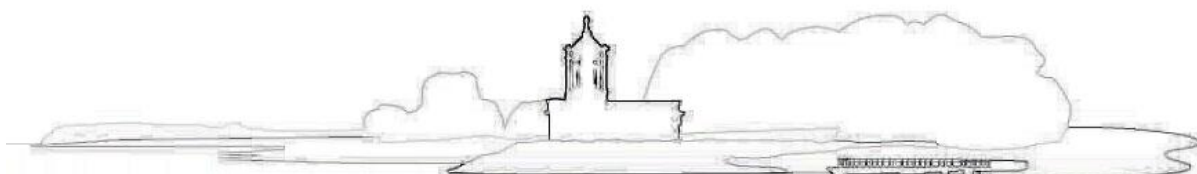




# Rutland County Council

## **Capital Investment Strategy 2022 - 23**



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# 1 OVERVIEW OF STRATEGY

## 1.1 Background

1.1.1 The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment and the Prudential Code was developed by CIPFA to support local authorities in taking their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

1.1.2 The overall aim of the Council, with respect to capital expenditure and investment, is to achieve council objectives and priorities whilst ensuring that capital plans are affordable, prudent and sustainable.

## 1.2 Aims and Principles

1.2.1 The Capital Investment Strategy (CIS) provides a framework that allows that objective to be achieved. It sets out:

- what is capital expenditure/investment and why we incur it (section 2);
- the Council's overall capital objectives, priorities and plans (section 3);
- how the Council's capital expenditure/investment will be funded/ resourced (section 4);
- how the Council's capital expenditure/investment plans will be appraised (section 5) including the Council's Invest to Save Policy (Annexe A1);
- how capital plans will be approved (section 6), monitored and reported upon (Section 7); and
- the skills and knowledge required to deliver the capital plans (section 8).

1.2.2 The CIS should be read in conjunction with the Council's Treasury Management Strategy which covers the Council's treasury investment policy, debt and borrowing policies and MRP policy. The Council's debt and MRP policy are directly impacted by capital plans.

1.2.3 The key principles of the CIS are as follows:

<b>Principle 1 – Focus capital investment on delivery of council objectives and priorities</b>
We will do this by:
<ul style="list-style-type: none"><li>• Being clear on objectives and priorities</li></ul>
<ul style="list-style-type: none"><li>• Appraising all investments in the context of objectives/priorities</li></ul>
<ul style="list-style-type: none"><li>• Ensuring decision-makers are clear on the positive contribution capital investment makes to objectives</li></ul>

<b>Principle 2 – Maximise and promote best use of available funds</b>
We will do this by:
<ul style="list-style-type: none"> <li>• Bidding for external funds where possible</li> </ul>
<ul style="list-style-type: none"> <li>• Taking advantage of increased freedom and flexibility afforded by the removal of ring fencing from funding allocations</li> </ul>
<ul style="list-style-type: none"> <li>• Generate funding, where possible, from the rationalisation of existing assets</li> </ul>
<b>Principle 3 – Ensure strong governance over decision-making</b>
We will do this by:
<ul style="list-style-type: none"> <li>• Ensuring that all projects have an officer and lead member sponsor</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring that proposals demonstrate that a rigorous process of options appraisal has been followed, requiring evidence of need, cost, risk, outcomes and methods of financing.</li> </ul>
<ul style="list-style-type: none"> <li>• Ensuring all decisions are approved in line with the Constitution and the CIS</li> </ul>
<b>Principle 4 – Ensure plans are affordable, prudent and sustainable</b>
We will do this by:
<ul style="list-style-type: none"> <li>• Ensuring capital investment decisions do not place additional pressure on Council Tax or our Medium Term Financial Plan</li> </ul>
<ul style="list-style-type: none"> <li>• Promoting capital investment which allows either invest to save outcomes or generates a revenue and/or capital return</li> </ul>
<ul style="list-style-type: none"> <li>• Minimizing borrowing requirements by putting the first call on grants/internal resources</li> </ul>

## **2 CAPITAL EXPENDITURE AND INVESTMENT**

### **2.1 Capital expenditure and investment**

2.1.1 The Local Government Act 2003, which includes the legislation for the capital finance system, does not specify what precisely constitutes capital expenditure. Instead it:

- Refers to “expenditure of the authority which fails to be capitalised in accordance with proper practices”;
- Enables the Secretary of State to prescribe by regulation which local authority expenditure shall be treated as capital expenditure and which shall not be treated as capital expenditure; and
- Enables the Secretary of State to prescribe by regulation that the spending of a particular local authority shall, or shall not, be treated as capital expenditure.

2.1.2 We define capital expenditure/investment as “Expenditure on the acquisition, creation or enhancement of non-current assets”. Non-current assets include those items of land, property and plant/equipment which have a useful life of more than one year.

2.1.3 The Council will set a de-minimis limit of £10,000 for expenditure to be considered for capitalisation. The following categories of expenditure will require capital resources to fund their purposes:

- The acquisition, reclamation, enhancement or laying out of land exclusive of roads, buildings or other structures
- The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- The acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels
- The making of advances, grants or other financial assistance towards expenditure or on the acquisition of investments
- The acquisition of share capital or loan capital
- The issue of loan instruments in respect of which not all repayments by the authority are due within 1 year of issue
- Works to increase substantially the thermal insulation of a building
- Works to increase substantially the extent to which a building can be used by a disabled or elderly person
- The acquisition of computer software, plus the in-house preparation of it, provided that the intention is to use the software for at least 1 year

2.1.4 The Council incurs capital expenditure for a number of reasons:

- to repair and maintain existing assets e.g. boiler at the Museum
- to deliver on council priorities e.g. Digital Rutland
- to meet statutory requirements/service priorities e.g. issuing disabilities facilities grants so householders can adapt homes and “stay put”

- to avoid unnecessary revenue costs e.g. investment in roads reducing reactive repairs

2.1.5 The Councils' capital expenditure plans are therefore all linked to the Corporate Plan, priorities and service delivery aims.

### 3 THE COUNCIL'S CAPITAL PLANS

#### 3.1 Key drivers

3.1.1 There are three key drivers of the Council's capital plans:

- Corporate plan - strategic aims and priorities - and other supporting strategies
- Asset management requirements
- Invest to Save - an ambition to generate income or reduce costs in support of the Council's priorities.

3.1.2 The Council is doing significant work in all of the above areas that will have a significant impact on future versions of the Capital Investment Strategy. The three priorities are expanded on below with a commentary on work in progress.

#### 3.2 Aims and priorities

3.2.1 In its current Corporate Plan (approved October 2019) the vision for Rutland was set out "High Quality of Life in Vibrant Communities". This vision was supported by the following four priority themes:

- Delivering sustainable development
- Vibrant communities
- Protecting the vulnerable
- Customer focused services

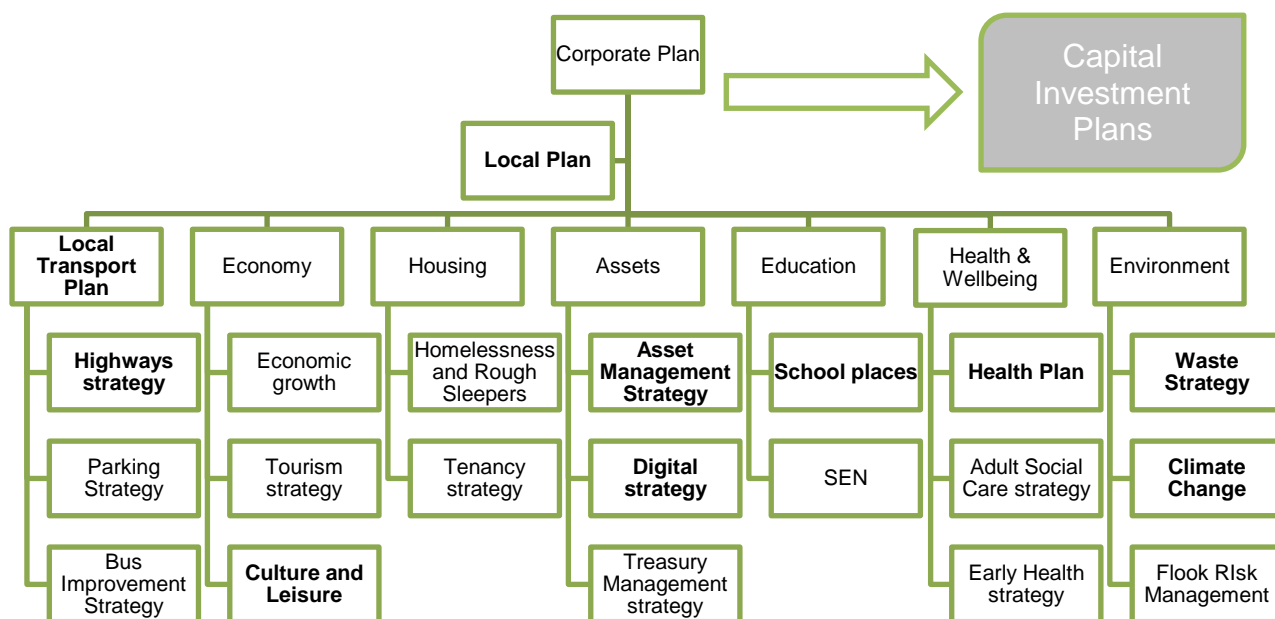
3.2.2 The Council is producing a new Corporate Plan for April 2022. The new plan follows an extensive dialogue with the community called "The Future Rutland Conversation" (FRC). The FRC involved local people in a process to develop a new vision and aspirations for the county – one that will help the Council to co-create new strategies and policies to achieve these goals.

3.2.3 The FRC has resulted in a Vision document being drafted and consulted on. In due course, it will be considered by Council for comment and support. The Vision document includes four key themes including:

- **A special place:** Sustaining a vibrant rural county that harnesses the enterprise of its businesses, the ambition and creativity of its residents, and the passion of its local communities
- **Sustainable lives:** Empowering people to live sustainable lives through the power of choice and the removal of barriers and obstacles
- **Healthy and well:** Promoting health, happiness and well-being for people of all ages and backgrounds
- **A county for everyone:** Ensuring everyone – whatever their circumstances – has the opportunity to live well and overcome any challenges they may face.

3.2.4 The Council will use the Vision to shape and influence its new Corporate Plan. Alongside its work on the Corporate Plan, the Council has been working on various

strategies and key projects that will drive strategic priorities and future spending.



3.2.5 The direction of travel and potential capital impact of the Council’s key strategies (in bold) are covered below:

Area	Details	Impact on investment plans
Leisure	Council considering the future of leisure provision and exploring various options. A decision on the immediate future will be made shortly. Council retains long term aspirations for a new leisure facility if funding can be secured.	No impact yet pending Council decision.  Should Council retain assets then funding will be made available to meet any associated liabilities.  Funding has not been set aside for any new facilities subject to securing external funding.
Waste	Council’s Municipal Waste and Street Scene strategy aims to reduce waste and increase recycling rates in line with Government targets.  Options for the future of waste management are being considered prior to the service being retendered. The Council is also committed to providing at least one Household Waste Recycling Centre within the County. The two	No impact on plans yet but future of HWRC under review.



Area	Details	Impact on investment plans
	<p>existing sites, North Luffenham and Cottesmore, are limited in the accessible services they are able to offer due to their size and layout so the Council will need to consider future provision.</p>	
Local Plan	<p>The Council is developing a new Local Plan.</p> <p>The housing stock in Rutland is projected to grow by 789 new homes by 2026, with 1,333 planned to be built by 2031.</p> <p>Accompanying the Local Plan will be a new Infrastructure Development Plan (IDP). As the Council develops a new IDP, in the intervening period, the Council will be working with Members to determine priorities for use of CIL/s106 and to meet infrastructure needs of housing growth.</p>	<p>Cabinet has been asked to only consider “investment” in projects deemed critical in terms of mitigating the development of housing growth.</p>
Health Plan	<p>The overall vision of this Plan is to nurture safe, healthy, happy &amp; caring communities in which people start well and thrive together throughout their lives. The essence of the Plan’s goal is ‘people living well in active communities’.</p> <p>The overall population of Rutland is projected to grow by 5% to 42,277 by 2025 and by 14% to 45,886 by 2040, Based on the anticipated distribution of that growth, additional demand for health and care services is expected particularly in Oakham and Empingham, requiring capacity to be increased. This is deemed to be a priority for the Council.</p>	<p>Funds are available but no specific funding set aside at this stage.</p>
Transport	<p>Under the Local Transport Plan 4 “Moving Rutland Forward” which covers the period 2019 to 2036, the vision for Rutland’s transport network is a transport network that supports: Sustainable Growth; Vulnerable Residents; and Health and Wellbeing.</p> <p>The issues of the transport network have been highlighted in the Future Rutland</p>	<p>Short term transport projects built into plans.</p> <p>Council awaits a response to its bid for national funding.</p>

Area	Details	Impact on investment plans
	Conversation as a priority. The Council has also submitted a Bus Improvement Plan in a bid to secure some of the national funding available for bus improvements.	
Education	The Council has a duty to ensure that there are sufficient school places in their area. The school capacity survey (SCAP) is a statutory data collection that all local authorities must complete every year. The Council receives funding from Government to create school places where needed.	Current plans include funding targeted to achieve sufficient school places e.g. expansion of school places at Catmose College.
Digital	<p>Council has a Digital Strategy 2019-22 which prioritises: building on superfast broadband connectivity; accelerating full fibre coverage facilitating 4G; 5G Mobile broadband connecting businesses to new opportunities; enabling digital delivery and service transformation; and ensuring digital inclusion.</p> <p>Council has invested in and achieved progress in connecting the County but accelerating digital transformation is a key future focus.</p>	<p>Investment to 2022 in infrastructure is built into plans.</p> <p>Investment plans for future years to be decided.</p>
Highways	<p>Council's Highways Strategy focuses on maintaining its highway network to a high standard through the efficient use of available resources – ensuring the safety and quality of assets and following the County Council's environmental policies to meet Rutland's environmental needs and the challenge of climate change.</p> <p>Council receives highways grant funding which is fully invested to meet these aims.</p>	Plans include full use of Highways funding to improve infrastructure assets.
Climate change	A Climate Change Action Motion was presented to Full Council on 14 October 2019 with various measures put forward including a commitment to make sure the Council's activities achieve a net-zero carbon footprint before 2050.	No impact presently.

Area	Details	Impact on investment plans
	The Corporate Plan will include an action to develop firm plans for the achievement of this commitment.	

### 3.3 Asset Management requirements

- 3.3.1 The Council owns a small amount of land and property assets that make an important and positive contribution to achieving corporate objectives. The quality, condition, suitability and sustainability of our operational assets have a direct bearing on the quality and deliverability of front line services. It is therefore extremely important that these assets continue to be managed in a proactive and efficient way.
- 3.3.2 As at 31st December 2021, the Council had 49 ‘Operational Assets’ including 26 ‘Operational assets with buildings’, including primary schools. These are the assets that the council uses for service delivery purposes.
- 3.3.3 In addition, the Council has a range of Non-Operational assets; the assets within this category could be surplus, vacant or awaiting for disposal. The total number of ‘Non-Operational Assets’ at 31st December 2021 was 1.
- 3.3.4 The Council’s aim is to manage the council’s land and property assets effectively by providing:
- buildings that are fit for purpose, sustainable, providing access for all, meeting service needs and community expectations
  - assets that support economic and environmental regeneration of Rutland
  - real estate management, generating income, underpinning corporate priorities and delivering value for money.
- 3.3.5 The Council does have some assets that generate income and a positive return on the MTFP albeit none of these assets are run solely for commercial reasons.
- 3.3.6 One of the current gaps in the capital programme is a planned maintenance programme for current assets. Cabinet approved a capital project to determine future property maintenance requirements on Council owned assets. This is due to report shortly.
- 3.3.7 The Council’s Asset Management Plan (AMP) will be updated when condition survey work is completed but the key asset management priorities remain:
- rationalise the current portfolio and to dispose of surplus assets where possible;
  - help deliver sustainable social, environmental and economic outcomes for local communities;
  - reduce running costs and maximise income; and

- ensure all assets meet health and safety and other regulatory requirements.

### **3.4 Invest to Save**

- 3.4.1 In its efficiency plan (Report 151/2016) approved by Council, the Council noted that one of its strategies for reducing the gap in the MTFP was to make better use of assets/capital resources. This remains the case today.
- 3.4.2 Continued reductions in government funding and reduced investment income from traditional treasury management investments reinforced the need for the Council to maximise income from other sources or reduce costs where appropriate to support delivery of services.
- 3.4.3 The Council created a Commercial Investment Policy (CIP) and set aside £10m to be funded from borrowing for investments where the primary goal was financial return. The Council made no investments under this policy and the £10m set aside has been removed from capital plans.
- 3.4.4 The CIP has now been replaced with an Invest to Save Policy (Annex A1) as borrowing for commercial return is no longer allowable under draft CIPFA guidance.
- 3.4.5 The key elements of this Policy mean:
- Investments proposed where financial return is one of the key drivers but not the only one (i.e. other priorities exist) will be made and appraised under this Policy and can be funded from borrowing. This will allow risks to be identified, assessed and minimised as far as possible;
  - Investments where financial return is not a priority will be assessed in line with existing Financial Procedure Rules where value for money is a key consideration.

### **3.5 Longer Term Capital Programme**

- 3.5.1 The current capital programme, which is presented as part of the budget setting report to Council in February only looks at agreed projects. The Capital Strategy guidance issued by CIPFA in May 2021 states that capital planning should be thought about in a structured way – and that a longer-term capital strategy is required to enable Councils to take a longer-term approach to capital investment planning. The guidance suggests a capital investment plan that spans 10 years
- 3.5.2 The Capital Investment plan will be more detailed in the early years and more speculative in the later years but provides a more realistic profile for capital investment.
- 3.5.3 The Council is currently updating a number of its plans (Corporate Plan, Asset Management Plan, and Infrastructure Development Plan) that will be required to inform a longer term Capital Investment Programme. For now therefore, the Council's capital programme and plans tend to be short range only.
- 3.5.4 As a result of this the Council is looking for a 10 year Capital Investment Programme to be in place for the 23/24 budget setting cycle and the work referenced above will help achieve that.

## **4 RESOURCING STRATEGY**

### **4.1 Financial context**

4.1.1 Whilst the aims and priorities of the Council will shape decisions around capital expenditure, there is recognition that the financial resources available to meet priorities are constrained in the current economic and political climate. The context for capital expenditure decisions is as follows:

- The Council does have capital resources and expects to receive more resources in the future (from Government, existing s106 agreements and CIL);
- The Council has limited capital assets which it could sell and use receipts to reinvest;
- The Council expects housing growth and this growth will yield CIL which can be used to invest in infrastructure;
- The Council is currently servicing debt of c£22m which has to be repaid in the future; and
- The Council's MTFP shows a funding gap for 2022/23 and continues to grow beyond. At present, the Council is working to close the gap. Any additional capital expenditure which is not funded through capital resources will increase this gap unless that expenditure delivers revenue savings or income.

4.1.2 In light of the above context, it is imperative that capital expenditure plans are affordable, prudent and sustainable. Given the Council's MTFP position, the Council's aim is to minimise any impact on the Council's General Fund. Typically, the most expensive option for financing capital expenditure is externally borrowing so the Council will do what it can to avoid that unless that borrowing yields income or deliver savings beyond the cost of borrowing. This is a key objective for the Council.

### **4.2 Available resources**

4.2.1 There are a range of potential funding sources which can be generated locally either by the Council itself or in partnership with others. The Council continues to seek new levels of external investment to match against its capital programme, this may be additional capital receipts from asset sales or contributions from other external bodies.

4.2.2 The Council currently holds a number of resources that are not allocated to a capital project and also expects to receive other resources over the next 5 years.

4.2.3 The table overleaf shows the estimated income that is likely to be received over the next 5 years.

	<b>Est Closing balance 31/03/21</b>	<b>Income 2021/22</b>	<b>Income 2022/23</b>	<b>Income 2023/24</b>	<b>Income 2024/25</b>	<b>Total Expected Income</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Total Grant	(7,463)	(5,682)	(3,613)	(3,613)	(3,613)	(23,984)
Capital Receipts	(1,428)	(100)	(100)	(100)	(100)	(1,828)
Developer Contributions	(7,966)	(400)	(400)	(400)	(400)	(9,566)
<b>Total</b>	<b>(16,857)</b>	<b>(6,182)</b>	<b>(4,113)</b>	<b>(4,113)</b>	<b>(4,113)</b>	<b>(35,378)</b>

4.2.4 The Council has a number of options currently available for funding capital projects, including;

- Government Grants - Capital resources from Central Government can be split into two categories:
  - a) Non-ring fenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose). This now encompasses the vast majority of Government funding and the Council will initially allocate these resources to a general pool from which prioritised schemes can be financed.
  - b) Ring-fenced – resources which are ring-fenced to particular areas and therefore have restricted uses.
- Non-Government Contributions - Where there is a requirement to make an application to an external agency to receive external funding, which could also commit Council resources as matched funding to any bid for external resources.
- Prudential Borrowing - Councils can borrow money to pay for capital assets. This can take the form of the Council running down its own cash balances or undertaking a loan from another organisation such as Public Works Loan Board (PWLb) but there may be restrictions imposed by the Treasury on what loans can be used for.
- Capital Receipts – Capital receipts come from the sale of the Council's assets. Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the capital programme as a corporate resource. Where the asset has been 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 authority.

- Revenue Contributions - Councils are free to make a contribution from their revenue budget to fund capital schemes - this is known as direct revenue financing. There are no limits on this. Funding from revenue means the Council gets a one-off revenue “hit” to the value of the contribution / asset.
- Section 106 / Community Infrastructure Levy (CIL) – Use of section 106 / CIL funds from planning developments can be used for capital or revenue. As the purpose of these receipts is to invest in infrastructure to support development then they tend to be used for capital purposes.
- Oakham North agreement – The Council has an agreement with a developer in lieu of receiving S106/CIL. This funding can be used for capital or revenue but has been earmarked for capital purposes.

### **4.3 Existing and indicative capital investment plans and funding**

- 4.3.1 The Council's capital expenditure plans can be found in the Revenue and Capital Budget 2022/23 and Medium Term Financial Plan (01/2022). Plans include already approved projects or recurring projects such as investment in highways, disabled facilities grants etc.

## 5 CAPITAL INVESTMENT APPRAISAL

### 5.1 Types of capital investment

5.1.1 The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds. This Strategy deals with non-financial assets only. Financial asset investments are covered in the Treasury Management Strategy.

5.1.2 There are various different types of non-financial investments. The Council has categorised them, in line with CIPFA guidance, as follows:

Type	Example(s)	How we will appraise
<p><b>Commercial investments</b> project where the primary objective is to “make a financial surplus for the organisation” and where capital expenditure would meet the test of an “investment asset”</p>	<p>Buying a hotel</p> <p>Acquiring land for development</p> <p>Buying a rental property</p>	<p>The Council will <b>not</b> undertake this type of investment in light of latest CIPFA guidance.</p>
<p><b>Service investments – financial</b> are those made clearly and explicitly in the course of the provision, and for the purposes, of operational services but where financial return is a key priority.</p>	<p>Development of business park within County</p> <p>Provision of office space for start-up businesses within County</p> <p>Building new Leisure provision</p>	<p>Invest to Save Policy (Annexe A1)</p>



Type	Example(s)	How we will appraise
<p><b>Pure service investments</b> are those made clearly and explicitly in the course of the provision, and for the purposes, of operational services.</p>	<p>Moving out of Council office to another site</p> <p>Expanding an existing school</p> <p>Giving disabled facilities grant so people can “stay put”</p> <p>Repair and maintenance of assets</p>	<p>Capital programme pro-forma as required by Financial Procedure Rules (para 5.6) so that VFM can be assessed.</p>

## 5.2 Capital funding prioritisation

- 5.2.1 Potential proposals for new council investment will inevitably exceed the resources available, therefore choice and priority setting should form an important part of the Council’s capital appraisal process, ensuring that best choices in line with the Council priorities are made and value for money is achieved.
- 5.2.2 The Council does not currently have a prioritisation appraisal process linked to its capital expenditure plans, but will aim to implement this alongside the 10 year investment programme (section 3.5).
- 5.2.3 Broadly the Council will aim to adopt the principle in the CIPFA capital strategy guide on intended benefits, outputs and outcomes to develop a weighted score for each project for instance:
- **Benefits** – these can be financial and non-financial: a programme or individual project could result in net savings, an increase in your funding stream, an increase in your income stream, a reduction in CO2 emissions or other such benefits.
  - **Outputs** – a programme or individual project could result in an increase in new business start-ups, new houses, an additional rail network, and additional personal equipment for frontline staff, digital technology or other such outputs.
  - **Outcomes** – a programme or individual project could result in jobs created or safeguarded for your area, a contribution to your housing target, improved connectivity, a refurbished asset for community use or other such outcomes.

## **6 GOVERNANCE AND DECISION-MAKING**

### **6.1 Strategy**

6.1.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a capital strategy and prudential indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

6.1.2 The Chief Finance Officer is responsible for ensuring that all matters required to be taken into account are reported to Full Council for consideration.

### **6.2 Capital expenditure/investment decisions**

6.2.1 The Prudential Code states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget.

6.2.2 The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPRs para 5.5)
- additions/changes to the capital programme – Cabinet/Council (FPRs para 5.7)
- borrowing – Full Council (FPRs 5.5 – 5.7) with borrowing sourced by Chief Finance Officer.

6.2.3 In approving projects, Cabinet/Council may establish a vehicle (working group, panel, or board etc) to oversee the allocation of funds or completion of projects (e.g. an amount set aside for Sports grants could be allocated by a working group with delegated authority). In taking this decision, Members can consider risks and any other relevant factors.

6.2.4 The programme of meeting sets out the dates of Cabinet and Council meetings. Should the Council require decisions to be made quickly to respond to opportunities then the Constitution includes provision for emergency meetings.

### **6.3 Performance reporting**

6.3.1 Progress against delivery of the Capital Strategy/Programme will be reported periodically in Finance Reports to Cabinet.

6.3.2 Performance against the prudential indicators and other indicators (set out in Section 7) will be reported mid-year in the Treasury Mid-Year report and Annual report.

## **7 PERFORMANCE MONITORING AND INDICATORS**

### **7.1 Prudential Code requirements**

7.1.1 The Prudential Code requires Councils to think about six things when it agrees its capital programme:

- Service objectives – are spending plans consistent with our aims and plans?
- Stewardship of assets – is capital investment being made on new assets at the cost of maintaining existing assets?
- Value for money – do benefits outweigh the cost?
- Prudence and sustainability – can the Council afford the borrowing now and in the future?
- Affordability – what are the implications for council tax?
- Practicality – can the Council deliver the programme?

7.1.2 Councils need to prove that they are complying with the Code and this is done through a series of prudential indicators that are set locally and approved at the same time the Council sets its budget for the following year.

7.1.3 These indicators are included in the Treasury Management Strategy but are based on the capital plans derived in accordance with this Strategy.

### **7.2 Commercial Investment portfolio**

7.2.1 The Code of practice states that Indicators must be used for the commercial investment portfolio. The Councils policy is not to invest in this type of investment so no indicators will be produced in relation to these.

## **8 SKILLS AND KNOWLEDGE**

### **8.1 In-house resources**

8.1.1 The successful implementation of the Capital Investment Strategy necessitates the availability of people with the necessary experience of:

- developing capital projects;
- acquiring and selling properties;
- commissioning partners to deliver the capital programme;
- managing properties as a landlord; and
- sourcing suitable opportunities that match the criteria set under the adopted strategy.

8.1.2 The Council currently has in place a team in the Places Directorate which manages the current operational and non-operational asset portfolio. This team comprises:

- Head of Property Services
- Senior Surveyor
- Building Surveyors, Inspectors and Estate Officers

## **8.2 Externally available resources**

8.2.1 The Council also makes use of external advice in developing projects or undertaking due diligence including external valuers, property condition experts, market appraisers etc. Other advice will be commissioned as and when required.

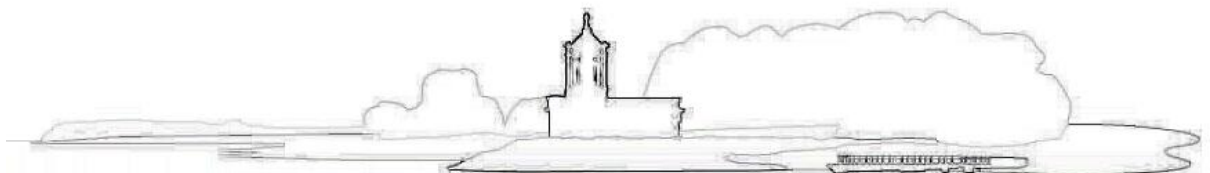
## **8.3 Members**

8.3.1 Members are familiar with the budget process and approve the Treasury Management Strategy and Budget. Any additional training requirements will be discussed with the Scrutiny Commission.

## ANNEX A1 – INVEST TO SAVE POLICY

### 1. BACKGROUND

- 1.1 The core function of the Council is to deliver statutory and other services to local residents. Reductions in government funding and reduced investment income from traditional Treasury Management investments, as detailed in the Medium Term Financial Plan (MTFP), reinforce the need for the Council to make better use of its available assets (land/property/cash) to reduce future capital and revenue costs.
- 1.2 This can be achieved from investing in capital assets (property or other assets) with a view to achieving a strategic objective or priority whilst generating revenue income and reducing future revenue or capital costs thereby reducing net costs or avoiding costs in the MTFP.
- 1.3 Under this policy, the Council may:
- develop/invest in existing facilities for disposal or reuse;
  - build or develop its own facilities (e.g. care homes) rather than use those of external providers; and
  - undertake any other investments for which it has legal powers as long as any investment has a beneficial impact on the Medium Term Financial Plan and is not solely for Financial Return.
- 1.4 Under this policy, the Council **cannot** consider commercial investments where the primary or sole intention is to make a “financial return”. CIPFA has continuously warned authorities against purely commercial investments. CIPFA has advised that a policy on non-treasury investments should be put in place that sets out a framework for investments and commercial activities. This policy meets this requirement.
- 1.5 Investments made in **financial assets** i.e. property funds, share capital, fixed term deposit, government bonds are classified as treasury investments and are not covered as part of this policy.
- 1.6 As set out in Section 5 **Pure Service investments** are defined as those made clearly and explicitly in the course of the provision, and for the purposes, of operational services do not fall under this policy. These investments tend to share at least one of the following conditions:
- Those made where the Council has a statutory obligation (e.g. Highways) unless the goes beyond a statutory requirement;
  - Where the Council is ring fenced funding in line with the terms of conditions;



- Where a positive financial return is not a requirement but value for money is still a key consideration.

## **2. OBJECTIVES**

2.1 CIPFA recommends that the security and liquidity of investments should take priority over yield (i.e. savings or income returns). This is reflected in policy objectives below and will be reflected in the Council's Invest to Save approach. The Council's objectives are to:

- make investments that are consistent with the Council's strategic aims and priorities;
- maximise return whilst minimising risk through prudential management processes as described in this document;
- prioritise investments that yield optimal revenue streams and stable income or reduce ongoing revenue and/or capital costs to reduce the Council's financial gap;
- protect any capital invested;
- ensure any investment is prudent and in proportion to the size of the Council.

## **3. FUNDING**

3.1 No funding has been set aside for investments of this type. This position may change as the Council completes its new corporate plan, various strategies and develops its long term capital programme.

3.2 The Council has access to various funding sources – government grants, CIL, s106, capital receipts, revenue and borrowing.

3.3 Funding sources (other than borrowing) may carry restrictions or conditions that would have to be considered as part of any decision-making.

3.4 The Council's borrowing strategy (approved as part of the Treasury management strategy) allows the Council "to borrow to fund a scheme that will reduce the Council's ongoing revenue costs in future years or avoid increased costs in future years". The Council is not permitted to borrow to fund investments made for commercial returns only.

3.5 While borrowing, say from PWLB is relatively low cost, it should be noted that investments funded through external borrowing will incur a greater cost than using other funding and this will need to be considered as part of the benefit calculation.

### **Example of invest to save project (with and without borrowing)**

3.6 With a £2m investment, the Council may aim to surpass the rate of interest currently achieved on its cash balances and generate net income which will

contribute towards the MTFP gap and help the Council sustain the current level of service delivery (Indicative figures used in table below). The example shows that external borrowing is more costly and gives lower returns.

	<b>Funded by borrowing</b>	<b>Non borrowing</b>
Investment	£2,000,000	£2,000,000
Interest costs/interest foregone	£60,000	£20,000
Minimum Revenue Provision (MRP) – 20 years	£100,000	£0
Revenue cost savings pa	£190,000	£190,000
Net MTFP benefit	£30,000 (1.5%)	£170,000 (8.5%)
Payback	66.6 years	11.4 years

#### **4. APPROACH/SCOPE**

4.1 The Council's policy reflects a suitable balance between the risks inherent in the types of assets to be acquired/developed or projects to be undertaken and the financial rewards obtainable from those investments, limiting such risks appropriately.

4.2 Each project falling within the scope of this policy will be subject to a business case driven by a risk assessment tool (this is detailed in Annexe A3) which aims to ensure only viable projects are taken forward.

4.3 The key aspects of the Council's approach will be as follows:

- Projects to be appraised in line with criteria set out in Section 6;
- Capital investments to be approved in line with arrangements set out in Section 7;
- There will be no limits on any particular investment. Any project taken forward will follow the appropriate governance approval process.
- Legal basis of all investments to be verified as part of the approval process as per Section 5.
- In assessing the merits of an investment, Officers will specifically exclude investments that involve the following activities:
  - a) Animal exploitation

- b) Armaments and nuclear weapons production or sale
- c) Environmentally damaging practices
- d) Gambling
- e) Human Rights Abuse / Oppressive regimes

## 5. LEGAL

5.1 As part of the evaluation of any potential capital investment, Officers must understand and present the legal basis for decisions prior to approval. As the Council's policy only allows capital investment to further the achievement of strategic objectives and priorities then legal issues are considered to be inherently low risk.

5.2 In applying this policy, the Council is relying on the following legal powers:

- Section 120 of the Local Government Act 1972 gives councils the power to acquire property by agreement for the purpose of any of its functions or for the benefit, improvement or development of the area.
- Section 1 of the Localism Act 2011, known as the general power of competence, enables a local authority to do anything that an individual generally may do (subject to prohibitions, restrictions, and limitations in existing statute which are not applicable in the circumstances set out in the report). Further, that power enables the authority to do it anywhere in the United Kingdom or elsewhere, for a commercial purpose or otherwise for a charge, or without charge, and to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

## 6. APPRAISING POTENTIAL INVESTMENTS - CRITERIA AND MINIMUM REQUIREMENTS (BUSINESS CASE AND RISK ASSESSMENT)

6.1 An investment appraisal tool has been developed to facilitate an assessment of potential investments and derive a financial business case and risk assessment. The tool has been developed to support the appraisal of any project put forward.

6.2 Investments must generally pass three tests which are inextricably linked:

6.3 **Yield test** - Investments must demonstrate the best use of Council money: this is to be measured typically by generating a suitable rate of return (net savings/income) of at least the Bank of England base rate i.e. yield should exceed the comparable investment returns available on cash deposits.

6.4 The rate of return takes into account the gross yield/revenue/savings generated/costs avoided and deducts relevant costs (including capital financing and borrowing costs) to arrive at net income/savings.

6.5 Whilst rate of return is the primary assessment measure for yield, other factors that will be considered include:



- Payback - the period over which the initial outlay will be recouped. The shorter the payback the more attractive the investment.
- Expected date of positive net return - whilst an investment can have a rate of return over the life of an asset, it may not yield a positive net return in the early years. Given the MTFP objectives of reducing net costs, it is desirable for investments to generate a “surplus” sooner rather than later

6.6 **Risk test** – investments must not expose the Council to an inappropriate level of risk and in particular the security and liquidity risks must be adequately managed as a priority.

6.7 Asset/property related investments invariably carry risks that treasury investments do not in relation to the property itself or the economy (e.g. risk that the Council will not get its investment back, that the rate of return is not guaranteed, that the Council will be faced with unknown costs and that asset values will decrease rather than increase).

6.8 The typical risks are shown in Annexe A2 with a description of how they are assessed through the investment tool. The assessment tool does have a pass/fail. Any investment has got to exceed the rate of return achievable by standard treasury investment, currently assumed to be 1% A summary version of the investment appraisal tool is included in Annexe A2.

6.9 **Proportionality Test** – There are two main aspects to proportionality.

- The extent of the impact to the Council revenue budget.
- The proportion of capital investment allocated to invest to save projects.

6.10 Proportionality for the revenue budget will depend on the risk the Council is exposed to. Careful analysis will be required of the maximum amount that the revenue budget could reasonably absorb and what the level of risk is above this. This involves assessing the key risks associated with an investment, working out the potential loss value and probability of occurrence and then setting aside a reserve to cover such losses. This would need to be regularly reviewed to ensure the reserve is still valid e.g. a change in economic position may impact the probability of high vacancy rates. Examples of the types of test that can show how proportionality can be managed are shown below.

<b>Property A - Purchased for £3.5m – Economic Development</b>									
<b>Loss Event</b>	<b>High Vacancy Rate</b>			<b>Decrease in Property Value</b>			<b>Impairment</b>		
	<b>25%</b>	<b>50%</b>	<b>100%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>	<b>£250k</b>	<b>£1m</b>	<b>Full Loss</b>
Projected Loss (a)	£104k	£209k	£467k	£350k	£700k	£1,050k	£250k	£1,000k	£3,500k
Probability of Occurrence (b)	40%	10%	1%	10%	5%	1%	10%	0.5%	0.25%

Loss a x b	£42k	£21k	£5k	£35k	£35k	£11k	£25k	£5k	£9k
Weighted Average Loss	£188k								
Assumed Reserve Level created	£100k								
Impact to General Fund	£88k								

New Leisure Centre - Purchased for £10m									
Loss Event	Service Support			Decrease in Property Value			Impairment		
	£50k	£100k	£150k	10%	20%	30%	£250k	£1m	Full Loss
Projected Loss (a)	£50k	£100k	£150k	£1,000k	£2,000k	£3,000k	£250k	£1,000k	£10,000k
Probability of Occurrence (b)	20%	10%	1%	10%	5%	1%	10%	0.5%	0.25%
Loss a x b	£10k	£10k	£2k	£100k	£100k	£30k	£25k	£5k	£25k
Weighted Average Loss	£307k								
Assumed Reserve Level created	£150k								
Impact to General Fund	£157k								

6.11 The above test(s) would show that the Council would have insufficient reserves to cover the weighted average loss. To mitigate this the Council should set a reserve level consistent and proportionate to the investment, in the case(s) above £188k and £307k.

6.12 Creating a proportionate reserve level would give the Council sufficient coverage to determine the best course of action for each asset should a loss event occur.

## 7. GOVERNANCE

7.1 Full Council agrees the Capital Investment Strategy including this Invest to Save Policy.

7.2 The Policy framework includes:

- Access to funds;
- A framework for appraising investments; and
- A framework for decision-making.

## **8. STAFFING**

- 8.1 The successful implementation of any invest to save project will largely be reliant on the availability of people with the necessary experience of delivering capital projects and managing opportunities in order to source suitable opportunities that match the criteria set under the policy.
- 8.2 The Council will also make use of external advice e.g. external valuers, property condition experts, system/technology experts etc. Other advice will be commissioned as and when required.

## **9. PERFORMANCE INDICATORS**

- 9.1 Both non-financial and financial investments performance indicators are shown as part of Treasury Management Strategy. Any investment which is based on income generation will also be subject to additional indicators These include:
- net yield (£ and %)
  - capital value (e.g. fair value) and liquidity assessment
  - expected v actual payback
  - risk assessment
- 9.2 Ongoing review will consider any measures required to improve performance and to protect/enhance existing assets.

## ANNEX A2 - TYPICAL INVESTMENT RISKS AND HOW THEY CAN BE MITIGATED

Example risks generated revolve around expansion of property portfolio and developing own facilities.

Risk	How addressed through risk assessment	Details
Council purchases or develops property that cannot be leased	SECURITY OF INCOME	Council will aim to buy tenanted properties or will require a pre-let agreement in the event that it develops properties for let
Council develops its own provision e.g. leisure centre and income is not maintained or costs escalate.	SECURITY OF INCOME	Council will factor any risks associated with income or expenditure assumptions into the risk assessment. The extent of the risk may dictate the rate of return required i.e. a small surplus and hence rate of return on running a leisure centre may not give sufficient headroom to counter rising costs or falling income.
Council develops its own provision for which the need may not be guaranteed e.g. care provision	SECURITY OF INCOME /SECURITY OF CAPITAL	Council will factor any risks associated with income or expenditure assumptions into the risk assessment.
Council purchases a tenanted property but tenant leaves	SECURITY OF INCOME/ LOCATION AND SECTOR/ THE PROPERTY	Council will undertake due diligence around tenants. It will also try and acquire properties that are flexible (i.e. not bespoke) and in locations where there is demand
Tenants default on payments	SECURITY OF INCOME	Provisions built into leases (as with OEP) to provide protection  Rent deposits considered as appropriate. Parent company guarantees may also be sought if applicable.
Rental income dips in light of market conditions	SECURITY OF CAPITAL	For tenanted properties, Council will review lease length, rent review clauses etc to understand what protection is built in.  For new developments or new lets, financial assessment to reflect the risk of lower rents
Value of capital investment reduces because of market conditions (covers all assets not just Property)	LOCATION AND SECTOR/ SECURITY OF CAPITAL	Council is not exempt from the impact of the wider economy but  a) will commission market appraisal information

Risk	How addressed through risk assessment	Details
		<ul style="list-style-type: none"> <li>b) will consider the location and sector and</li> <li>c) aims to hold assets for the long term so that it can “ride” out short term market impacts (solely property)</li> <li>d) for IT and other investment ensures payback before obsolescence</li> </ul>
Council purchases property requiring substantial repairs and maintenance	PROPERTY RISK	<p>Property condition survey undertaken by qualified surveyors as part of due diligence and costs can be factored into financial assessment.</p> <p>Council will seek to agree a Full Repairing and Insuring (FRI) lease where appropriate - a lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.</p>

## ANNEX A3 - FINANCIAL AND RISK ASSESSMENT

The example below is based on a new build Leisure Centre - where the investment required from RCC is £2.5m of the total build cost of £10m

Criteria	Metrics	Detail	Value
Measurement of Investment Performance	<b>Cost of Investment</b>	Capital cost of investment (initial outlay and any further outlay required)	£10m
	<b>External Funding</b>	Amount of External Funding Available	£7.5m
	<b>RCC Investment</b>	Amount of Investment Required by RCC	£2.5m
	<b>Gross Yield</b>	Average income per annum	£0.1m
	<b>Costs</b>	Average running costs including capital financing costs per annum	£0.05m
	<b>Proportionality</b>	Consideration is given to the size of the investment and the potential risk and impact to the Council, with a test similar to that in 6.9 undertaken.	Yes
	<b>Savings</b>	Annual savings generated through investment (savings may be cost already in MTFP or not included e.g. investment necessary to avoid cost)	N/A

<b>Year in surplus</b>	Year by which the investment will yield a positive MTFP impact i.e a surplus	<b>1</b>
<b>Payback period</b>	Year by which any capital outlay will be recouped	<b>50</b>
<b>Net yield</b>	Average net income/saving per annum	<b>£0.05m</b>
	Rate of Return Total Investment %	<b>0.5%</b>
	Rate of Return RCC Investment	<b>2.0%</b>
	Pass or Fail? (Has got to beat rate of return achievable by standard treasury investment) currently assumed to be 1%	<b>Pass</b>

Risk Category and weighting	Description	Investment Risk Indicators		Leisure Centre Assessment (1 – high risk, 5 low risk)
Security of Income / Saving  40%	The income (or revenue savings) which are likely to be generated by the investment is the most important element. The security of the income will be governed by lots of factors.	High Risk	No existing tenant or income source, savings not secured, no obvious market or demand, high turnover or tenant, lease lengths likely to be short, sector has high levels of uncertainty	Score: 1  The leisure market is unstable and income levels are demand led and can be variable. In a small community, there is no guarantee around income levels.
		Low Risk	Savings guaranteed and quantifiable, Secured tenants, high demand	
Location of sector  10%	The investment should be in an area/sector which is economically buoyant and has the potential for sustainable financial and economic growth.	High Risk	Undesirable area with limited growth potential, niche sector	Score: 1  Leisure Market is unstable
		Low Risk	Economically buoyant area and sector	
The Property / Asset  20%	The age and construction of investment should be considered including the potential for alternative use, obsolescence, requirement for repairs / improvements.	High Risk	Old building, high risk of repairs, high potential for obsolescence, inefficient and high cost, not adaptable for alternative use if needed	Score: 5  New build so low risk, repair cost should be low.
		Low Risk	New or modern building, low maintenance, well designed, flexible use for alternative uses	
Security of Capital	An assessment should be made on the security of capital and the scope	High Risk	Value of Property / investment is likely to decrease	Score: 3  Land value in Rutland likely to rise. This has not scored higher

<b>Risk Category and weighting</b>	<b>Description</b>	<b>Investment Risk Indicators</b>		<b>Leisure Centre Assessment (1 – high risk, 5 low risk)</b>
/Scope for capital appreciation  10%	for capital appreciation in respect of the investment.	Low Risk	Value of Property / investment is likely to increase	due to the specialist nature of the building which means it is not multi-purpose use.
Other Benefits  20%	There may be other non benefits, regeneration, environmental, job creation, business rates, place shaping, diversity of offer, social value etc	High Risk	No other benefits	Score: 4  Social value around public health and improving health of the wider community.
		Low Risk	Other benefits exist	

The example above has been scored and the table below summarises the score. For the theoretical example above, the leisure centre passed the financial assessment, but failed the risk assessment. Based on the assessment tool the investment would not qualify for investment under the Invest to Save policy.

<b>Risk</b>	<b>Weighting %</b>	<b>Score</b>	<b>Weighted Score</b>
Security of Income/Saving	40	1	0.4
Location & Sector	10	1	0.1
The Asset	20	5	1.0
Security	10	3	0.3
Other Benefits	20	3	0.6
<b>Total</b>	<b>100</b>	<b>13</b>	<b>2.4</b>
Weighted Score Pass			2.5
Pass/Fail			Fail



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**Rutland**  
County Council

Rutland County Council  
Catmose, Oakham, Rutland LE15 6HP

01572 722 577  
**enquiries@rutland.gov.uk**  
**www.rutland.gov.uk**