Capital Strategy

1. Background and Scope

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability and affordability.

1.2. This Capital Strategy forms part of the framework for financial planning and is integral to both the Medium Term Financial Plan (MTFP) and the Treasury Management Strategy (TMS). It sets out how capital investment will play its part in delivering the ambitious long term strategic objectives of the Council, how associated risk is managed and the implications for future financial sustainability.

1.3. All capital expenditure and capital investment decisions are covered by this strategy, not only as an individual local authority, but also those entered into by the authority under group arrangements. It is refreshed annually in line with the MTFP and TMS to ensure it remains fit for purpose and enables the Council to make the investments necessary to deliver its strategic aims and objectives.

2. Capital Expenditure

2.1. In contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services, capital expenditure seeks to provide long-term solutions to Council priorities and operational requirements. Capital expenditure is technically described as: Expenditure on the acquisition, creation or enhancement of 'non-current assets' i.e. items of land property and plant which has a useful life of more than 1 year. Expenditure for capital purposes therefore gives rise to new assets, increases the value or useful life of existing assets or, generates economic and social value and an income stream to the Council via non-treasury investments.

2.2. The five aims of the Capital Strategy are:

i. To take **a long term perspective on capital investment** and to ensure this contributes to the achievement of Bristol's One City Plan, emerging Local Plan and key strategies such as the Corporate Strategy.

ii. To ensure investment is **prudent, affordable, and sustainable** over the medium term and adheres to the prudential code, Treasury Management Code and other regulatory conditions.

iii. To maintain the arrangements and **governance for investment decision-making** through the established governance boards.

iv. To make the **most effective and appropriate use of the funds available** in long term planning and using the most optimal annual financing solutions.

v. To establish **a clear methodology to prioritise capital proposals**.

2.3. The MTFP sets out the key principles and this strategy will support the achievement of the right blend of investment in key priority areas to enable the following:

- Investing for sustainable, inclusive economic growth
- Invest to save and to generate returns
- Investment to improve and maintain Council assets

3. Policy Context

3.1. A number of significant developments and strategic documents have been established in recent years that will continue to have a major influence on the future shape and approach to capital investment within the City. These include Bristol's One City Plan, Corporate Strategy and the proposals to ensure there is a diverse housing offer for the city including homes that are affordable, the emerging Local Plan and within a wider regional context our role within the west of England combined authority (WECA) in terms of transport, skills and inclusive economic growth.

3.2. **Bristol's One City Plan** has been developed by many different partners covering almost every aspect of life in Bristol; all have a role in making Bristol a thriving, healthy and more equal city in the future. It is an ambitious, collaborative approach to reach a shared vision for Bristol where no one is left behind. It is recognised Bristol's successful local economy has not always delivered prosperity evenly across citizens. Increasing economic inclusion will provide a boost to local economic growth and provide sustainability and resilience.

3.3. The Council's **Corporate Strategy** 2018-23 sets out the Council's vision and priorities for the City and sets out the Council's role in supporting the One City Plan and the pre Covid-19 activities based around the following four themes:

- **Empowering and Caring** – Working with the City to empower communities and individuals, increase independence and help support those who need it. Give children the best possible start in life.
- **Fair and Inclusive** - Improve economic and social equality, pursuing economic growth that includes everyone and making sure people have access to quality learning, decent jobs and homes they can afford.
- **Well Connected** - Take bold and innovative steps to make Bristol a joined up city, linking up people with jobs and with each other.
- **Wellbeing** - Create healthier and more resilient communities where life expectancy is not determined by wealth or background.

3.4. In light of the COVID-19 pandemic the Corporate Strategy will be reviewed and or refreshed in 2021 to respond to the changing needs of our workforce, residents, businesses and the wider economy.

3.5. In addition to the Corporate Strategy there are a number of complementary proposals and emerging plans which will also drive the Capital Strategy and future capital investment.; examples of which are outlined below:

- Capital spending on its assets should be fully aligned to the Council's **Asset Management Plan** and **Property Strategy** and the annual review of the Capital Strategy will ensure these are aligned as these strategies are reviewed and developed.
- **West of England Combined Authority's (WECA)** aim is to deliver clean and inclusive economic growth for the region and address some of its challenges, including productivity and skills gaps, the need for more homes and congestion.
- The WECA is developing a **Spatial Development Strategy** which will be a high level plan to which the Council will align its **Local Plan** which it is currently reviewing. The Core Strategy of the Local Plan was adopted back in 2011. The Council is now considering how Bristol will develop up to 2036. The Local Plan will be updated to set out how the proposed homes will be delivered and show how the Council could exceed current expectations.
- **Joint Asset Board (JAB) / One Public Estate** regional collaboration to use public sector land more efficiently, transform public sector services and strengthen local

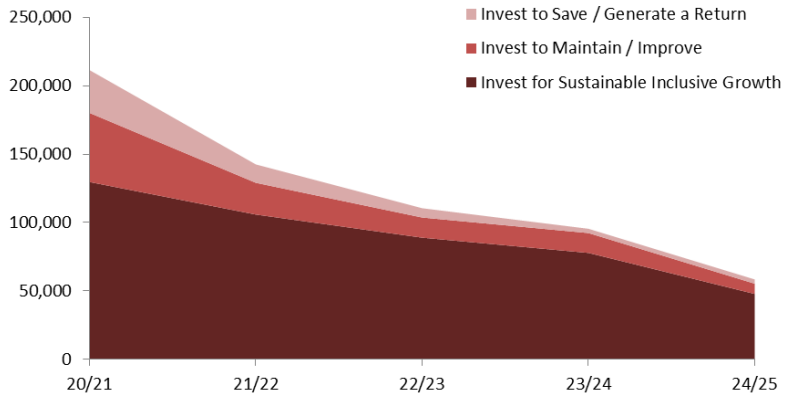
communities. The JAB links very closely with the West of England Housing Delivery Board.

- West of England **Local Industrial Strategy** was co-produced with government and was launched in July 2019. The strategy draws on the strengths of our region and sets out our ambition to be a driving force for clean and inclusive growth.
- **Western Gateway Sub-National Transport Body** is formed by an alliance of local authorities that have made a commitment to work together to drive innovation, maximise economic growth and improve industrial productivity by strengthening travel connections to local, national and international markets.
- **Great Western Powerhouse -** Opportunities are being explored across the West of England and South Wales regions to improve transport connections across the M4-M5 stretch, reduce congestion, speeding up rail journey times, increase trade and investment internationally and focus on creating more opportunities for urban and rural areas with problems of deprivation and low skills to take positive action to address these regional challenges.

4. Capital Investment

4.1. The Council has an ambitious capital programme over the next five years. A significant proportion 73% of this programme is aligned to large infrastructure investments that will support long term regeneration across the city, such as programme of new housing building and developing the Temple Quarter area, with only 9% aligned to invest to save schemes such as investing in infrastructure to support delivery of Social Care and Education services and 18% invest to maintain propositions, undertaking mandatory duties keeping the public safe and maintain our assets.

Figure: Breakdown of current programme between investment principles



4.2. The aim is to better align to the Council's strategic objectives, allocate resources effectively across the services provided and strike a balance between the things that make the most difference to residents, customers and businesses.

4.3. The Covid-19 pandemic will have a huge long term impact on the City and the Council. Locally-led investment in the economy and infrastructure will be critical to provide assurances to investors and local, regional and international partners to help drive and support economic and social recovery.

4.4. The Council needs to make a clear distinction between; capital investments where the achievement of strategic aims will be considered alongside affordability and treasury management investments, which are made for the purpose of cash flow management.

4.5. Investment decision must be clearly within the economic powers of the Council and whilst commercial decision will focus on yield, long term capital investment, decision will not be made purely on the basis of financial returns but will also give consideration to economic,

social and environmental impact. Notwithstanding that there will be fully externally funded programmes such as those for schools.

4.6. The Council will ensure that all of its investments types are covered in its Capital Strategy, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for its non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

5. Principles for Capital Planning

5.1. Like most public sector bodies the Council has experienced significant delays in the physical progress of a project against the approved profile and cost over runs. This can be directly linked to the size of the programme, capacity to deliver and over optimism about the prospect of a project in terms of cost, time and external factors outside the sponsor's control.

5.2. When capital schemes are approved their inclusion into the capital programme is based on best estimates and slippage is measured against the approved profile at the end of the financial year. The Council will need to ensure that all projects being proposed for inclusion can be delivered within the timeframe and budget stated prior to programme entry. Resource capacity and size of the programme will need to be assessed annually as part of the budget setting process and a range of optimism bias tools that are available should be used in our business case assessments of delivery of major projects.

5.3. Delivery of the programme will be overseen by the established governance boards as outlined in section 8. The Council will operate a clear and transparent corporate approach to the prioritisation of capital spending and the MTFP investment principles are set out in more detail in Table 1 below.

Table 1 Investment principles	
Investing for sustainable, inclusive, economic growth	The Council will expand its capacity to grow the economy in an inclusive manner, whilst delivering whole systems solutions to demographic, social and environmental challenges sustainably across the City
Invest to save and to generate returns	The Council will invest in projects which will • reduce running costs (including in alternative service areas) • avoid costs (capital or revenue) that would otherwise arise • invest to generate a financial return (invest to invest).
Investment to improve and maintain Council assets	The Council will improve and maintain the condition of core assets to extend their life where appropriate. The Council will make provision for lifecycle investment (capital and revenue) to maintain infrastructure to a standard that effectively supports long term service delivery.
Risk aware	The risks of the project have been fully assessed, consulted, communicated and are at an acceptable level.

5.4. Where appropriate the Council will invest in latest developments in order to stay at the forefront of service delivery, this includes areas such as Smart Technology, low carbon technology, and environmental sustainability. Where this investment is generated from the Council's own resources the principles above will apply.

5.5. When entering into investments with financial return as a primary purpose, subject to affordability and sustainability the Council must consider the balance between security,

liquidity and yield based on its risk appetite and the exit route from the investment. Bristol has not borrowed for outright investment purposes.

5.6. When entering into non-financial investments (financial return is secondary) in addition to the above the Council considers the alignment to its strategic objectives and the contribution, local impact the investment could have to a range of outcomes including City growth, social fabric and the environment.

5.7. The Council is not overly dependent on profit generating investment activity to achieve a balanced revenue budget. Any shortfall in investment income would be reconsidered as part of the MTFP and seek to ensure that the quality of the long term and secure investments minimises the income risk.

Commercial Property Investment Portfolio

5.8. The Council owns freehold land across the City where it has granted long leases to Developers and Investors, and from whom we take ground rents of various kinds as investment income. The estate has been acquired and built up over many years and includes a wide range of property types of variable quality.

5.9. This portfolio generates a revenue return. The return is not a significant element of the net revenue budget and therefore the scale of any associated investment must be proportionate and the risk managed at an acceptable level. In addition to the revenue return the Council also receives capital receipts in exchange for restructuring existing lease terms.

5.10. Investment properties are regularly revalued to market level under a rolling programme. The top 150 properties by value have a formal valuation report annually. Other properties are valued over a 4-year cycle. In between valuations property indices are used for the lower value properties.

5.11. A portfolio approach to commercial property investments needs to be aligned to a Cabinet agreed investment strategy, which will provide an outline of the earmarked envelope available, consistent framework to assess all future investment opportunities and divestment. It will set out the approach for use of the current estate and future opportunities to be able to drive regeneration and economic growth through recycling capital receipts where investment is aligned to principles within this strategy.

Subsidiaries

5.12. Where appropriate the Council will invest in wholly or partly owned companies where this is considered to be the most appropriate means to deliver strategic objectives or for a financial return. The Council may be required to issue Parent Company Guarantees (PCG) or letters of support underwriting activities which will be, regularly monitored and appropriately risk assessed. The accounting treatment of any PCGs will be assessed individually in line with relevant accounting standards.

5.13. Third party loans may also be requested by a subsidiary and where these are agreed the Council must ensure appropriate interest rates are applied and arrangements are state aid compliant. The rate of interest applied will take into account control, risks, the different nature of each subsidiaries activities and the potential exposure to the Council.

5.14. These arrangements once agreed via the relevant decision making process will be monitored through the Governance arrangements set out in Section 8. Appropriate disclosures will be made in the statement of accounts, including the fair value of such investments.

Private Finance Initiative

5.15. Although Private Finance Initiative (PFI) schemes are not shown within the capital programme as they are not financed by capital resources, PFI is a means by which the

Council can facilitate major new infrastructure projects. PFI schemes involve partnerships between the public and private sector to fund public sector infrastructure projects with private capital.

5.16. The Council has three PFI projects associated to 8 Schools and 1 Leisure centre. Under PFI, a private sector contractor agrees to accept the risks associated with the design, construction, operation and maintenance of the asset over the contract term, which is typically for a 25 year period post construction. The public sector partner pays an annual fixed price during the contract term, part of which is subject to inflation and benchmarked activities. At the end of the term the asset is wholly owned by the Council. The collective annual charge of the contracts is £33m which included £19m of interest and debt repayment costs. The government provides some financial support for PFI schemes by way of PFI credits / grants.

5.17. Covid-19 has impacted these schemes creating cost pressures on their operations. Any related financial pressures are dealt with through existing contractual mechanisms which are in place for each specific PFI, but this may impact on the level of the sinking fund available to meet the future costs of the schemes.

5.18. No additional PFI projects are anticipated and any proposals for refinancing or making material variations to existing contractual arrangements will be fully evaluated and presented to members and cabinet for approval.

6. Funding Capital Investment

6.1. The Council's core capital programme is approved as part of the annual budget setting process, by the Cabinet and the Council and is funded from a range of sources, principally:

- Prudential Borrowing
- Grants
- Capital Receipts
- Developer Contributions
- Revenue and Reserves.

6.2. The first call on available capital resources will always be the financing of any actual over spend on live projects, including those carried forward from previous years.

6.3. In establishing the most economic means to finance our capital programme we will seek to optimise any freedom and flexibilities given to the Authority from Government in how we deploy our capital investment to support recovery of both the City and the Council.

6.4. The figure below shows the indicative funding available to the Council for the next five years within the principles outlined in this strategy and budget as set in the Medium Term Financial Plan.

Table 2: Indicative Funding from 2021/22 to 2025/26 for Capital Investment

2020/21 £000		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	Total £000
71,560	Prudential Borrowing	43,860	24,063	25,679	7,150	12,000	**112,752**
9,140	Developer Contributions	12,568	10,085	8,510	6,500	3,500	**41,163**
25,209	Capital Receipts	28,761	20,452	24,084	19,385	-	**92,682**
2,241	Revenue/Reserves	1,487	254	-	-	-	**1,741**
90,004	Grants	38,915	30,436	33,360	16,910	16,910	**136,531**
13,960	Economic Development Fund/Local Growth Fund	15,150	8,828	9,333	14,157	-	**47,468**
212,114	**Sub-total**	**140,741**	**94,118**	**100,966**	**64,102**	**32,410**	**432,337**
34,873	HRA Self financing	29,680	30,616	31,706	32,806	33,944	158,752
29,620	HRA Capital Receipts	24,472	27,562	15,353	15,917	15,550	98,854
-	HRA Borrowing	4,818	15,295	22,974	-	-	43,087
15,244	HRA Revenue / Reserves	4,070	3,200	6,251	9,569	9,900	32,990
79,737	**Sub-total**	**63,040**	**76,673**	**76,284**	**58,292**	**59,394**	**333,683**
291,851	**Total**	**203,781**	**170,791**	**177,250**	**122,394**	**91,804**	**766,020**

Notes:

- *2025/26 show indicative allocations which will be refined through developing the five year capital programme as part of budget setting*
- *Future grant funding is indicative and spending is not committed until grants are confirmed by relevant funding organisations*
- *HRA 2025/26 available funding and additional borrowing capacity is being updated as part of a review of the 30 year business plan*

Capital Receipts

6.5. Capital receipts come from the sale of the councils assets. If the disposal is within the HRA land or property then not all the receipt is available to support the capital programme as a percentage has to be paid over to the MHCLG.

6.6. The current strategy is for the assumed receipts from sale / disposal of assets to be taken into consideration when assessing the total value of receipts targeted to fund the overarching capital programme and planned flexible use of capital receipts.

6.7. Where the asset has been temporarily forward funded from prudential borrowing a review will be undertaken to determine whether the most cost effective option is to utilise the receipt to repay the debt, considering the balance sheet position of the council.

6.8. Where the sale of an asset leads to a requirement to repay grant the capital receipt will be utilised for this purpose. Once this liability has been established and provided for the residual capital receipt will be available to support the capital programme as a corporate resource.

6.9. As part of a Commercial Property Investment Strategy it would be expected that a certain proportion of capital receipts relating to disposals from the portfolio may be recycled for reinvestment for economic regeneration opportunities aligned to the Investment Strategy and affordability principles outlined in this strategy.

6.10. Following notional achievement of the target capital receipt, the Council can consider foregoing capital receipts for longer term and sustainable income streams through development sites.

Developer Contributions

6.11. Significant developments across the City are often liable for contributions to the Council in the form of section 106 or a community infrastructure levy (CIL). The community infrastructure levy is split between 5% for administrative costs, 15% to Area Committees and 80% for strategic infrastructure projects.

6.12. The current Capital Programme assumes a level of strategic CIL each year which is allocated to eligible infrastructure within the programme. Impact of Covid has meant delays in developments and also additional legislation was made which allows authorities flexibility to defer payments of CIL due to support developers during the pandemic.

6.13. If contributions reduce the funding and timing of the planned programme will need reviewing. This will also need to consider any outcomes and reforms following the current white paper on planning reforms and proposed changes to replace CIL and section 106 agreements with an Infrastructure Levy.

6.14. Following achievement of the target the council can consider further projects with which to utilise this funding stream

Prudential Borrowing

6.15. The Council's TMS sets out how the Council will fund its capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

6.16. In planning for long term capital investment it is essential the long term revenue financing costs is affordable. Any long term investment is paid for over the life of the assets. It is essential the Council are able to meet the costs of borrowing and minimum revenue provision (MRP) over the life of the asset. In developing subsequent capital schemes it will be with a view to ensure the capital financing costs are less than 10% as a proportion of net revenue budget over the medium and long term. The borrowing level as set out above is funded within current allocated revenue budget.

6.17. In taking out new external borrowing the Council will consider a range of different options such as Public Works Loan Board, Bonds, and Commercial borrowing.

Housing Revenue Account

6.18. The **HRA Capital and Revenue Investment Programme** is entirely funded from the ring fenced HRA. It is a rolling 5 year outlook based on stock condition and planned projects. Key areas of housing investment set out in the Capital and Revenue Investment Programme include planned and cyclical works; mechanical and electrical and heating; accessible homes and repairs. The programme also includes development and special projects. The HRA capital programme is funded from:

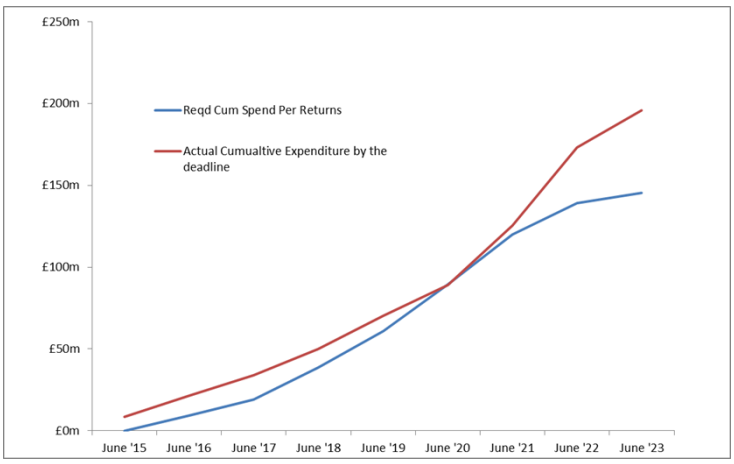
- HRA Self Financing (The Major Repairs Reserve)
- Capital Receipts (HRA)
- Revenue and Reserves (HRA)
- Borrowing (HRA)

6.19. Prior to 2018 the HRA had a limit to how much it was allowed to borrow which is tighter than the value of their assets, in order to control public borrowing levels. This was abolished in late 2018. The current programme has an additional £43m of borrowing planned. Further borrowing may be undertaken within the HRA subject to overall

affordability and requisite business cases which should considers all risks including loss through right to buy.

6.20. The Council can use right-to-buy receipts to fund up to 30% of building new homes, the receipt must be used within three years, if not the receipt is paid to Ministry of Housing, Communities and Local Government with interest. The removal of the cap means additional borrowing can be used to meet the remaining 70% costs of new home building.

Figure 1: Comparison of required right-to-buy expenditure and actual cumulative spending



6.21. Generally capital expenditure would be funded from capital sources however in exception revenue resources are able to be used to fund capital. The main exception is the use of housing rents to fund capital expenditure within the HRA.

6.22. The current funding strategy within the HRA is that the principal borrowed isn't paid off over the life of assets, following changes in the HRA borrowing restriction the Council should also now consider plans for repayment of debt aligned to economic asset life. Maintaining a high level of borrowing may restrict further borrowing in the future.

6.23. Borrowing within the HRA must meet affordability principles as set in the prudential code and not expose the Council to unnecessary risk over the medium and long term. A key measure is the interest cover ratio (ICR) - a measure of how well the fund can meet its fixed interest costs from annual surpluses. The impact of any additional borrowing must be considered over the Medium Term Financial Planning cycle and not drop below the agreed ICR.

Investments

6.24. The Council invests its surplus cash balances with approved financial institutions predominately, banks, building societies and other local authorities in accordance with the Council's Treasury Management Strategy. These funds support meeting our current and future obligations with regards providing revenue services and delivering the capital programme.

6.25. The authority has investments which are expected to generate a commercial and/or social return. For impact investments their primary purposes are to provide service benefits/social impact while the generation of yield and liquidity is secondary. These investments have been funded from a mix of one-off sources.

6.26. In November 2018 Bristol City Council declared a climate emergency and as such will consider how impact investments could contribute to support implementation of UNs Sustainable Development Goals (SDGs). This may include Council direct and indirect investment in projects, bonds, taking lower par on investment and considering how to leverage wider inward investment through underwriting or guaranteeing an element of the proposition.

7. Capital Financing Policies

7.1. This section sets out in more detail how the Council will ensure its investment decisions are consistent with its investment principles and MTFP.

7.2. The Council must ensure its long term investments are affordable within the Council's overall revenue budget and is able to meet the on-going financing of any borrowing which is undertaken to support this investment.

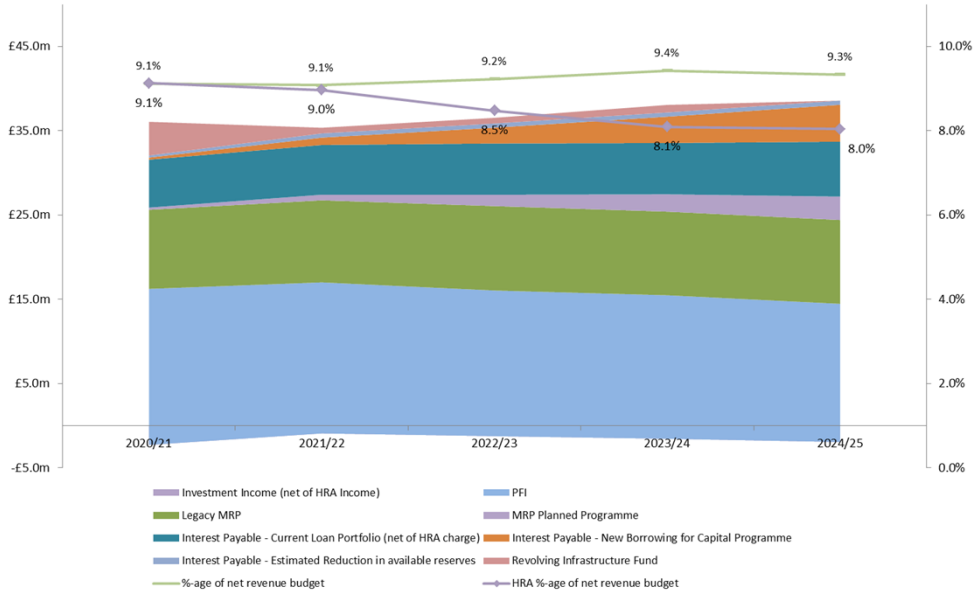


Table 3 MTFP **Affordability Principles**	
The Council's Prudential Borrowing Commitment	The Council will continue to use a range of funding opportunities that ensure the cost of capital financing does not exceed 10% of net revenue budget over the medium to long term.
Substitute schemes	All new capital investments following setting the annual programme will be subject to defined prioritisation criteria and cabinet approval
Evidence based	All projects will require a business case providing a clear statement of the costs, benefits and risk to be realised by the projects which will be subject to proportionate due diligence.
Calculating the return on investment	The business case for an investment to generate a return project or impact funding must: • Include the cost of servicing the debt • **Commercial investments** must demonstrate the ability to achieve a minimum of 6% IRR over a 10 -year period. • **Impact** investments e.g. social investment must demonstrate the ability to achieve a minimum of 4% IRR or interest over a 10-year period. • The case for investment should demonstrate how the investments are returned by the end of the period.
Invest to be efficient and create sustainable services	• Cashable cost reductions or increased income must exceed the costs of borrowing over the pay-back period.
Invest to grow projects	• Increased income must exceed the costs of borrowing over the pay-back period. • For major developments the increased business rates and council tax income may be taken into account.

7.3. For all projects consideration must be given to the profiled year of entry and whether the scheme can be delivered within the time frame outlined prior to prioritisation for programme entry.

7.4. **Priority 1 Schemes** - priorities for capital investment are schemes that either:

- The Council would fail to meet its statutory obligations if the scheme did not proceed and all other mechanism for funding has been exhausted or;
- The scheme can directly deliver on one or more of the key Corporate Strategy/One City Plan commitments for the next 5 years and is to be 100% funded from external resources (ring-fenced grants or other outside contributions

and,

- The ongoing revenue implications of the project are contained within the existing service budgets either as a result of secured additional internal /external funding or reduction in cashable revenue costs.

7.5. Only schemes that meet the above criteria will be defined as priority one.

Criteria for other projects – Priority 2 Schemes

7.6. Projects which do not meet the criteria above are defined as priority 2 and may be prioritised depending on their fit based on the criteria set out below. The scoring matrix is to be finalised and will be weighted to ensure that a balance programme can be achieved as outlined in section 2 above. Scores will be indicative and provide a guide for decision making.

i. Scheme demonstrably meets one or more of the key commitments in the corporate strategy for the MTFP period measured by objective criteria.

ii. A need for the specific proposal has been identified in the One City Plan or emerging Corporate Strategy.

iii. The project will bring about future cashable revenue savings within the wider Council (or cost avoidance where the pressure is built into the MTFP and/or deliver organisation wide efficiencies

iv. The proposal can be shown to supports the delivery of sustainable / inclusive economic growth and regeneration

v. The scheme levers in external support, or attracts additional funding into Bristol, either financial or the Council is working in Partnership with other bodies.

vi. Scheme meets a key service objective in the agreed service plan and failure to provide the scheme would result in a significant reduction of the Council's stated level of priority service and/or greater exposure to risk.

vii. Provides support to Community Leadership and capacity building develops the locality focus agenda

7.7. Loans and Investments in companies which we have material shareholdings are assessed differently, as these are prioritised based on delivery of strategic objectives. When considering these investments the Council will examine the Business Plans available to ensure that the plan and the investment is sound, facilitates the delivery of the long term strategy and wider social, economic and or financial benefits will be received back to the Council and residents in the short, medium or longer term.

7.8. Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be

explicit, with the additional risks set out and the impact on financial sustainability identified and reported. The appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered and the Chief Finance Officer will ensure affordability and the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

7.9. The council will be required to monitor company operations and this will take the form of regular performance and financial monitoring reports to Shareholders.

8. Governance of the Capital Strategy

8.1. The Capital Programme is agreed annual by Full Council as part of the budget setting process. Variations to the Capital Programme or in-year additions – subject to delegation – will be agreed by Cabinet.

8.2. The Capital and Investment Board leads on the development and maintenance of the Capital Strategy that is consistent with the relevant code of practice, Corporate Strategy and core regulatory functions, Medium Term Financial Plan and Treasury Management Strategy.

8.3. The board has an oversight and stewardship role for the delivery of the Council's capital expenditure within affordable limits, which will include both the Capital Programme and capital investments and provide strategic direction to the programme and projects where necessary.

8.4. Delivery of the Strategy is overseen by a joint member/ officer executive delivery board, chaired by the Cabinet Member for Finance, Governance & Performance. These governance arrangements ensure the Capital Programme is effectively managed and for companies that are wholly owned or the Council has a material interest these extend to the Shareholder group. The Delivery Executive Board's role is to monitor and assess the effectiveness of the capital programme in delivering the Council's strategic objectives. It also monitors the Council's non-financial investments and the appraisal of new investments, ensuring appropriate techniques are used.

8.5. All capital investment decisions will be underpinned by a robust business case that sets out any expected financial return alongside the broader outcomes/impacts, including economic, environmental and social benefits

8.6. Throughout the decision making process the risks and rewards for each project are reviewed and revised and form part of the monitoring of the capital programme. The Capital Investment Board receives monthly updates detailing financial forecasts and risks.

8.7. The governance process for approving capital investments is the same as that for the wider capital programme, with the business case fully reviewed and due diligence undertaken with external and internal risks associated with the investment explored. The Council will compile a schedule setting out a summary of its existing material investment commitments and regularly update the governance boards on the drawdowns, guarantees, financial return and risks exposure.

8.8. There may be occasions when the nature of a particular proposal requires additional support in the production of the business case or for example in performing of a value for money or due diligence reviews. In these circumstances the Council may seek external advice.

8.9. The capital programme is reported to Cabinet and Council as part of the annual budget s setting process which will take into consideration and material changes to the programme and the investment. The in-year position is monitored monthly, with periodic budget reports to cabinet with capital reports incorporated. Within that monitoring report minor

new investment proposals will be included and variations such as slippage and need for acceleration. Major new capital investment decisions will be subject to an individual report to Cabinet.

8.10. The formal scrutiny process will be used to ensure effective challenge. Relevant directorate scrutiny commissions will be responsible for providing scrutiny on individual capital projects which fall under their portfolio.

8.11. The Chief Finance Officer should report explicitly on the affordability and risk associated with the capital strategy. Where appropriate the Chief Finance officer will have access to specialised advice to enable them to reach their conclusions and ensure sufficiency of reserves should risk or liabilities be realised.

9. Risk Management

9.1. One of the Council's key investment principles is that all investment risks should be understood with appropriate strategies to manage those risks. Major capital projects require careful management to mitigate the potential risks which can arise. The effective monitoring, management and mitigation of these risks is a key part of managing the capital strategy. All projects are required to maintain a risk register and align reporting to the Council's reporting framework.

9.2. In managing the overall programme of investment there are inherent risks associated such as changes in interest rates, credit risk of counter parties,

9.3. Accordingly, the Council will ensure that robust due diligence procedures cover all external capital investment. Where possible contingency plans will be identified at the outset and enacted when appropriate.

9.4. No project or investment will be approved where the level of risk - determined by the Cabinet or Chief Financial Officer as appropriate - is unacceptable.

10. Skills and Knowledge

10.1. Appropriate training will be provided to all charged with investment responsibilities. This includes all those involved in making investment decisions such as members of Capital Investment Board as well as those charged for scrutiny and governance such as relevant scrutiny commissions and audit committee. Training will be provided either as part of meetings or by separate ad hoc arrangements.

10.2. When considering commercial investments, the Council will ensure that appropriate specialist advice is taken. If this is not available internally it will be commissioned externally to inform decision making and appropriate use will be made of the Council's Treasury Management advisers.