reduced interest costs. Either debt was repaid by the Council and funded from cash balances or replaced with new debt at a lower interest rate. In 2015-16 the Council repaid £78m of maturing debt resulting in a reduction in cash balances. In 2016-17 the Council took out £26 million in new loans in order to ensure cash balances did not fall too low when a similar amount of loans matured in March 2017.

6.5 However, the Council's general funding or net revenue stream has reduced because of a lower Revenue Support Grant. In itself this has increased Capital Financing costs as a proportion of the net revenue stream. Further, the Council has set aside an additional £1m in 2019-20 and a further £1m in 2020-21 to fund the new schemes in the CIP (See 4.7). As a result, the ratio of Capital Financing costs to the Net Revenue Stream is due to increase over the next few years.

6.6 Further, schemes are included in the CIP when they are Invest to Save schemes.

As there are compensatory savings from service budgets, these are not included in the ratio of Capital Financing costs to the Net Revenue Stream. However, they are summarised in Table 4 below:

Table 4: Invest to Save Capital Financing costs

		2018-19 £m	2019-20 £000	2020-21 £000	2021-22 £000
Invest to Save Principal and interest		4.193	7.452	9.783	11.805
Compensatory savings from service budgets		(4.193)	(7.452)	(9.783)	(11.805)
Net impact on Revenue Estimates		**0**	**0**	**0**	**0**

7 REPAYMENT OF DEBT

7.1 The Capital Financing costs described above, include an amount set aside to repay the principal from any borrowing. This is a requirement of the Local Government Act 2003 which specifies that Councils are required to make a provision for the repayment of borrowing used to finance its capital expenditure. This is officially known as the Minimum Revenue Provision (MRP).

7.2 The amount of borrowing required to finance capital expenditure is based on a calculation known as the Capital Financing Requirement (CFR). The CFR is all expenditure for a capital purpose less any sources of funding, such as capital grants, capital receipts and Direct Revenue Financing. Borrowing may come from loans taken from the Public Works Loan Board (PWLB) or commercial banks, finance leases (including PFI) or from the use of the Council's own cash balances.

7.3 In summary, the MRP is the amount of principal capital repayment that is set aside each year in order to repay the CFR based on the requirement of statutory regulation and the Council's own accounting policies.

7.4 As noted above, in most cases, the MRP is calculated in equal instalments over the life of the asset. However, the Council is formally required to state as part of its budget process the policy for determining its MRP. The policy was changed in 2016-17 generating savings in the current and future years. The method for calculating the MRP on each category of debt is outlined below:

a) The policy for charging MRP on historic supported borrowing is on the asset life method calculated on an equal instalment basis over 50 years.

b) Unsupported or prudential borrowing MRP is based on the Asset Life method – that is, the expenditure financed from borrowing is divided by the expected asset life. For schemes funded before 31st March 2012 the MRP is calculated on the annuity basis and for schemes funded after 1st April 2012 the MRP is calculated on an equal instalment basis. This means no change to existing policy.

c) Since 2009-10 the appropriate financing costs for the Council's Building Schools for the Future (BSF) Private Finance Initiative (PFI) schemes have been included in MRP calculations. Appropriateness includes an ongoing consideration of asset lives.

d) To consider whether amounts set aside using an annuity calculation previously in excess of the equal instalment basis should be returned to the General Fund for current and future years.

7.5 External debt can be less than the CFR. External debt cannot exceed the CFR (other than for short term cashflow purposes or cashflow management.)

7.6 There is an International Financial Reporting Standards requirement that assets funded from finance leases (including PFI deals) are brought onto the balance sheet. This also includes the liability as well as the asset. Therefore the term borrowing does not just include loans from PWLB and banks, but also the liability implicit in PFI and other finance leases.

7.7 The CIP will need to be reviewed through the planning cycle to ensure it remains affordable within revenue resources and to take account of the actual implementation timeframes.

8 OTHER FINANCIAL ACCOUNTING CONSIDERATIONS

8.1 In March 2016 the DCLG published statutory guidance on the flexible use of capital receipts for a three year period covering 2016-17 to 2018-19. Councils were previously only allowed to spend such money on further capital projects or repay debt. But now capital receipts can be used to fund the revenue costs of transformation projects which are designed to generate ongoing revenue savings in the delivery of public services to transform service delivery in a way that reduces costs or demand for services in the future. As part of 2018-19 Local Government Finance Settlement, the Secretary of State announced an extension of this flexibility for a further three years to 2022.

8.2 There are no plans to use this flexibility in the 2018-19 financial year. However, given the size and scale of the transformation programme, it is possible that the Council may seek approval from the Secretary of State to use capital receipts in this flexible manner in future.

9. FINANCIAL & RESOURCE APPRAISAL

9.1 The CIP as proposed remains balanced to forecast capital resources up to and including 2021-22. Projects beyond that period will require the identification of resources such as capital receipts from the sale of Council owned assets, additional and specific funding or invest to save borrowing. The latter would have revenue budget implications.

10. RISK MANAGEMENT AND GOVERNANCE ISSUES

10.1 The uncertainties regarding the funding that will be available to the Council and the control of the capital programme are considered within the Assistant Director, Finance & Procurement Section 151 Budget Report.

10.2 The inclusion of contingencies within the CIP means that there is some scope for meeting additional unforeseen and unfunded capital expenditure that may arise.

10.3 The existing governance arrangements for controlling the capital programme remain appropriate.

11. LEGAL APPRAISAL

11.1 The legal issues are set out in the body of the report. Legal Services will provide further advice on the implementation of the Capital Programme as required.

12. OTHER IMPLICATIONS

12.1 Equality and diversity, sustainability, greenhouse gas emissions impacts, community safety, Human Rights Act, Trade Union and Ward Implications will be considered on an individual project basis.

13 NOT FOR PUBLICATION DOCUMENTS

13.1 None.

14 RECOMMENDATIONS

14.1 The Executive requests Council to approve:

a) The Capital Investment Plan as set out at Appendix 2 is adopted. Commitments against reserve schemes and contingencies can only be made after a business case has been assessed by the Project Appraisal Group and approved by Executive.

b) Approve the £2m Property Programme Essential Maintenance Programme, to be funded from Reserves and Contingencies (See 4.10).

c) The Chief Executive, Strategic Directors and Directors enter into commitments on capital schemes within the Capital Investment Plan subject to approval of business cases by Executive up to the approved amounts each year except that, where it is indicated that schemes are funded or partly funded from specific resources such as capital grants or contributions, revenue or capital receipts, the approved amount will be subject to the securing of those resources and be adjusted to reflect the amounts actually received.

d) Where necessary, the payments arising under the Capital Investment Plan are met from loans.

e) In order to provide the flexibility necessary to effectively manage the Capital Investment Plan, the Chief Executive, Strategic Directors and Directors be specifically empowered to advance or defer approved schemes subject to consultation with the Assistant Director Finance and Procurement and the availability of resources.

f) Additional capital schemes shall only commence where the scheme is wholly funded from specific resources on the approval of the Section 151 Officer – the Assistant Director, Finance & Procurement.

g) The Borrowing Limits and Prudential Indicators as set out in Appendix 1 are adopted by the Council.

h) The Minimum Revenue Provision (MRP) policy as set out in paragraph 7.4 of this report is approved and adopted by the Council.

i) The development of the Capital Strategy in Appendix A is noted.

15 APPENDICES

- Appendix A – Capital Strategy
- Appendix 1 – Borrowing Limits and Prudential Indicators
- Appendix 2 – Proposed Capital Investment Plan for 2018-19 to 2021-22

16. BACKGROUND DOCUMENTS

- Proposed Financial Plan 2018-19 – 2021-22 – Executive Report 5 December 2017 (Doc AJ)

- The Council's Revenue Estimates for 2018-19 – Executive Report 20 February 2018 (Doc AZ)

- Section 151 Report – Executive 20 February 2018 (Doc BC)

Appendix A

1 BACKGROUND TO THE CORPORATE CAPITAL STRATEGY

1.1 The Corporate Capital Strategy sets out the principles to be used to guide the allocation of capital expenditure within the Capital Investment Plan (CIP).

1.2 Capital expenditure is expenditure on the acquisition, creation or enhancement of assets that have a useful life of more than one year.

1.3 Capital expenditure is a significant and fundamental part of what the Council does. For example, it has led to the Council holding 5,812 separate items on its Corporate Asset register, with a balance sheet value of £1.022 billion, at 31 March 2017. These assets are prerequisites to achieving the Council's overall vision. For example, school buildings enable education to be delivered.

1.4 The items in the Corporate Asset Register include £48.6m of investment assets to deliver regeneration. They also generate an income stream for the Council from rental payments, which funds other service expenditure.

1.5 The overall aim of the Capital Strategy is to set out the principles that underlay capital expenditure decisions.

2 GUIDING PRINCIPLES

2.1 Capital expenditure is prioritised according to long term affordability. A framework for prioritisation is set out below:

i. Contributes to the achievement of the Council's vision.
ii. Financial criteria including whether the scheme has a payback, produces a positive net present value, the funding, affordability and financial impact on the Council overall.
iii. The deliverability of the scheme and its benefits.
iv. Delivers Value for Money
v. Risk assessment – an assessment of the risk involved in the scheme.
vi. It is an invest to save scheme that achieves compensatory savings in Revenue Estimates
vii. Promotes sustainable services to Bradford District residents.
viii. Enables a corporate approach to the use of assets
ix. Regenerates the district
x. Partners with other organisations to use of assets efficiently across the public sector and the district.
xi. Provides income streams to support the revenue estimates

2.2 Prioritisation of capital expenditure according to an ability to create an income stream is a new criteria (see xii). This is due to a recent Council decision to consider investment in property to generate an income stream (9 January 2018 Executive; A strategy for Growth in income from Council Tax, Business Rates and Investment).

2.3 Latest Government guidance is that the principles of security, liquidity and yield are applied to investments in property but Local Authorities can determine their relative importance (Consultation on the proposed changes to the prudential framework on capital finance, summary of consultation responses and Government response – February 2018). However, the guidance also states that to purchase Investment Property solely to generate a profit is not prudential. This guidance has been reflected in a new proposed framework to assess any investment in property. This framework is an expanded version of the principles set out in a report to Executive (4 April 2017 Executive, Progress report on the Property Programme and Council's proposed property investment strategy). The framework is set out below:

I. Risks associated with the investment
II. The likelihood of being able to sell the investment in extremis
III. Whether the location is attractive for selling or letting and whether the location is easy to travel to so that it can be inspected without specialist agents
IV. The preference for the location of the investment to be firstly in the district and secondly in the Leeds City Region
V. The security of rental payments, with consideration given to the reliability of tenants
VI. The prospective length of any lease period for which rental payments are received
VII. The income stream from the investment
VIII. The potential to increase both the income stream and the capital value of the investment
IX. The likelihood of the capital value of the investment exceeding any outstanding debt
X. The value of the investment
XI. Management costs
XII. The sector in which the investment is made, for example, retail or warehouses.
XIII. Any prospective tenants or partners in the investment must not be involved in commercial activities that conflict with the Council's values.
XIV. The latest Government investment guidance

2.4 Also any property investment will be subject to a detailed business case, disclosing the Council's gross debt and reliance on income from property.

2.5 The proposed CIP includes £10m for property investment, called Strategic Acquisitions, in each year from 2018-19 to 2021-22.

3 LOANS FOR A CAPITAL PURPOSE

3.1 Subject to a business case and appropriate approval, the Council will provide loans for a capital purpose to a third parties. Such loans will be included on the Council's official record of capital expenditure (The Capital Financing Requirement) and financed from the loan repayments. However, if there is an indication that the loan will not be repaid, an amount will be set aside from revenue to finance the loan.

3.2 Such an amount set aside would constitute a Minimum Revenue Payment (MRP) to fund the unpaid loan. This would be calculated according to the Council's MRP policy.

3.3 Any Interest received from the third party in relation to the loan will be receipted into the Council's revenue account, in accordance with accounting rules.

4 APPROACH TO BORROWING

4.1 The Council has to adhere to CIPFA guidance in which all borrowing is prudent and affordable.

4.2 In accordance with the concept of prudence, before using borrowing, the Council uses all alternative funding sources. These options are limited by statute and some are only available for a specific scheme. For example, the Council applies for available capital grants wherever possible for specific schemes. The Council also receives capital grants on the condition that they are used for schemes in specific service areas. For example, the largest capital grants are for schools, such as the Basic Needs and Capital Maintenance grant. This strategy sets out the principle that all grant conditions will be followed automatically.

4.3 Any sales of land or buildings intrinsic to a new capital expenditure scheme are immediately used in its funding. In addition, the Council also estimates that it will receive £3.5m in general capital receipts each year. These arise from the Council's ongoing Property programme which sells unused land and property and has the added benefit of reducing repair and running costs. Other significant capital receipts have arisen from the disposal of houses built under the Council's Affordable Homes Programme. General capital receipts are used to fund capital expenditure and reduce the borrowing requirement.

4.4 Similarly, the Council has an ongoing budget within the Revenue Estimates of £2.7m to directly fund capital expenditure. Again this budget is used to reduce the borrowing requirement. The Council also has an earmarked reserve to directly fund capital expenditure.

4.5 Some capital contributions are given by private developers to fund the community infrastructure needed to support their developments. Examples include funding for access roads and playing areas for new housing. Such contributions are collectively called a Community Infrastructure Levy, previously referred to as Section 106 contributions. Recently, the Council has more discretion over which schemes to support with this funding. The principle set out in this strategy is to passport this increased discretion to decision makers and stakeholders. In line with this principle, the funding will be held corporately and be available to allocate to a choice of schemes.

4.6 The Council is able to borrow money from the Public Works Loan Board, the money market or its own cash balances to fund capital expenditure. This is the option of last resort, after alternative funding has been considered. This is because borrowing leads to ongoing Capital Financing costs in the revenue estimates, comprising the repayment of principal and interest. Schemes that can self-finance the principal and interest cost (Invest to Save Schemes) are prioritised.

4.7 However, the Council will borrow to fund Capital expenditure that is not self-financing (Corporate Borrowing). The key guiding principle in assessing these schemes is contribution to the Council's overall vision prioritised according to the affordability of the additional Capital Financing costs in the Revenue Estimates. Such borrowing is subject to a detailed business case.

4.8 As part of the Capital Strategy, new measures to test the affordability of the proposed borrowing in the Capital Investment Plan are being used. These measures are shown in the table below:

Table 1: Affordability measures

Measure	Current Position	Potential Position
Total Borrowing related to long term assets	As at 31/03/2017 £332m total borrowing is 32% of long term assets as at 31/3/17 of £1,023m	If £121m of Corporate Borrowing and £126m of Invest to Save borrowing totalling £247m is assumed, borrowing could rise to £579m. Assuming this increases long term assets also by £579m to £1,602m, this is 36% of long term assets
Total Borrowing costs as a percent of net budget	For 2018-19 borrowing costs of £32m plus Invest to Save gross borrowing costs of £4m, totalling £36m are 10% of net budget	At 2021-22 borrowing costs of £39m plus Invest to Save gross borrowing costs of £13m, totalling £52m are 14.5% of net budget
Contribution Investment Properties make to core functions	Estimated rental income for 18/19 for only purchases to date is £3.5m which is only 1% of net budget	If an additional £50m invest, with a 6 % return, could rise to £6.5m, which is only 1.8% of budget.

4.9 The measures show borrowing costs potentially rising to 14.5% of net budget. However, about half the new borrowing will be financed from additional compensatory savings or increased income from the Revenue Estimates.

4.10 Another key part of any business case for Corporate Borrowing and Invest to Save Schemes is risk and the assessment against the Council's overall vision.

5 APPROACH TO RISK

5.1 The Council has to manage the risk of interest rates rising. An increase in interest rates increases Capital Financing costs. Further the Council has to manage the risk of construction inflation rising in excess of the assumptions used to budget for the scheme.

5.2 Interest rate risk will be managed with forward cash flow projections, contingency in the Capital Financing cost projections, the employment of Treasury Manager advisors and a Treasury management strategy.

5.3 Inflation risk will be managed by using fixed price contracts wherever possible.

Further the CIP includes a £2m annual contingency.

6 GOVERNANCE

6.1 The Capital Investment Plan (CIP) sets out the individual schemes that deliver the Council’s overall vision. All schemes in the CIP are approved by Executive. The schemes are further approved by Full Council, unless the scheme is wholly funded from capital grants or Direct Revenue Financing separately approved within Revenue Estimates.

6.2 Capital proposals will initially be assessed by the Project Appraisal Group (PAG). Again the only exception is if the scheme is funded from capital grants or Direct Revenue Financing. In these cases, the scheme can be progressed directly by the Section 151 Officer.

6.3 PAG is a corporate officer group that appraises proposed capital bids and makes recommendations to Executive and Council. It membership is made up of finance, legal, procurement, project management and property expertise. The proposed scheme is scored against set criteria based on the guiding principles outlined in 2.1.

6.4 An Investment Appraisal Group will also review proposed property investments. This is in accordance with the recommendation to set up such a group to oversee investment activity and manage risk (9 January 2018 Executive: A Strategy for Growth in Income for Council Tax, Business Rates and Investment).

6.5 All capital expenditure must be carried out in accordance with financial regulations, the Council’s Constitution and the Council’s Contract Procedure Rules.

6.6 The expenditure must comply with the statutory definition of capital purposes as defined within this document and wider financial standards. This definition is that expenditure meets a de minimus of £10,000 and gives benefits to the Council over one year.

6.7 The annual CIP, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections, is presented to Full Council every year. Council approval of the programme gives authorisation to budget managers to spend. Separate approval is required in line with financial rules to spend in line with their budget envelopes.

6.8 A governance issue in managing the CIP is the variances between the budget and actual spend. The aim of quarterly monitoring is to identify, project and understand such variances. Quarterly monitoring identifies overspends. However, understanding the reasons for the variances, enables underspend to be distinguished from a scheme delay, called slippage. Underspends allow the total scheme budgets to be lowered, therefore reducing Capital Financing costs.

6.9 Scheme delays are managed by changing the proportion of total budget allocated between different financial years, called reprofiling. To enable accurate monitoring, such reprofiling will mostly be proposed in the Outturn report to Executive at the end of the financial year. However, exceptionally, PAG will approve the reprofiling of budgets.

6.10 All schemes must be approved by Executive via the procedures outlined in this document and the wider documentation available within the Council.

6.11 Officers are not authorised to commit expenditure without prior formal approval as outlined.

6.12 Each scheme must be under the control of a nominated budget/project manager and a nominated project sponsor (a senior responsible officer (SRO)).

6.13 A separate Executive report is required for any capital scheme(s) which have a capital expenditure value of £0.5m or above.

6.14 Any funding from private developers which contractually commit to procure capital schemes (such as school builds) will need to follow the same approval process as other capital expenditure before they can formally be entered into the Council's Capital Programme. Schemes of this type valued at £0.5m or above will also need a separate Executive report.

6.15 The performance of the capital programme is also measured by the prudential indicators which are reported to Council as part of the Treasury Management Strategy, the Treasury Management half-yearly review, and the annual review.

7 COUNCIL'S OVERALL VISION

7.1 The Council is aiming to take a strategic view to capital investment so that it can be directed to make a real and demonstrable impact on the district. The Capital Strategy aims to deliver projects that focus on delivering long term benefits to the district such as economic growth, regeneration and or financial returns in the form of:

i. Spend to save
ii. Spend to earn income or other financial returns
iii. Deliver budget options
iv. Attract significant third party or private resources

7.2 The programme areas in the CIP will deliver a wide range of benefits to the District including:

I. New and replacement affordable housing
II. New improved leisure, adult social care and education facilities
III. Improved public spaces, transport and other infrastructure to ensure the continued success of the District as a business, leisure and heritage destination
IV. Improved public realm and pedestrian environment to accommodate safe and efficient travel in the District
V. Well-maintained, efficiently managed infrastructure, allowing residents, businesses and visitors to enjoy clean, high quality streets

7.3 As the Council has repeatedly signalled over preceding years, the financial pressures arising from reducing budgets, increasing demand and rising costs mean that some areas of activity will no longer be viable in their current form. Some will have to be scaled back or cease entirely. Even priority activities will see budget reductions and will have to be run differently.

7.4 Under these circumstances, resources must be targeted increasingly on the activities, areas and people where investment will make the biggest difference to the District's future well being and prosperity. The Capital Strategy is therefore aligned to the priority outcomes and activities identified in the Bradford District and Council Plans. This approach is consistent with previous years and progress across priority outcomes is summarised below.

7.5 The Bradford Council Plan sets out the long-term ambitions for the district. In relation to the performance on these outcomes the broad direction of travel is outlined below.

- **Better Skills, More Good Jobs and a Growing Economy**

A growing and inclusive economy offering opportunities to all is the key to the District's future prosperity and well being and to sustaining our ability to pay for good public services.

I. City Centre Growth Zone
II. Leeds City Region Revolving Investment Fund
III. Strategic Transport Investment
IV. Markets and City Centre schemes
V. St Georges Hall
VI. Highways and Planning (Current CIP includes a number of West Yorkshire Combined Authority funded schemes)

- **A Great Start and Good Schools for All Our Children.**

  In the UK's youngest city nothing is more important than ensuring that all our children and young people have the chance to achieve their potential.

  The Council continues to meet its statutory commitment to meet the needs of the District for the provision of school places despite a challenging financial environment and uncertainty over Government policies. This is being achieved through schemes such as the Primary Schools Expansion Programme, such as Silsden Primary School and Special Education Needs.

- **Better Health, Better Lives**

  The Great Places to Grow Old programmes seeks to modernise residential care provision within the District.

Further the Council is developing Sports facilities.

- **Safe, clean and active communities**

Bradford District is home to around 1,500 community groups and 100,000 active citizens who collectively represent one of our most significant assets. The Council has long worked closely in partnership with our communities to deliver good outcomes across the District and this continues to be the case, for example, through the People Can initiative.

I. The Carbon Programme
II. Waste collection
III. Parks and woodlands
IV. Bereavement Strategy
V. Sports pitches

- **Decent Homes That People Can Afford to Live In**

The District requires significant numbers of new homes in order to meet demand. While overall housing stock has been increasing and Bradford is a high performer in terms of bringing empty homes back into use – rates remain above average – a rapid acceleration in supply is needed. With the Local Plan now agreed, priority areas for investment and growth include the canal road corridor and the city centre.

The CIP supports the provision of decent homes that people can afford to live in through a number of programmes. This includes the Affordable Housing Programme which seeks to build affordable housing for rent and sale and the provision of disabled facilities grants to enable people to live independently in their own home for longer.

The Council currently has three contracts with the Homes & Communities Agency (HCA) for the provision of affordable housing within the district 2018-19.

- **A well run council**

The financial environment continues to demand that savings are identified and delivered and the Council seeks to ensure that all its resources are used effectively and that it identifies opportunities for innovation and creative collaboration with partners, business and communities so that together we can maximise the impact of all of the District's assets on priority outcomes.

Other objectives of the capital strategy include the essential maintenance of the Council's stock, to exploit 'invest to save' opportunities to generate revenue savings or additional incomes and to enable alternative methods of service delivery to be utilised.

The Property Programme is a ten year 'invest to save' strategy to deliver a well-managed and fit for purpose estate that enables staff to work in a more agile way through New Ways of Working (NWOW). It was agreed by Executive in October 2009. The programme is based on a financial model that generated revenue savings and capital receipts from reducing the Council's operational estate and then using those revenue savings and capital receipts to improve the Council's retained estate.

The Capital Strategy also seeks to understand the potential sources of funding and how they can be maximised to better achieve the corporate goals.

The examples above show some of the ways that capital investment will contribute to the key strategic aims of the Council.

The above is taking place against a background of austerity and significant reductions in central funding for local government. It is therefore a key aim of the Council's capital strategy that it delivers a return on investment which is financial, such as capital receipts or new revenue streams, or delivering key strategic priorities.

8 CONCLUSION

8.1 Overall the Capital Strategy, sets out the key guiding principles and the approach to borrowing, risk and Governance, as well as demonstrating how the proposed CIP fits with the Council's vision.

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Appendix 1

BORROWING LIMITS AND PRUDENTIAL INDICATORS

In compliance with the Council's duty under Section 3 of the Local Government Act 2003 to set an affordable borrowing limit and in accordance with Regulation 2 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and the Prudential Code for Capital Finance in Local Authorities the Council makes the following determinations.

(a) The capital expenditure (all of which is non-Housing Revenue Account (HRA)) in each of the following financial years will be:

2017/18 Estimate £90.436m
2018/19 Estimate £176.179m
2019/20 Estimate £172.870m
2020/21 Estimate £98.092m
2021/22 Estimate £49.303m

(b) The capital financing requirement at the end of each of the following financial years will be:

2018/19 Estimate £745m
2019/20 Estimate £804m
2020/21 Estimate £821m
2021/22 Estimate £810m

(c) In the medium term external borrowing will only be for capital purposes and will not (except in the short term) exceed the capital financing requirement in 2018/19, 2019/20, and 2020/21 as determined in (b) above.

(d) The ratio of capital financing costs to the net revenue stream in each of the following financial years is forecast to be:

2018/19 Estimate 16%
2019/20 Estimate 17%
2020/21 Estimate 17%
2021/22 Estimate 17%

(e) The actual external debt of the authority at 31 March 2017 was £332 million in external borrowing and £182 million in Other Long Term Liabilities (including PFI and other finance leases, excluding pension liabilities) and the authorised limit for external debt in future years will be:

Financial Year	**Borrowing £m**	**Other Long Term Liabilities £m**
2018/19	420	220
2019/20	490	220
2020/21	520	200
2021/22	530	200

(f) The operational boundary for external debt in future years will be:

Financial Year	Borrowing £m	Other Long Term Liabilities £m
2018/19	400	200
2019/20	470	200
2020/21	500	180
2021/22	510	180

(g) In relation to the borrowing limits set at (f) and (g) above the Strategic Director Corporate Resources is authorised to amend the separately identified figures for borrowing and for other long term liabilities provided that the total limits remain unchanged and subject to such action subsequently being reported to Council.

(h) The authority has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

(i) The upper limit for fixed interest rate exposure in 2018/19, 2019/20 and 2020/21 will be +175% of net outstanding principal sums.

(j) The upper limit for variable interest rate exposure in 2018/19, 2019/20 and 2020/21 will be +20% of net outstanding principal sums.

(k) The upper and lower limits for the amount of fixed rate borrowing maturing in each of the periods below expressed as a percentage of total estimated fixed rate borrowing will be:

Maturing in:	Upper Limit	Lower Limit
Under 1 year	20%	0%
1 to 2 years	20%	0%
2 to 5 years	50%	0%
5 to 10 years	75%	0%
10 years and above	90%	20%

(m) There is a limit of £20 million for the Council to invest sums for periods longer than 364 days.

Appendix 2 Proposed Capital Investment Plan

Scheme No	Scheme Description	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23	Budget Total	Specific grants, capital receipts, reserves	Invest to Save Funding	Corporate Borrowing
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Health and Wellbeing										
CS0237	Great Places to Grow Old - Adult Residential Strategy	0	9,138	0	0	0	9,138	0	0	9,138
CS0237	Keighley Road Extra Care	5,870	488	0	0	0	6,358	690	1,000	4,668
CS0237	Keighley Road Residential Care	2,645	89	0	0	0	2,734	0	2,400	334
CS0373	BACES DFG	443	443	443	443	0	1,772	0	0	1,772
CS0239	Community Capacity Grant	1,452	516	0	0	0	1,968	1,968	0	0
Total - Health and Wellbeing		**10,410**	**10,674**	**443**	**443**	**0**	**21,970**	**2,658**	**3,400**	**15,912**
Children's Services										
CS0030	Capital Improvement Work	27	0	0	0	0	27	27	0	0
CS0240	Capital Maintenance Grant	3,331	0	0	0	0	3,331	3,331	0	0
CS0244	Primary Schools Expansion Programme	1,409	6,919	0	0	0	8,328	8,256	0	72
CS0244	Silsden Sch	2,979	4,088	130	0	0	7,197	7,197	0	0
CS0244	SEN School Expansion	2,391	0	0	0	0	2,391	2,391	0	0
CS0362	Secondary School Expansion	5,876	10,801	956	0	0	17,633	17,633	0	0
CS0377	LA SEN Free Schools	500	7,000	5,350	100	0	12,950	12,950	0	0
Total - Children's Services		**16,513**	**28,808**	**6,436**	**100**	**0**	**51,857**	**51,785**	**0**	**72**
Department of Place - Economy & Development										
CS0134	Computerisation of Records	10	0	0	0	0	10	10	0	0
CS0136	Disabled Housing Facilities Grant	2,028	2,028	5,753	2,028	0	11,837	11,837	0	0
CS0137	Development of Equity Loans	1,000	1,300	1,200	1,195	0	4,695	1,288	0	3,407

Scheme No	Scheme Description	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23	Budget Total	Specific grants, capital receipts, reserves	Invest to Save Funding	Corporate Borrowing
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0144	Empty Private Sector Homes Strategy	662	0	0	0	0	662	0	0	662
CS0308	Affordable Housing Programme 2015-2018	8,600	1,383	0	0	0	9,983	693	9,290	0
CS0250	Goitside	0	0	177	0	0	177	0	0	177
CS0335	Bfd Cyrenians 255 - 257 Manningham Ln	4	0	0	0	0	4	0	0	4
CS0084	City Park	205	0	0	0	0	205	0	0	205
CS0085	City Centre Growth Zone	1,699	4,451	0	0	0	6,150	0	0	6,150
CS0189	Buck Lane	75	0	0	0	0	75	0	0	75
CS0228	Canal Road	100	0	0	0	0	100	0	0	100
CS0241	Re-use Fmr College Bldng Keighley	506	60	0	0	0	566	0	0	566
CS0266	Superconnected Cities	907	0	0	0	0	907	0	0	907
CS0291	Tyrls	4,800	0	0	0	0	4,800	4,800	0	0
CS0285	Strategic Development Fund	1,167	0	0	0	0	1,167	0	0	1,167
CS0345	Dvlpmt of Land at Crag Road, Shply	573	0	0	0	0	573	573	0	0
Total – Department of Place - Economy & Development		**22,336**	**9,222**	**7,130**	**3,223**	**0**	**41,911**	**19,201**	**9,290**	**13,420**
Department of Place - Planning, Transportation & Highways										
CS1000	Countances Way - Bridge grant	0	30	0	0	0	30	30	0	0
CS0071	Highways S106 Projects	100	356	0	0	0	456	456	0	0
CS0293	West Yorkshire & York Transport Fund	19,383	26,145	34,062	27,014	0	106,604	106,604	0	0
CS0306	Strategic Transport Infrastructure Priorities	90	2,600	0	0	0	2,690	0	0	2,690
CS0306	Connectivity Project	1,196	400	0	0	0	1,596	0	0	1,596
CS0329	Damens County Park	60	0	0	0	0	60	0	0	60
CS0350	Street Lighting Invest to Save	825	0	0	0	0	825	0	0	825
CS0353	Strategic Land Purch Hard Ings Kghly	4,415	3,176	0	0	0	7,591	3,176	0	4,415
CS0355	Strategic Land Purch Harrogate Rd / New Line	154	3,557	1,733	0	0	5,444	5,290	0	154

Scheme No	Scheme Description	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23	Budget Total	Specific grants, capital receipts, reserves	Invest to Save Funding	Corporate Borrowing
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0370	LTP IP3 One Syst Public Transp	779	779	0	0	0	1,558	1,558	0	0
CS0371	LTP IP3 Places to live and work	300	0	0	0	0	300	300	0	0
Total –Department of Place - Planning, Transportation & Highways		**27,302**	**37,043**	**35,795**	**27,014**	**0**	**127,154**	**117,414**	**0**	**9,740**
Department of Place - Other										
CS0060	Replacement of Vehicles	3,000	3,000	3,000	3,000	0	12,000	0	12,000	0
CS0066	Ward Investment Fund	35	0	0	0	0	35	0	0	35
CS0151	Building Safer Communities Capital Proj	47	0	0	0	0	47	47	0	0
CS0063	Waste Infrastructure and Recycling projects	204	0	0	0	0	204	204	0	0
CS0132	Community Hubs	25	0	0	0	0	25	0	0	25
CS0340	St George's Hall	5,889	0	0	0	0	5,889	0	0	5,889
CS0129	Scholemoor Project	0	0	83	0	0	83	0	0	83
CS0229	Cliffe Castle Restoration	52	0	0	0	0	52	52	0	0
CS0347	Park Ave Cricket Ground	20	0	0	0	0	20	20	0	0
CS0367	King George V Playing Fields	1,096	0	0	0	0	1,096	700	0	396
CS0349	Chellow Dene	8	0	0	0	0	8	0	0	8
CS0356	Sedburgh SFIP	8,865	7,035	49	0	0	15,949	0	0	15,949
CS0354	Squire Lane Sports Facility	0	5,000	4,400	0	0	9,400	0	0	9,400
CS0107	Markets	35	0	0	0	0	35	35	0	0
CS0363	Markets Redevelopment - City Cntre	2,219	7,606	5,400	0	0	15,225	1,132	0	14,093
Total – Department of Place - Other		**21,495**	**22,641**	**12,932**	**3,000**	**0**	**60,068**	**2,190**	**12,000**	**45,878**
									0	
Corporate Resources - Estates & Property Services									0	
CS0094	Property Programme (bworks)	609	0	0	0	0	609	0	0	609

Scheme No	Scheme Description	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23	Budget Total	Specific grants, capital receipts, reserves	Invest to Save Funding	Corporate Borrowing
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0366	Property Programme 17/18	750	0	0	0	0	750	0	0	750
CS0230	Beechgrove Allotments	274	0	0	0	0	274	150	0	124
CS0050	Carbon and Other Management Efficiencies	1,000	820	0	0	0	1,820	0	0	1,820
CS0305	Healthy Heating Scheme	77	0	0	0	0	77	0	0	77
CS2000	DDA - monies to RCNA	50	50	50	62	0	212	0	0	212
CS0378	Cust Serv Strategy	299	0	0	0	0	299	49	0	250
CS0361	Strategic Acquisitions	576	0	0	0	0	576	0	576	0
Total – Corporate Resources – Estates & Property Services		**3,635**	**870**	**50**	**62**	**0**	**4,617**	**199**	**576**	**3,842**
Reserve Schemes & Contingencies										
1	General Contingency	2,000	2,000	2,000	2,000	0	8,000	0	0	8,000
CS0277	Wyke Manor Ph2 Sports Dev	493	0	0	0	0	493	0	0	493
2	Essential Maintenance Provision (Moved to Property & Economic Development)	2,000	2,000	2,000	2,000	0	8,000	0	0	8,000
3	Bradford City Centre Townscape Heritage	2,000	0	0	0	0	2,000	1,750	0	250
4	Strategic Acquisitions	10,000	10,000	10,000	10,000	0	40,000	0	40,000	0
5	Keighley One Public Sector Estate	10,000	5,000	3,000	0	0	18,000	0	15,000	3,000
6	Depot strategy	3,000	0	0	0	0	3,000	2,500	500	0
CS0306	Stategic Acq - Highways	550	0	0	0	0	550	0	0	550
7	Canal Road Land Assemby	450	0	0	0	0	450	0	0	450
8	Bereavement Strategy	8,500	8,500	0	0	0	17,000	0	0	17,000
19	National Productivity Investment Fund	3,500	0	0	0	0	3,500	2,330	0	1,170
	New Schemes excluding additional funding St Georges Hall & Markets	31,995	36,112	18,306	1,461	0	87,874	24,929	44,745	18,200
Total - Reserve Schemes & Contingencies		**74,488**	**63,612**	**35,306**	**15,461**	**0**	**188,867**	**31,509**	**100,245**	**57,113**

Scheme No	Scheme Description	Budget 2018-19	Budget 2019-20	Budget 2020-21	Budget 2021-22	Budget 2022-23	Budget Total	Specific grants, capital receipts, reserves	Invest to Save Funding	Corporate Borrowing
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
TOTAL - All Services		**176,179**	**172,870**	**98,092**	**49,303**	**0**	**496,444**	**224,956**	**125,511**	**145,977**

Less General Capital Receipts			**-14,000**
Less Direct Revenue Financing			**-10,804**
	(1)224,956	125,511	121,173

(1) **Comprises £208.223m capital grants, £11.874m specific capital receipts, £4.859m earmarked reserves.**

(2) **£145.977m of Corporate borrowing will be reduced by £14m of general capital receipts and £10.804m of Direct Revenue Financing.**

(3) **The additional new schemes totalling £98.024m comprise the "New schemes excluding additional funding for St Georges Hall & Markets" totalling £87.874 as well as additional funding for markets and St Georges Hall.**