



Rutland
County Council

Appendix 2

Capital Investment Strategy

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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:

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

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

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 has 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; and
- 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”; and
- to avoid unnecessary revenue costs e.g. investment to reduce repairs.

2.1.5 The Councils’ capital expenditure plans are therefore all linked to the Corporate Strategy, 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 Strategy - 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 has agreed a new Corporate Strategy and is doing significant work in all of the above areas that may 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 Rutland County Council has adopted a new Corporate Strategy which sets out our ambitions and priorities for the next five years (2022-2027). The Corporate Strategy guides everything we do as Council, across all our services. It lists a total of 25 commitments covering everything from sustainable development and carbon reduction, to reducing health inequalities and supporting vulnerable people.

3.2.2 In its Corporate Strategy, the vision for Rutland is "A county for everyone and a place to live your best life". This vision is supported by priorities:

3.2.3 The direction of travel and potential capital impact of the Council's key strategies are covered below:

Area	Details	Impact on investment plans
Leisure	<p>Council considering the future of leisure provision and exploring various options. The Council is tied into a long term lease at Catmose College that it will need to exit should Leisure provision not be affordable.</p> <p>Council retains long term aspirations for a new leisure facility if externally funding can be secured but for now this is not considered a capital priority.</p>	<p>No impact yet pending Council decision.</p> <p>Should Council retain assets then funding may be needed to meet any associated liabilities.</p>
Waste	<p>Council's Municipal Waste and Street Scene strategy aims to reduce waste and increase recycling rates in line with Government targets.</p> <p>The soft market testing for the Council's waste management contract highlighted the market preference for the Council to finance/provide fleet vehicles and the infrastructure to support delivery of the contract (depot and waste transfer station). The lack of waste infrastructure was identified</p>	<p>No impact on plans yet but outcome of the business case work could impact future plans.</p>

Area	Details	Impact on investment plans
	<p>as a key risk for bidders.</p> <p>The Council has commissioned a business case to address proposals to invest in Council owned waste infrastructure, namely depot, waste transfer station and Household Waste Recycling Centre.</p> <p>Following a decision to extend the current contract, the Council is also considering a detailed business case to consider ownership and fleet requirements for the re-procurement.</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 Executive has determined initial priorities for use of CIL/s106 and to meet infrastructure needs of housing growth. (Report 196/2022)</p>	<p>Priorities have been set out in the short term. As projects come forward they will be built into the capital programme.</p>
Health Plan	<p>Local health and care organisations have worked with the public to produce a new Health and Wellbeing Strategy for 2022-2027. The aim of Rutland's strategy is safe, healthy and caring communities where people start well and thrive together through their life.</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 proposals have been made but discussions are ongoing.</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</p>	<p>Short term transport projects built into plans.</p>

Area	Details	Impact on investment plans
	<p>Residents; and Health and Wellbeing.</p> <p>The issues of the transport network have been highlighted in the Future Rutland 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.</p>	
Education	<p>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. The Council has a project with Catmose College to deliver 30 additional places through the development of an 8 Form Entry secondary school. Work is expected to be completed by the summer 2024.</p>	<p>There are no further projects in the pipeline.</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>	<p>Plans include full use of Highways funding to improve infrastructure assets.</p>
Prosperity Investment Plan	<p>We have identified key investment priorities for our County that will deliver impact for our residents and business and meet the objectives of the UK Shared Prosperity Fund:</p> <p>We have received over £1m of funding to go towards the following priorities:</p> <ul style="list-style-type: none"> • Funding for town centre improvements • Support for local arts, cultural, heritage and creative activities. • Support for active travel enhancements in the local area. 	<p>Plans built into capital and revenue budgets</p>

Area	Details	Impact on investment plans
	<ul style="list-style-type: none"> • Funding for impactful volunteering and/or social action projects to develop social and human capital in local places. • Investment and support for digital infrastructure for local community facilities. 	
Climate change	<p>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.</p> <p>The Corporate Plan Strategy include an action to develop firm plans for the achievement of this commitment. Whilst this work has been deferred, Lincolnshire County Council led a bid for £935,355 for electric vehicle charging funding across a number of areas. The funding will in total see 322 standard and 27 rapid electric vehicle charging points across the Midlands. We await details about how the programme will be delivered and how many points will be created in Rutland.</p>	Externally funded programme is in the pipeline.
Levelling Up Bid	<p>The Council has submitted a Levelling Up Bid and awaits the outcome which is expected in early 2023. The bid focuses on:</p> <p>a) Food Innovation Showcase – Development of cattle market site for events infrastructure, food and drinks production units and supporting business support and tourism related activities by working with Melton Mowbray Market.</p> <p>b) Health and Digital Innovation Showcase – Development of a new digital innovation facility anchored around health at the Oakham Hospital Site supporting the creation of high growth digital businesses and extending into a new digital visitor experience showcasing the globally significant recent archaeological finds in Rutland.</p>	The Council may be required to provide match funding for any successful bid.

Area	Details	Impact on investment plans
	c) Mobility Showcase – Enhancing access, through the development of an e-enabled, community directed approach to demand focus travel, based on a Mobi-Hub , headquartered at the Oakham Hospital Site but providing links across the whole geography harnessing the economic potential of over 100,000 people.	

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, the Council had 110 property assets, with 72 of these relating to Public Open Space (32), Playing Fields (15), Other parcels of land (20) and Garage Sites (5). This leaves 38 assets that the Council uses for service delivery purposes.
- 3.3.3 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.
- 3.3.4 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.
- 3.3.5 In 2022/23 the Council completed a condition survey of the majority of properties which highlighted works required over the life of assets. For now, the capital programme includes emergency work required approved by Cabinet (Report 183/2022) in November valued at £565k.
- 3.3.6 The Council has also approved a Property Asset Strategy and guiding principles for the future management of the Council's assets. It includes the following aims:
- Manage property to support RCC objectives and priorities set out in the Corporate Plan;
 - Minimise the operation and long-term cost of the Council's estate;

- Provide Value for Money by using Council resources wisely and having the required information to make robust and informed decisions – developing a planned maintenance approach;
- Deliver and support services by providing assets fit for purpose and effective, modern ways of working;
- Consider the impact of sustainability in all decisions, making buildings as sustainable as possible and considering the impact of our carbon footprint;
- Take a dynamic approach to asset management including retention, repurposing and disposal;
- Work with Partners to maximise opportunities and consider the transfer of services/assets to Town and Parish Councils and others; and
- Implement a Corporate Landlord Model reduce running costs and maximise income.

3.4 Invest to Save

3.4.1 The Councils Financial Sustainability Strategy (158/2022) requires the Council to transform the way it works and its service offer. As part of this, the Council “will borrow to capital invest (and reduce revenue costs)”. The Councils Invest to Save Policy (Annex A1) sets out how any proposals will be assessed.

3.4.2 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 Indicative Capital Allocations Report (197/2022) sets out the Capital funds currently held by the Council and proposed indicative priorities over the five priorities set out in the Councils Corporate Strategy, these include

a) Priority One: A Special Place: Total £3.981m

- Investment in Highways, Heritage and Culture and the County's public spaces to improve the cultural offer, attractiveness, accessibility, and safety within the market towns and villages.
- It is proposed that a community grants scheme is established to promote and support the vibrancy of the County's communities. The community grants scheme will be the subject of a future report to Cabinet.

b) Priority Two: Sustainable Lives: Total £3.045m

- Investment in the County's waste and recycling services to secure long-term resilience and value for money.
- It is also proposed to invest in the redesign of a sustainable and integrated public transport network that supports the implementation of the approved Bus Service Improvement Plan, increases bus usage, and reduces the County's carbon footprint.

c) Priority Three: Healthy and Well: Total £1.797m

- Investment in improvements and increased health provision that meets the needs of all the County's residents. This investment must increase provision and not just upgrade or maintain existing provision.
- Use of ring-fenced adult social care capital funds to support the care and independence of the County's residents.

d) Priority Four: A County for Everyone: Total £1.730m

- Investment in the provision of services for early years, children, and young people and promoting the delivery of affordable housing within the County.
- It is also proposed to work with Police and Fire and Rescue services to invest in ensuring Rutland remains safe and welcoming.

e) Priority Five: A Modern and Effective Council: Total £2,249m

- Investment in optimising the use of assets to provide value for money and support future service delivery and the County's strategic priorities. The report to November cabinet on the high-level asset strategy will inform investment priorities and requirements for the Council's estate.

3.5.3 The Council will build on this work and be in a position to develop a longer term investment programme covering say the next 10 years aligned with its work on a new Local Plan.

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 2023/24 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 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 2023/24 and Medium Term Financial Plan (02/2023). 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
Commercial investments 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”	Buying a hotel Buying a rental property	The Council will not undertake this type of investment in light of latest CIPFA guidance.
Service investments – financial 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.	Development of business park within County Provision of office space for start-up businesses within County Building new Leisure provision	Invest to Save Policy (Annexe A1)
Pure service investments are those made clearly and explicitly in the course of the provision, and for the purposes, of operational services.	Moving out of Council office to another site Expanding an existing school Giving disabled facilities grant so people can “stay put” Repair and maintenance of assets	Capital programme pro-forma as required by Financial Procedure Rules (para 5.6) so that VFM can be assessed.

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

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 The Council have the following delegations in place for approving capital investment:
 - Report 191/2016 - Cabinet agreed that authority be delegated to the Chief Executive and relevant Portfolio Holder to add small schemes (less than £50k) to the capital programme on the condition that all decisions are

reported in the Quarterly Finance Report (Report No. 191/2016, Appendix A, para 2.4.4).

- Report 95/2020 - Cabinet agreed that the Strategic Director of Place in consultation with the Section 151 Officer and Director of Legal and Governance, and the Portfolio Holders for Planning and Resources be able to make decisions relating to the expenditure of Section 106 monies up to a value of £500,000 to deliver infrastructure and community facilities in accordance with the provisions of each individual obligation (Approved by Cabinet 31st July 2020, Report No 95/2020)
- Report 25/2021 - Delegate authority to the Strategic Director for Places in consultation with the Portfolio Holder for Culture and Leisure, Environment, Highways & Transportation & Road Safety to: Approve the design, construction/ implementation and spend of/ on ITCP schemes with a value between £10,001 and £200,000.
- Report 111/2017 – Cabinet authorised the Director for Resources to allocate the IT capital allocation of £150k.

6.2.4 Part 8 of the Constitution - Financial Procedure Rules - Council/Cabinet determine how capital projects will be funded on advice from the Chief Finance Officer. There may be exceptional circumstances whereby it is financially beneficial to the Medium Term Financial Plan and thereby the Revenue Account to change how projects are funded (e.g. to avoid borrowing costs) if the financial context has altered when preparing the outturn. The Chief Finance Officer in preparing the outturn will seek approval of any changes from Cabinet or Council if changes involve using new funds are not listed in the original programme.

6.2.5 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.

6.2.6 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.

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.

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.

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.

	Funded by borrowing	Non borrowing
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.

6.6.1 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).

6.6.2 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. A summary version of the investment appraisal tool is included in Annexe A2.

6.7 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.

6.7.1 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 tests that can show how proportionality can be managed are shown below.

	Property A - Purchased for £3.5m – Economic Development								
Loss Event	High Vacancy Rate			Decrease in Property Value			Impairment		
	25%	50%	100%	10%	20%	30%	£250k	£1m	Full Loss
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								

- 6.8 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.
- 6.9 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.

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 are 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 b) will consider the location and sector and

Risk	How addressed through risk assessment	Details
		<p>c) aims to hold assets for the long term so that it can “ride” out short term market impacts (solely property)</p> <p>d) for IT and other investment ensures payback before obsolescence</p>
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	Cost of Investment	Capital cost of investment (initial outlay and any further outlay required)	£10m
	External Funding	Amount of External Funding Available	£7.5m
	RCC Investment	Amount of Investment Required by RCC	£2.5m
	Gross Yield	Average income per annum	£0.1m
	Costs	Average running costs including capital financing costs per annum	£0.05m
	Proportionality	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
	Savings	Annual savings generated through investment (savings may be cost already in MTFP or not included e.g. investment necessary to avoid cost)	N/A

Year in surplus	Year by which the investment will yield a positive MTFP impact i.e. a surplus	1
Payback period	Year by which any capital outlay will be recouped	50
Net yield	Average net income/saving per annum	£0.05m
	Rate of Return Total Investment %	0.5%
	Rate of Return RCC Investment	2.0%
	Pass or Fail? (Has got to beat rate of return achievable by standard treasury investment) currently assumed to be 4%	Fail

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	High Risk	Value of Property / investment is likely to decrease	Score: 3 Land value in Rutland likely to rise. This has not scored higher

Risk Category and weighting	Description	Investment Risk Indicators		Leisure Centre Assessment (1 – high risk, 5 low risk)
		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.
/Scope for capital appreciation 10%	scope for capital appreciation in respect of the investment.			
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 failed the financial assessment and risk assessment. Based on the assessment tool the investment would not qualify for investment under the Invest to Save policy.

Risk	Weighting %	Score	Weighted Score
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
Total	100	13	2.4
Weighted Score Pass			2.5
Pass/Fail			Fail

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