Capital Strategy
2024/25 – 2033/34

September 2023

Contents

1. Background and Scope

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code 2017 requires local authorities to prepare a Capital Strategy that is the foundation of the council's long-term planning and delivery of its capital investment. It sets the parameters for the capital programme and demonstrates how capital expenditure, capital financing and treasury management decisions are in line with service objectives and properly takes 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 is refreshed annually and sets out how capital investment will play its part in delivering the ambitious long term strategic objectives and priority outcomes of the council, how associated risk is managed and the implications for future financial sustainability. 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.

1.3. The Capital Strategy is considered by the council as one of the foundations of good financial management, reflects the requirements under the CIPFA Financial Management Code and is grounded in legislation. In addition to the Code, CIPFA has published 'Capital Strategies and Programming' which considers in more detail the practical issues involved in capital planning and delivery. This strategy has been prepared considering the guidance in both these publications.

1.4. The approval and implementation of this strategy ensures that:

- capital investment is targeted towards supporting the council's corporate objectives and priorities
- capital investment complements revenue spend on services
- stewardship of assets is properly considered in capital planning and projects are delivered on time and within budget
- capital investment is prudent, affordable within the context of the council's overall finances, provides value for money and does not meet the definition of debt to yield or commercial investment
- members and senior leaders have a common understanding of the long term context in which investment decisions are made and all the financial risks to which the council is exposed
- there is improved transparency at programme level along with a clear process for member engagement
- the council is seen as an exemplar of good practice in its capital planning and the management of projects at a programme level.

2. Capital Expenditure

2.1. Capital expenditure is spending on assets that will provide a benefit beyond the current financial year and is defined as:

"Expenditure on the acquisition or enhancement of property, plant and equipment that has a long-term value to the council. This includes grants or advances to third parties to assist them in acquiring or enhancing their own property, plant and equipment."

2.2. The council's assets consist of:

- property assets (e.g. operational, investment and community)

- dwellings (e.g. council social housing)
- infrastructure (e.g. roads)
- ICT Assets (e.g. hardware and software)
- vehicles and other plant and equipment

2.3. 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 gives rise to new assets, increases the value or useful life of existing assets or generates economic, environmental and social value and an income stream to the council via non-treasury investments.

2.4. The five aims of this 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 and aligns 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 that reduce the cost of servicing debt.

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

2.5. The strategy will support the achievement of the right blend and balance of investment in key priority areas while being risk aware and to enable the following:

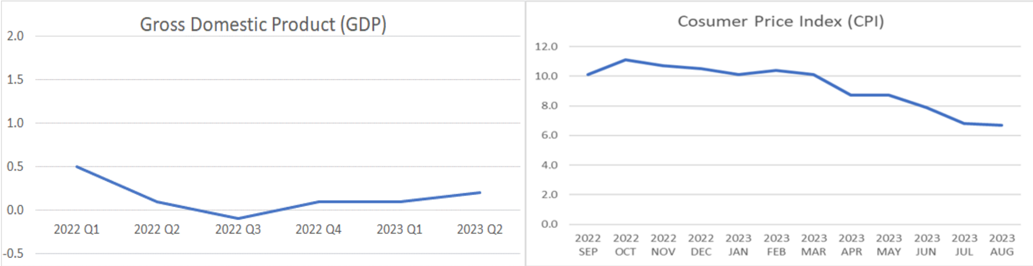
- **Invest to Grow** - Investing for sustainable, inclusive economic growth.
- **Invest to Save** - Investment to support the efficient delivery of essential services and / or generate positive revenue returns.
- **Invest to Maintain** - Investment to improve and maintain council assets that continue to have a clear business and operational need.

3. Policy Context

National Policy Context

3.1. The UK economy is suffering from inflationary pressures following the easing of Covid restrictions in most developed economies and the Russian invasion of Ukraine. The graphs below from the Office of National Statistics show that during the past year the UK's Gross Domestic Product (GDP) remained low with limited expansion, well below the government trend rate of 2.5%. The UK's Consumer Price Index peaked at 11.1 % in October 22, although falls from this level will rest on the movements in gas and electricity markets as well as the supply factors impacting food prices. CPI is currently 6.7% indicating that the government pledge to halve inflation to 5% by the end of the calendar year remains in the balance.

Figure 1: Gross Domestic Product (GDP) and Consumer Prices Index (CPI)



Source: Office for National Statistics

3.2. These macro-economic issues impact on the council's capital investment plans. One of the main risks in developing and managing the capital programme is that insufficient resources are available to resource the impact of inflationary pressures such as the cost of materials. Current high inflation is impacting on the cost of delivering capital projects. These cost pressures need to be managed appropriately, for example, to limit the revenue impact associated with any additional borrowing to fund these costs. In the light of prevailing inflation risks in 2022/23, a review was undertaken of the overall capital programme. All projects were sifted then categorised into groups of competing inflation risks, ie those projects in delivery would have different inflation risk profiles to those prior to tender. The outcome was that contingent budgetary support was set aside across the medium-term programme allowing headroom for re-direction of council funding into the contingencies and managing risk in the capital programme. The outcomes from the initial review will need to be kept under consideration and a further update completed to align with prevailing and expected inflation figures and forecasts.

Local Policy Context

3.3. Bristol City Council has taken capital investment decisions over recent years that have seen a number of significant developments and strategic planning documents 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, its 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.

3.4. **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 helping make Bristol a thriving, healthy and more equal city of 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 equally provide sustainability and resilience.

3.5. The **council's Corporate Strategy 2022-27** sets out the council's vision and priorities for the city and sets out the council's role in supporting the One City Plan. The strategy has been refreshed to make sure our priorities reflect our current situation in areas such as refreshed political priorities; the response to the cost of living crisis and the continued move towards carbon reduction, Net Zero. It is based around five guiding principles that influence how we do things and the way in which we design our projects, services and priorities.

The five building blocks that provide the guiding principles are:

i **Development & Delivery** - develop people, places and partnerships to improve outcomes.

ii **Environmental Sustainability** - tackle climate and ecological emergencies while inclusively growing the economy, maximising our positive environmental impacts and avoiding or mitigating negative ones wherever possible.

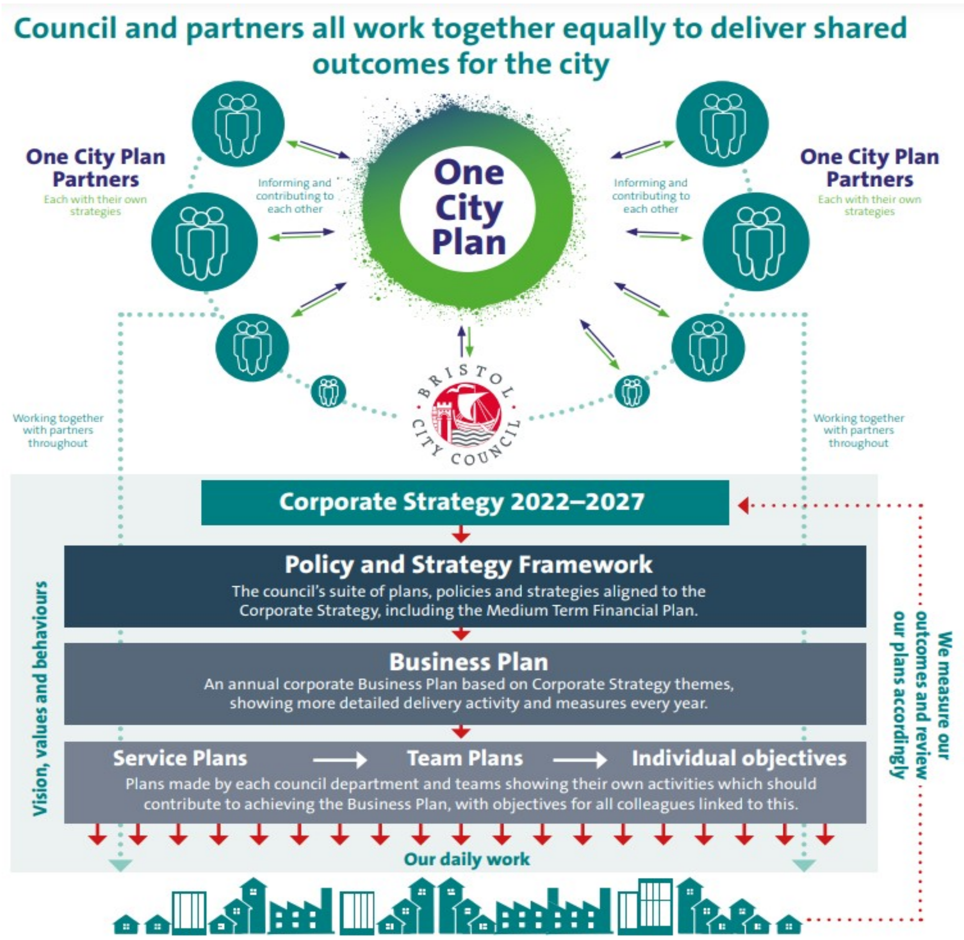
iii **Equality & Inclusion** - pro-actively and intentionally improve equality and inclusion across the city by designing it into everything we do.

iv **Resilience** - build Bristol's city resilience through early intervention, minimising our contribution to future environmental, economic or social shocks and stresses.

v **World class employment** - role model, influence and promote the highest levels and standards of employment.

3.6. The graphic below summarises how these strategies and plans link together and 'Our Corporate Strategy – at a glance' is shown at Appendix 1.

Figure 2: How the Council and Partners work together



3.7. 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 a council's **Asset Management Plans** and **Property Strategy** and the annual review of the Capital Strategy will ensure these are aligned as these strategies are developed and subsequently refreshed.
- **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.
- Bristol will develop its **Local Plan** with the intention to consult later this year and to have a Local Plan approved by Full Council and submitted to enquiry in 2023 and adopted in 2024.
- **One Public Estate** a level of regional collaboration remains in place to use public sector land more efficiently, transform public sector services and strengthen local communities.

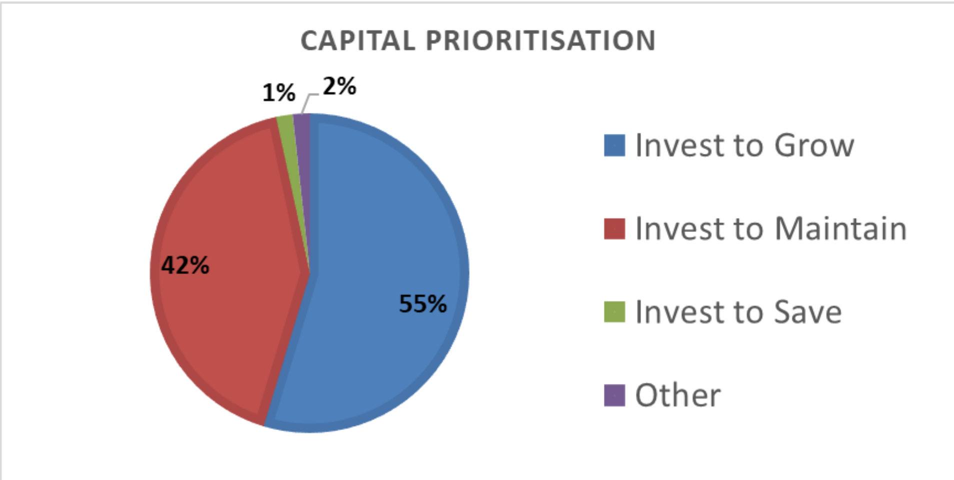
The Joint Asset Board (JAB) links very closely with the West of England Housing Delivery Board.

- West of England **Local Industrial Strategy** was co-produced with government and was launched in July 2019. This will shortly be superseded by the **Regional Strategy** which will draw on our strengths and set priorities for investment in a greener and more prosperous and inclusive region.
- **The Western Gateway** is a regional powerhouse across the West of England and South Wales it's focus is on net zero, supporting innovation, connecting communities and investment. It is a powerful and purpose-led voice for the region into both government and local, national, and international markets.

4. Capital Investment

4.1. The council continues to have an ambitious capital programme over the next ten years. The largest proportion, 55%, of this programme, is aligned to **Invest to Grow** initiatives such as new infrastructure investments that will support long term regeneration ambitions across the city, such as the programme of new housing building and developing the Temple Quarter area. 42% will be **Invest to Maintain** propositions, undertaking mandatory duties, keeping the public safe and maintaining our assets and 3% is aligned for **Invest to Save** and other schemes such as investing in infrastructure to support more the alternative delivery of Social Care and Education services. The pie chart below shows the forecast programme spend by these capital investment principles.

Figure 3: Breakdown of Capital Programme 2023-33 approved by Council in February 2023 between investment principles



4.2. The investment principles aim to improve alignment 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. The table below sets out the change in allocation of capital resources over the Investment Principles achieved during the capital planning work since the original Capital Strategy was approved.

Table 1: Change in Allocation of Capital Resources over the Investment Principles

Investment Principle	Capital Programme 2021-26 (agreed by Council in Feb 2021)	Capital Programme 2022-32 (Agreed by Council in Mar 2022)	Capital Programme 2023-33 (Agreed by Council in Feb 2023)	Change

Invest to Grow	73%	58%	55%	-3%
Invest to Maintain / Improve	18%	38%	42%	+4%
Invest to Save / Generate a Positive Return	9%	4%	3%	-1%

4.3. Locally-led investment in the economy and infrastructure will be critical to provide assurances to both investors and local, regional and international partners to help drive and support economic and social recovery. This will be essential as the council continues to look for opportunity to rebound from the current economic difficulties and promote sustainable investment in the city's infrastructure as part of its ambition to achieve decarbonisation.

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 solely for the purpose of cash flow management.

4.5. Investment decisions must always be clearly within the economic powers of the council and in adherence with the Prudential Code, whilst commercial decisions will focus on yield. Long term capital investment decisions will not be made purely on the basis of financial returns but, will also consider economic, social and environmental impact. Notwithstanding that, there will always be fully externally funded programmes such as those for schools which will need to be passported through.

4.6. The council will ensure that all of its investment 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. Capital Planning and Investment Principles

5.1. Capital expenditure represents investment in assets and therefore it is important that decisions should be based on sound asset planning principles. It is only by understanding the council's asset requirements that efficient decisions can be made about prioritising both capital investment and a comprehensive rationalisation and disposal strategy. It is critical that asset plans and the capital programme are aligned to enable effective decision making.

5.2. Effective asset planning should assist the council in realising its objectives and meeting its statutory duties. This is constrained by the ongoing financial and economic context the council is currently operating within with available capital and revenue resources reduced.

5.3. The Capital Strategy forms the foundation for the long term planning of capital investment based on clear capital investment principles, sound asset management and effective resource planning.

5.4. The capital strategy principles are as follows:

a. current approved (or committed) schemes will be supported in line with the prioritisation investment principles subject to sufficient resources being identified to enable them to proceed or complete up to the approved level of expenditure

b. new schemes funded by borrowing will only be considered for approval subject to the annual parameters the council puts in place in relation to its ongoing reliance on borrowing to fund capital expenditure and the prevailing debt servicing costs as a proportion of net service expenditure

c. all new schemes will be subject to a strict prioritisation process which includes a robust business case, including whole life costing

d. all new schemes must align to the PWLB criteria (i.e. not debt for yield) irrelevant of the schemes funding envelope.

e. capital receipts are a central resource and generally not linked to specific schemes including assets identified for disposal as part of the ongoing Estate Rationalisation Programme. Permissible exceptions are:
    - school sites ringfenced by the Secretary of State for education purposes
    - commitments of capital receipts from prior decisions (including the repayment of debt)
    - The use of capital receipts:
        - to finance transformational spend as set out in the council's Capital Receipts Flexibility Policy, approved annually by full council as part of the budget process
        - that are secured will only be considered in decisions to fund capital schemes ie no capital receipt funded scheme to commence until sufficient receipts are banked
        - for financial resilience including for example the flexible use of capital receipts aligned to opportunities for managing debt levels

f. revenue implications of schemes are fully reflected in the MTFP and affordable within services

g. the capital budget approved by full council is a key control to be managed within the agreed capital headroom

h. responsible investment to address existing and future demand (e.g social care and waste)

i. effective asset planning – ensure the right assets are available to effectively support the delivery of services with a balance focused on core statutory areas

j. all uncommitted non-ringfenced capital funding will be reviewed. Non-ringfenced grants in support of the areas below will be earmarked to fund these initiatives:
    - disabled Facilities grant
    - education Based grants
    - transport grant funding.

Risk aware

5.5. Overseeing the capital strategy and delivery of the capital programme is a robust governance framework as detailed in Section 8. Embedded within this framework is the need to maintain a proportionate and measured approach to managing project risk in its capital programme. Adopting a diligent project risk management approach throughout the life of a scheme is essential to ensure all significant project risks and uncertainties are identified, assessed and mitigated. This will help ensure cost, time and quality impacts are effectively managed and the scheme objectives are not compromised. Where it is not possible to contain project risks, there is a clear and direct escalation process to ensure these risks are elevated from individual project risks to directorate risk register and onwards to the corporate risk register. This framework also applies and is particularly relevant in relation to:

- the use of alternative models for the delivery of capital investment including subsidiary companies and joint ventures
- the incurring of other long-term liabilities
- capital investment which generates a financial return on the basis it does not meet the debt for yield and is compliant with codes of practice and government guidance.

Prioritisation

5.6. Resource capacity and size of the programme is being assessed annually as part of the budget setting process and a range of optimism bias tools that are available are being utilised in business case assessments for the delivery of major projects, as well as at a programme level.

5.7. The council will use evaluation criteria to determine in principle whether a project should be prioritised. Given the financial context and the limited resources available, there will be little flexibility for schemes to progress or current uncommitted schemes to continue without meeting the prioritisation principles set out in Table 2 below:

Table 2: Investment Principles

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 system solutions to demographic, social and environmental challenges sustainably across the City
Invest to save	The council will invest in projects which will: • transform the operational efficiency of council services and generate cash-releasing efficiency savings eg social care • reduce running costs (including in alternative service areas) • avoid costs (capital or revenue) that would otherwise arise • generate a financial return in line with affordability principles
Investment to maintain council assets	The council will improve and maintain the condition of core assets: • to extend their life where appropriate • to ensure they are fit for the future in effectively supporting long term service delivery • to meet its ongoing legal and statutory duties eg Health & Safety • work towards creating a carbon neutral estate by 2030 Including publishing asset management plans
Risk aware	The council will ensure that an appropriate and proportionate approach to project risk is adopted for all schemes in the capital programme and throughout the life of the project . This includes ensuring the risks of a project have been identified, fully assessed, consulted, communicated and mitigated to an acceptable and manageable level.

5.8. 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 and digital technology, low carbon technology, and environmental sustainability. Where this investment is generated from the council's own resources the principles above will apply.

5.9. When entering into investments with financial return as a 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 and will not do so in the future in line with the CIPFA Prudential Code.

5.10. When entering into non-financial investments (i.e. financial return is secondary), in addition to the above, the council will consider the alignment to its strategic objectives and the contribution and local impact the investment could have to a range of outcomes including city growth, social fabric and the environment (further details on this can be found in Table 4).

5.11. Currently the council is not overly dependent on profit generating investment activity to achieve a balanced revenue budget. Any shortfall in investment income is reconsidered as part of the MTFP and budget setting process and seeks to ensure that the quality and security of long-term investments minimises income risk.

Expenditure on Non-Treasury Investments – Property Investment Portfolio

5.12. The council owns freehold land across the city where it has granted long leases to developers and investors, and from whom ground rents are received 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.

5.13. This portfolio generates a revenue return, circa £12 million. 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.

5.14. 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 four-year cycle. In between valuations, property indices are used and applied.

5.15. 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. A transition from investments held purely for yield to investments that more closely align to council strategy and regeneration projects may be required over the medium term.

Service Investment – Subsidiary Companies

5.16. 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 and / 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 PCG's will be assessed individually in line with relevant professional accounting standards.

5.17. Third party loans / liability exposure may also be requested by a subsidiary and where these are agreed the council must ensure appropriate interest rates are applied and arrangements are in line with subsidy control. 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.

5.18. The council will undertake appropriate due diligence on such transactions.

5.19. The maximum exposure of the council to loans/liabilities in subsidiary organisations will be governed by an affordability indicator as set out in Section 7.

5.20. These arrangements once agreed via the relevant decision-making process will be monitored through the governance arrangements set out in Section 8, supplemented by those in place to scrutinise any additional investment in a subsidiary company or similar venture. Guidance on option appraisals and business cases for commercial ventures can be developed. These arrangements are governed by the shareholder liaison unit and appropriate disclosures will be made in the statement of accounts, including the fair value of such investments.

Private Finance Initiative

5.21. Although Private Finance Initiative (PFI) schemes are not shown within the capital programme as they are not financed by the council's 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.

5.22. 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 around £33 million which includes approximately £17 million of interest and debt repayment costs. The government provides some financial support for PFI schemes by way of PFI credits / grants.

5.23. Any operational financial pressures arising 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 and liabilities of the scheme.

5.24. 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 should the need arise.

6. Funding Capital Investment

6.1. The council's capital investment is governed by the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Code provides the council with a regulatory framework within which the council has discretion over the funding of capital expenditure and the level of borrowing the council wishes to undertake to deliver capital plans and programmes.

The strategy is intended to maximise the financial resources available for investment in service provision and improvement within the medium-term financial outlook. At the same time it seeks to ensure that each business case has a robust self-sustainable financial model that delivers the council's objectives.

The funding available to the council consists of:

- government grants
- WECA - Economic Development Fund/Local Growth Fund
- developer contributions e.g. CIL / S106
- Prudential borrowing
- capital receipts
- revenue resources and reserves
- other long-term liabilities e.g. leasing / PFI

6.2. The first call on available capital resources will always be the financing of spending on live projects, including those carried forward from previous years, subject to any re-prioritisation. In addition, the council will always establish the most economic means to finance its capital programme in order to optimise any freedom and flexibilities given to the authority from government in how we deploy our capital investment and defer any borrowing need to avoid incurring unnecessary debt servicing costs.

6.3. The Table below shows the indicative funding available to the council for the next ten years within the principles outlined in this strategy and budget as set in the Medium-Term Financial Plan.

Table 3: Indicative Funding from 2023/24 to 2032/33 for Capital Investment

General Fund Source of Finance	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 to 2032/33 £000s	Total £000s
Prudential Borrowing	(36,911)	(48,414)	(26,914)	(16,724)	(4,950)	(50,000)	(183,913)
Prudential Borrowing – Economic Development Fund	(14,755)	(23,338)	(1,280)	0	0	(55,980)	(95,353)
Grants	(50,052)	(24,672)	(12,823)	(13,116)	(3,500)	(57,750)	(161,914)
Capital Receipts	(24,628)	(13,836)	(10,750)	(6,000)	0	(25,000)	(80,214)
Developer Contributions	(14,327)	(7,190)	(6,150)	(7,025)	(3,000)	(15,000)	(52,691)
WECA/LEP	(24,174)	(16,055)	(12,772)	(8,772)	(8,772)	(35,000)	(105,546)
Revenue and Reserves	0	0	0	0	0	0	0
Capital Funding - General Fund Total	**(164,847)**	**(133,505)**	**(70,689)**	**(51,637)**	**(20,222)**	**(238,730)**	**(679,630)**

HRA Source of Finance	2023/24 £000s	2024/25 £000s	2025/26 £000s	2026/27 £000s	2027/28 £000s	2028/29 to 2032/33 £000s	Total £000s
Prudential Borrowing	0	(136,505)	(127,466)	(50,089)	(79,416)	(230,215)	(623,691)
Grants	(27,174)	(10,593)	(5,840)	(22,790)	(25,250)	(130,800)	(222,447)
Capital Receipts	(24,633)	(29,883)	(32,328)	(13,413)	(19,241)	(37,255)	(156,753)
Revenue and Reserves	(81,476)	(43,203)	(52,142)	(40,497)	(42,954)	(249,520)	(509,792)
Housing Revenue Account Total	**(133,283)**	**(220,184)**	**(217,776)**	**(126,789)**	**(166,861)**	**(647,790)**	**(1,512,683)**
Total Financing	**(298,130)**	**(353,689)**	**(288,465)**	**(178,426)**	**(187,083)**	**(886,520)**	**(2,192,313)**

Notes:
- *2023/24 to 2027/28 as per approved capital programme including 2028/29 to 2032/33 future funding that is indicative based on an extrapolation of estimated financing (associated spending is not approved/committed at this stage).*
- *HRA available funding and additional borrowing updated as part of a review of the 30 year business plan -HRA Budget and Capital Programme in March 2023.*

Government Grants

6.4. The council receives grants from government, partners and other organisations to finance capital investment. Grants have been an important source of funding for the council's capital expenditure in recent years and it is expected that the following will continue:
- ringfenced grants and contributions (reserved for a particular purpose and have a restricted use)
- Non-ringfenced grants and contributions (grant given with conditions which projects are required to meet)
- the West of England Combined Authority (WECA) is a key source of funding for capital investment in Bristol. The Economic Development Fund, Getting Building Fund (GBF) key and Investment fund, Development Infrastructure Fund (DIF), land acquisition fund, City Regional Sustainable Transport Settlement (CRSTS) and more recently Housing Infrastructure Fund (HIF) available for the council to secure resources from.

Developer Contributions

6.5. Significant developments across the city are often liable for payments to the council in the form of Section 106 or Community Infrastructure Levy (CIL) payments. Section 106 contributions are ringfenced to fund investment related to the specific development from which the contribution has been derived. The CIL is a charge which can be levied by local authorities on new development in their area. Any levy raised in Bristol is split between 5% for administrative costs, 15% to area committees to meet local investment priorities and 80% for strategic infrastructure projects. The current Capital Programme assumes a level of strategic CIL each year which is allocated to eligible infrastructure within the programme.

6.6. If contributions reduce the funding and timing of the planned programme, it will need reviewing. It 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.

6.7. Following achievement of the targeted contributions, the council can consider further projects with which to utilise these funding streams.

Prudential Borrowing

6.8. Councils have discretion to undertake borrowing on capital schemes if the borrowing is deemed value for money and meets the following criteria as set out in the Prudential Code:

a. Affordable
b. Sustainable
c. Prudent
d. Proportionate for the size of the authority

6.9. Scheme affordability can be measured across several key indicators within the financial model including surplus cash position, surplus Net Present Value.

6.10. The council's TMS sets out how the council will fund its capital plans. These capital plans provide a guide to the borrowing needs 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

6.11. In planning for long term capital investment, it is essential the long-term revenue financing cost is affordable. Any long-term investment is paid for over the life of the assets. It is essential the council can meet the costs of borrowing and minimum revenue provision (MRP) over the life of the asset. In developing and approving new capital schemes the council will need to consider these in the context of the strong likelihood that it will, over the term of this strategy, need to reduce its capital financing costs. Therefore, to move from current levels towards a lower benchmark threshold (i.e. less than 10% as a proportion of General Fund net revenue budget) if feasible over the medium to long term but, with 10% as a maximum threshold. This will be closely monitored and rebased as appropriate to reflect the proportion of the council revenue budget aligned to needs led budget such as social care services. The capital financing costs as set out above is funded within current allocated revenue budget.

6.12. In taking out new external borrowing the council will consider a range of different options such as Public Works Loan Board (PWLB), market loans, Private Placements and Bonds (Public, Pooled, Community Municipal Investment and Retail).

6.13. Any borrowing taken out is secured against the council as an entity rather than against the specific assets for which they borrowed. The council is required to demonstrate to PWLB in advance of borrowing that it is affordable.

Capital Receipts

6.14. Local authorities may now use capital receipts to fund expenditure for transformation related activities, that would normally be deemed revenue spend, under the flexible use of capital receipts direction. Receipts from the sale of council housing may only be used to fund HRA capital expenditure.

6.15. The current strategy is for the assumed receipts from the 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.

6.16. Once the necessary capital receipts have been achieved to fund the overarching capital programme and flexible use of capital receipts policy, thereafter it would be expected that a certain proportion of those capital receipts from the portfolio may be recycled for reinvestment for economic regeneration opportunities aligned to the Investment Strategy and Affordability Principles outlined in this strategy.

6.17. Following notional achievement of the target capital receipt, and subject to an option appraisal, the council can also consider using them to reduce its overall outstanding borrowing level. For example, where an 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 debt, considering the balance sheet position of the council or foregoing capital receipts for longer term and sustainable income streams through development sites, if it delivers better value for money.

6.18. Where the sale of an asset leads to a requirement to repay (clawback) government 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.

Revenue & Reserves

6.19. The council may choose to utilise revenue contributions to capital to finance its capital investment. This would be through contributions from the council's revenue budget or from reserves. In the current financial climate and with increasing revenue pressures within the council's finances, the extent to which this may be used to fund capital expenditure is significantly reduced. This is expected to remain the case for the foreseeable future.

Housing Revenue Account (HRA)

6.20. The **HRA Capital and Revenue Investment Programme** is entirely funded from the ringfenced HRA account. The investment programme is driven by the 30-year HRA Business Plan which is reflected in a rolling 5 to 10 year outlook based on stock condition and planned projects. The annual HRA budget is the first year of the 5-year outlook. Key areas of housing investment set out in both 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:

- The Major Repairs Reserve
- Capital Receipts (Right to Buy and other asset sales)
- Revenue and Reserves
- Capital grants from governmental and other bodies
- Prudential Borrowing

6.21. Prior to 2018, the HRA had a limit to how much it was allowed to borrow, known as the HRA borrowing cap, in order to control public borrowing levels. The HRA borrowing cap was abolished in October 2018. Further borrowing may be undertaken within the HRA subject to overall affordability in its business plan and the provision of requisite business cases which need to consider all relevant and known risks, including loss through Right to Buy sales.

6.22. The council can use Right to Buy receipts to fund up to 40% of building new homes and the receipt must be committed within five years, if not the receipt has to be repaid to the Department for Levelling Up, Housing & Communities (DLUHC) with interest.

6.23. All new build projects within the HRA are required to demonstrate a positive Net Present Value (NPV) financial return. This requirement is becoming more challenging to deliver given the level of social housing the city requires. This is primarily due to the council's ambition for new social housing to be zero carbon compliant, the availability of sites with a range of complex issues and construction and supply side inflationary pressures. The Affordability Principles in Section 7 set out the criteria the HRA adheres to when assessing the NPV of projects.

6.24. The historical funding strategy within the HRA has recognised that the loan principal borrowed does not have to have been paid off over the life of assets. However, following changes in the HRA borrowing restrictions, the council is ensuring a prudent provision is being made in the HRA revenue budget for repayment of debt over and above the historic debt cap to ensure alignment with the economic asset life.

6.25. Borrowing within the HRA must meet affordability principles in particular the need not to expose the council to unnecessary debt 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 any annual revenue surplus. The impact of any additional borrowing must also be considered over the MTFP cycle and not drop below the agreed ICR which the council has set at a prudent and sensible level, based on the approved business plan This ratio will be kept under review to ensure it remains proportionate to the HRA's financial position.

Other Types of Capital Funding

6.26. In addition to primary funding sources for the capital programme the council makes treasury management investment using its surplus cash and with the capital programme there are a range of funding pots to facilitate investment in priority areas of the programme. These are set out below.

Treasury Management Investments

6.27. 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.

6.28. 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 are funded from a mix of one-off sources.

Feasibility Fund

6.29. To support strengthened governance arrangements and assist in developing schemes with sufficient robustness/certainty before they enter the development phase, a Capital Scheme Feasibility Fund is available with the aim of providing funding to establish reasonable high level budget estimates for potential capital investment schemes at full mandates stage prior to them being proposed for addition into the development phase.

6.30. The level of the fund would be established each year (subject to headroom) and be aligned to the volume and complexity of schemes at full mandate stage. The fund will form part of the revenue budget. It will be subject to strict criteria for its use including:

- proposed scheme must have been assessed against the Capital Prioritisation process and be considered a priority for the council

- schemes must be capital investment in nature, have a reasonable likelihood of entering the capital programme and being delivered
- budget estimates must separately identify cost to develop an OBC, FBC and deliver the scheme
- once in development, schemes will be required to have an identified funding source to pay for OBC and FBC.

6.31. The governance and reporting mechanism for the fund will be through Capital Investment Board who will allocate resources to schemes based on outcome of a prioritisation of pre mandate schemes. Cabinet will receive an update as part of Monthly Financial Report.

Invest to Save Fund

6.32. Invest to save capital schemes are an important element to the council's successful delivery of its Medium-Term Financial Plan. To maintain financial sustainability the council recognises it must offer opportunities to encourage directorates to be more efficient and effective in the way services are delivered to customers. One of the tools to achieve this are Invest to Save monies which form part of the Capital Programme. The council established its Invest to Save Fund in March 2022. An invest to save guidance note for managing the Fund has been made available.

Zero Carbon Initiatives and Decarbonisation Fund

6.33. In November 2018, Bristol City Council declared a climate emergency and as such now considers how impact investments could contribute to support implementation of the UN's Sustainable Development Goals (SDGs). There are opportunities to reduce carbon emissions in a variety of ways both through the council's direct and indirect capital investments. A capital projects carbon impact (footprint) can be influenced favourably from an early stage in its development. Council investments can reduce carbon impacts through bonds (private placements, public issuances and community municipal investments and retail bonds), by taking lower par on investment and considering how to leverage wider inward investment to contribute to decarbonisation aims.

6.34. The council is working with 3Ci which is a partnership between Connected Places Catapult, Core Cities UK, London councils and other local authorities across the UK aimed at supporting local authorities secure the necessary long-term finance for achieving net zero. Energy Security and Net-Zero (DESNZ, formerly Department for Business, Energy and Industrial Strategy) has provided funding to support this work to leverage the combined scale of cities to mobilise finance and drive investment into low and net zero carbon projects across all of the UK's largest cities, rather than individual ones.

6.35. The council recognises that it also needs to actively progress local projects included in its current capital programme to work towards its aim. As part of this the council is exploring community municipal investment or retail bonds up to a certain threshold (see Section 7) to finance zero carbon initiatives.

6.36. The council has established a Decarbonisation Fund to enable it to deliver on its zero carbon initiatives and will build in methods for appraisal that take into account carbon impacts.

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.

Affordability Policies and Indicators

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

Table 4: MTFP Affordability Principles

Affordability Principles	
The Council's Prudential Borrowing Commitment	
General Fund	• The council will continue to use a range of funding opportunities that ensure the cost of capital financing does not exceed 10% of general fund net revenue budget over the medium to long term. • The current forecast level is 9.9% by 2026/27, if the council opted for a 10% (increase of 0.1%) level this would equate to an extra £10m of borrowing with an estimated capital financing budget cost of £0.5m. • Any additional capital financing budget would need to be offset by corresponding savings in services to maintain a balanced budget for the council. • The council will seek to reduce the threshold of 10% over the Capital Strategy timeframe, by repaying and / or restructuring debt (CFR) to reduce annual debt financing costs to support delivery of services.
Loans and liability exposure to Subsidiaries	• The council has loans and liability exposure (including deferred capital receipts) to its subsidiary organisations (Bristol Waste, and Goram Homes. Cabinet have approved a loans/liability exposure level is £67.7m, of which £25.4m has been drawn down. • The maximum level of loans/liability exposure to subsidiaries is the lower of either: • 10% of the council's general fund capital financing requirement, or £70m. • When loans, liabilities and investments are repaid they may be recycled into new loans, subject to cabinet/council approval, appropriate safeguards being in place, the above affordability indicators and adequate due diligence undertaken to protect the council. • Should there be a strategic requirement by exception to this limit then there can be the flexibility to utilise any headroom in the General Fund 10% borrowing cap above if the excess is planned in advance and is temporary in nature in relation to short term cash flow. The application of this excess will be reported in the finance report at the next available Cabinet meeting.
Zero Carbon Initiatives	• The council has established a Decarbonisation Fund to assist in delivering the capital investment to contribute towards its zero carbon ambitions. <u>Working with Partners</u> • The council will work with government, local/regional partners and other regions to explore place based approach to deliver on its zero carbon ambitions.

Affordability Principles	
	• The council will work with its City Leap and other partners to facilitate investment to deliver the aims of its zero carbon ambitions and use methods of appraisal that take into account carbon impacts. Community Municipal Investments • The council can explore zero carbon initiatives funded through Community Municipal Investments or Retail Bonds. • The maximum exposure in such investments is £2m. • The exposure to such initiatives would be included within the General Fund capital financing costs exposure of a maximum 10% of the net revenue budget. • In addition the council will work closely with partners to facilitate community investments in zero carbon initiatives, including working together on Community Municipal Investments.
Substitute schemes	• All new impact capital investments following setting the annual programme will be subject to defined prioritisation criteria, the capital programme governance arrangements and Cabinet/Council approval
Prudential Borrowing and affordability principles applied to all Impact Investments	

Housing Revenue Account	• The council will continue to use a range of funding opportunities to ensure the Interest Cover Ratio (ICR) of the HRA can't fall below 1.25 (currently at 1.27)
	  • The ICR is calculated as the HRA Operating Surplus divided by Interest Costs.
	  • The estimated ICR over the MTFP 1.44.39
	• The minimum ICR will be supplemented by an HRA major repairs reserve of at least £10m (approx. 1 year's interest cost) and a general HRA reserve of £21m after provisions for any known liabilities and provision in the HRA budget each year to set aside monies to repay borrowing above the level of the historic HRA debt cap used to fund the development/acquisition of new homes (50 year payback period) or investment in existing stock (30 year payback period).

Evidence based	• All Impact Investments will require a business case providing clear statement of the costs, benefits and risk to be realised by the projects which will be subject to proportionate due diligence.

Net Present Value (NPV)	• All projects are required to have a positive NPV.
	• The only exceptions to this are the following impact investments:
	  • Environmental and Social Impact
	• To ensure transparent decision making, schemes should clearly identify the value of their:
	  • NPV on a commercial basis and;
	  • Social and/or Environmental value elements
	• The Environmental and Social impacts must be quantifiable to demonstrate best value.
	• Assessments should be undertaken on a project-by project basis. However, on an exceptions basis, where sufficient NPV headroom exists within a clearly defined programme-of-works, consideration may be given to a negative NPV scheme where a scheme can clearly demonstrate best value to the council.

Affordability Principles	
	• The council recognises that a phased approach will be required to implement these principles while the methodology and practices are further developed and embedded.
Affordability Principles Applied to Other Investments	
Invest to Save schemes Calculating the return on investment	• The business case for an investment to generate a return project or impact funding must: • Include the full additional costs and income streams arising from the project including the cost of servicing the debt • **Investments** must demonstrate the ability to achieve a minimum of 8% IRR over a 10 -year period. • **Social Impact** investments eg social investment must demonstrate the ability to achieve a minimum of 6% IRR or interest over a 10-year period. • Ratios will remain under review and to be amended in light of significant increase in interest rates. • IRR to be appraised taking into account the time value of money • The case for investment should demonstrate how the investments are returned by the end of the period.
Invest to Save schemes Being more efficient and creating sustainable services	• Cashable cost reductions or increased income must exceed the costs of borrowing over the pay-back period. • The first call on savings arising from the investment will be to repay the costs of borrowing to ensure the council stays within its Affordability Principles.
Invest to Grow schemes	• Increased income must exceed the costs of borrowing over the pay-back period. • For major developments the increased business rates and council tax income attributable to the council's revenue budget may be taken into account.
Invest to Maintain schemes	• All relevant costs and revenue streams, both capital and revenue, should be taken into account when determining which assets to prioritise investment for.

Social Value	• Where social value is able to be calculated as a notional value this will be taken into account as a secondary consideration to cashable benefits, IRR 6% and Payback. • The concept of Social Value will be a separate consideration in investment appraisals.

Prioritisation of Capital Investment

7.3. The council's capital governance arrangements in Section 8 set out the approach to progressing schemes through their capital programme lifecycle. A key element of this is prioritisation of total capital investment and individual schemes. Prioritisation aims to ensure the council's finite resource is targeted at supporting the delivery of the Corporate Strategy and aligned strategies.

7.4. Prioritisation of the capital programme will be undertaken on two levels. Firstly, a strategic prioritisation of overall resources and secondly, a prioritisation of individual schemes.

7.5. The strategic prioritisation will focus on the balance and allocation of resources between Invest to Grow, Invest to Save and Invest to Maintain. As noted in paragraphs 4.1 to 4.3, and set out in the table below, the current programme is weighted towards Invest to Grow and Invest to Maintain rather than Invest to Save Schemes. This presents a possible risk that there is insufficient investment in assets to generate ongoing revenue savings (Invest to Save) or a positive financial return. It is recognised that a strategic rebalance of the programme requires a medium to long term view of the programme. As such over the period of the next 10 years, the council will seek opportunities to redress the balance of the capital programme between these investment principles.

Table 5: Proportion of Capital Programme by Investment Principle

Invest to Grow	58%
Invest to Maintain	38%
Invest to Save	4%

7.6. The individual scheme prioritisation would be undertaken as part of the annual service planning process and form part of the mandate stage of the capital scheme lifecycle. Individual schemes/block programmes identified through the annual service planning process would be subject to a capital prioritisation model to assess strategic fit for the council and level of complexity.

7.7. Schemes that are selected as priority schemes will be taken forward to produce a detailed mandate to undertake a more in-depth assessment of costs, funding streams and risks. Schemes would have access to the Feasibility Fund to finance any external costs to develop a detailed mandate. Following completion of a detailed mandate, schemes will be considered for entry into the Development Pool. Further details on the individual scheme prioritisation approach are shown in Appendix 2.

Loans, Liability Exposure and Investments to Subsidiary Companies

7.8. Loans, liability exposure and investments in companies in which the council has material shareholdings are assessed differently, as these are prioritised based on delivery of strategic objectives. When considering these transactions, the council will examine the business plans available to ensure that the plan and the investment is both sound and facilitates the delivery of the long-term strategy and wider social, economic and or financial benefits.

7.9. 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. The Chief Finance Officer will ensure affordability and the proportionality of all investments so that the council does not undertake a level of investment which exposes it to an excessive level of risk compared to its financial resources.

7.10. The council will be required to monitor subsidiary company operations and this will take the form of regular performance and financial monitoring reports to shareholders. The council will manage arrangements within the affordability indicators set out in Section 7.

8. Governance of the Capital Strategy

Approval of Capital Strategy and Capital Programme

8.1. The Capital Strategy is agreed annually, alongside the MTFP. The Capital Programme is agreed annually 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. Monthly monitoring of the Capital Programme will be presented to cabinet.

8.2. The council recognises it needs to continue to significantly improve its performance to ensure that all projects being proposed for inclusion are able to be delivered within the timeframe and budget stated prior to programme approval. The council has a clear process for projects to be managed via a revised gateway process progressing through various stages starting with an outline project mandate. Appendix 3 sets out diagrammatically the council's approval gateways. 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. Section 8 provides further details on council's governance and control framework for managing schemes.

8.3. The council delivers its capital programme through effective and coherent processes for:

- formulating the capital programme with clear criteria to ensure that capital investment continues to be directed towards meeting corporate objectives and priorities
- approving and amending the capital programme and for scrutinising decisions relating to capital planning
- managing its resources holistically to support spending priorities with regard to long term sustainability.

8.4. The annual cycle for formulating a rolling multi-year capital programme will be overseen by the Capital Investment Board and the Corporate Leadership Board will recommend the programme for approval each year in line with the medium term financial plan approvals process.

8.5. Like most public sector bodies, the council continues to manage a prolonged series of difficult economic, market and supply chain factors that are contributing to the council experiencing significant delays in the physical progress of projects against the approved profile and cost over runs. In addition, the size and number of projects in the council's capital programme, the inherent over-optimism bias built into capital planning and the finite capacity and skills to manage these projects is also accentuating the delays and potential cost overruns faced. The council is committed to ensuring the capital programme:

- provides project managers with more timely management information
- delivers outcomes to time and budget
- has project managers with the right skills, capability and capacity
- develops realistic programming ambition
- develops more realistic financial profiles in decision documents aligned to project milestones
- provides Capital training to include optimism bias
- improves forecasting reflecting internal / external factors.

Strategic Oversight and Delivery

8.6. The Capital 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.

8.7. The Capital Investment Board provides strategic oversight and stewardship role for the development and delivery of the council's capital expenditure within affordable limits, which will include both the Capital Programme and capital investments; as well as providing strategic direction to the programme and projects where necessary.

8.8. Delivery of the programme is overseen by a joint member/ officer Board, the Delivery Executive, chaired by the Deputy Mayor and cabinet member with responsibility for City Economy, Finance & 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.

Directorate Capital Programme and Project Delivery

8.9. The delivery of individual capital projects and programmes is managed through individual project and programme boards with appropriate membership and delegation. The Boards are responsible for developing, managing and progressing capital projects; as well as reporting into both Capital Investment Board and Delivery Executive.

Scrutiny

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. In addition, the Scrutiny Task & Finish Group reviewing the MTFP and Budget is engaged to provide any feedback on the proposed Capital Strategy. The group is also engaged when setting the Capital Programme prior to its consideration by cabinet and approval by full council. It should be noted, business cases seeking cabinet approval will follow the standard decision pathway and as such can be subject to scrutiny as part of that process.

Managing Schemes Through Their Capital Lifecycle

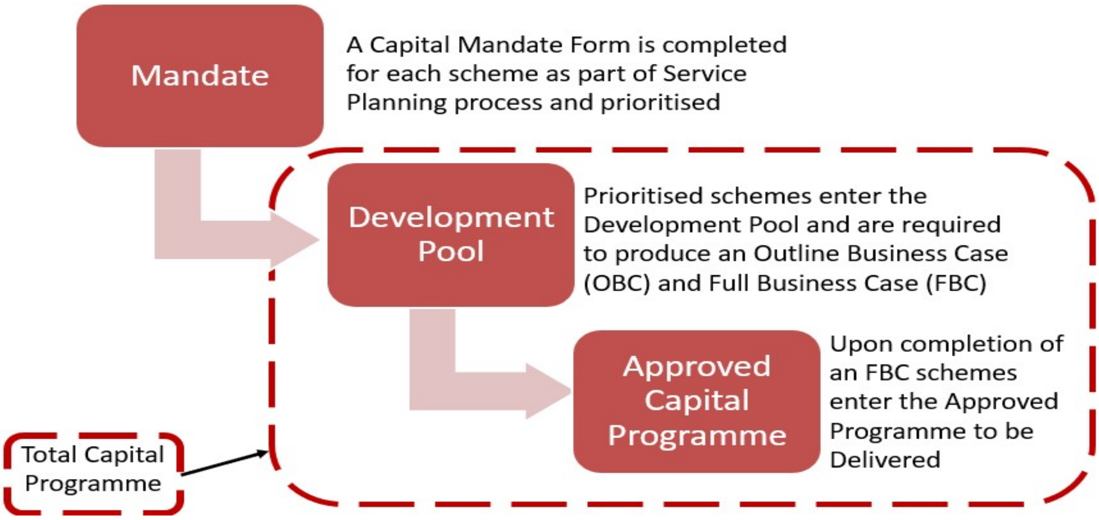
8.12. The management of capital schemes through their lifecycle as illustrated in Appendix 3 is an important aspect of delivering a successful capital investment programme. The approach should balance cost/funding certainty, risk, clarity of commitment to scheme, robust governance and transparent decision making.

8.13. An important aspect of the council's capital governance framework is at which point schemes are in their development stage and when they are sufficiently developed to enter the approved capital programme. The capital programme is split into three broad components:

- **Mandate -** the initial concept and need for a capital scheme. Schemes will require prioritisation to ensure strategic fit and there are sufficient resources/capacity/capability to deliver the scheme.
- **Development Pool –** a priority capital scheme in its early/developmental stages, typically outline business case (OBC) and full business case (FBC). At this stage costs/funding/risks are uncertain, gaining certainty as more in depth work is undertaken. Typically this is part of pre-construction and contracting activities.
- **Approved Capital Programme** – this refers to a capital scheme which has been through OBC and FBC stages and is developed to an acceptable level of certainty and is to be formally approved in the programme for delivery/implementation.

8.14. The approach to managing schemes through their lifecycle is shown graphically in the diagram below. Further information is shown in Appendix 3.

Figure 4: Managing Schemes



Key Decision-Making Considerations

8.15. 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. Business cases will evolve through the lifecycle and require decisions at the relevant Board, subject to finance scheme of delegations and key decision pathway.

8.16. 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.

8.17. 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.

8.18. 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 review. In these circumstances the council may seek external advice.

8.19. The capital programme is reported to cabinet and council as part of the annual budget setting process which will take into consideration any 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.

8.20. 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.

West England Combined Authority (WECA) Funded Schemes

8.21. All schemes which include WECA funding, either in part or in full, will be required to go through the WECA governance processes in addition to those at the council. All schemes with WECA funding should have been through the council's governance processes including approval by cabinet before they are approved by WECA.

The council's approval process is that cabinet approval is required where key decision thresholds / principles have been met. The council's governance process includes procedures for urgency, eg grant applications which may require a very short turnaround, and as such where urgent decisions are taken this will be reported to the next available cabinet meeting seeking approval prior to acceptance of the grant and adjustment of the capital programme for the scheme's inclusion.

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 complex and ‘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.

11. Capital Governance Improvement Plan

11.1. The council recognises it needs to improve its capital governance, delivery capacity and related processes. In the last 24 months it has embedded enhancements made to its capital strategy, integrating a delivery partner to provide delivery capacity, improved governance arrangements for the delivery of capital projects and developed its financial processes. However, it is recognised that further improvements are still required. In September 2023, as part of the Capital Portfolio Transformation Project (CPTP), the project lifecycle and gateways were reviewed. An improved process was implemented.

Further, the council has developed and is implementing a capital governance improvement plan. The core elements of the plan are being implemented, with the remaining actions expected to be operational by April 2024. However, it is recognised that the new governance arrangements, delivery enhancements and related processes will take time to fully embed within the culture of the council, and the full benefits will only be realised over the term of the current capital programme.

Appendix 1

Our Corporate Strategy – at a glance

Vision

"We play a leading role in driving an inclusive, sustainable and healthy city of hope and aspiration, one where everyone can share in its success."

Building Blocks

We have chosen five principles that we call our 'building blocks'. These affect all our priorities and influence everything we do.

Development and Delivery

Develop people, places and partnerships to improve outcomes. Deliver quality public services while releasing the expertise and resources of empowered communities, individuals, community groups and city partners to help shape and deliver city priorities.

Environmental Sustainability

Tackle the Climate and Ecological Emergencies while inclusively growing the economy, maximising our positive environmental impacts and avoiding or mitigating negative ones wherever possible. Build our climate and ecological resilience.

Equality and Inclusion

Pro-actively and intentionally improve equality and inclusion across the city by designing it into everything we do. Work to make sure that everyone in Bristol feels they belong, has a voice and an equal opportunity to succeed and thrive.

Resilience

Build Bristol's city resilience through early intervention, minimising our contribution to future environmental, economic or social shocks and stresses. Build our ability to cope by learning from our past, taking a preventative approach and planning for long-term outcomes that support resilience.

World Class Employment

Role model, influence and promote the highest levels and standards of employment. Work with partners to drive for workforces that reflect the population, and workplaces that are healthy and inclusive, offering opportunities to progress and offering a Real Living Wage as standard.

Themes

To make sure we are clear about how we spend our time, effort and money, we have the following strategic themes and priorities. These express the major issues that we believe are most important in achieving our vision.

Children and Young People

A city where every child belongs and every child gets the best start in life, whatever circumstances they were born into.

Economy and Skills

Economic growth that builds inclusive and resilient communities, decarbonises the city and offers equity of opportunity.

Environment and Sustainability

Decarbonise the city, support the recovery of nature and lead a just transition to a low-carbon future.

Health, Care and Wellbeing

Tackle health inequalities to help people stay healthier and happier throughout their lives.

Homes and Communities

Healthy, resilient and inclusive neighbourhoods with fair access to decent, affordable homes.

Transport and Connectivity

A more efficient, sustainable and inclusive connection of people to people, people to jobs and people to opportunity.

Effective Development Organisation

From city government to city governance: creating a focussed council that empowers individuals, communities and partners to flourish and lead.

Values and Behaviours

- We are **Dedicated**
- We are **Curious**
- We show **Respect**
- We take **Ownership**
- We are **Collaborative**

Capital Prioritisation – Scheme Prioritisation Guidance and Criteria

As part of determining the relative priority of strategic resource allocation and individual schemes the following guidance should be considered:

Priority 1 Schemes - highest 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.

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

Priority 2 Schemes – criteria for other projects

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 balanced 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

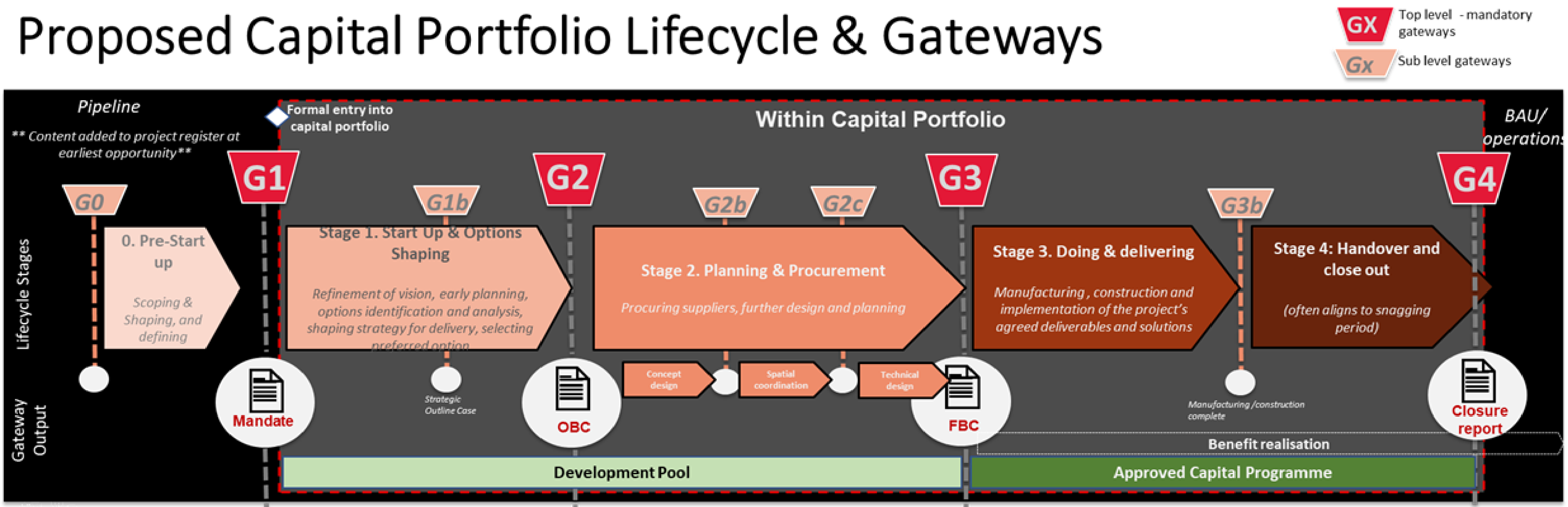
iii. The project will bring about future cashable revenue savings within the wider council (or cost avoidance where the pressure is built into the MTFP and/or deliver organisation wide efficiencies) iv. The proposal can be shown to support the delivery of sustainable / inclusive economic growth and regeneration The scheme levers in external support, or attracts additional funding into Bristol, either financial or where the council is working in partnership with other bodies

v. 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

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

Appendix 3

Capital Programme Governance Arrangements: Managing a Scheme Through its Lifecycle



The ***Mandate*** is the key initiation document for spending time or money on project/programme.

Indicative idea, scope, objectives, timeline, risks, costs (all low confidence) + clear ownership.

All costs prior to Mandate should be opportunity costs only and no charges.

The ***Outline Business Case (OBC)*** *builds on the work developed at Mandate (and SOC stage if applicable) and refines longlist of options recommendation an optimal/preferred option(s) to progress with.*

Draft costs, timelines, risks & mitigations and plan for next stage.

The ***Full Business Case (FBC)*** *represents the conclusions of tender activity, technical designs and presents a final delivery plan and costings before work moves into delivery.*

Cost estimates market tested, funding secured, partner/contractor availability confirmed, risks assessed and mitigated.

The Closure report *is considered to be a formal end point to the project, documenting the final position and reflecting on how things compared with original business case and status as at this point. Usually completed at end of the contractual snagging period.*

Have the deliverables and outcomes been met? Are we on track to deliver the benefits expected? How did delivery compare with initial approved plan and budget. What lessons have been learnt or could apply to future projects This is also expected to include initial post occupancy evaluation.

This is key for audit trail, and lessons learnt for future work.