APPENDIX D

STAFFORDSHIRE MOORLANDS DISTRICT COUNCIL

CAPITAL STRATEGY 2020/21

1 Introduction & Background

1.1 The 2017 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities requires local authorities to produce a 'Capital Strategy' from 2019/20. The purpose of the Capital Strategy is to demonstrate that the Council's capital expenditure and investment decisions are taken in line with corporate priorities and properly take account of the following:

- Stewardship;
- Value for money;
- Prudence;
- Sustainability; and
- Affordability.

1.2 The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability. It allows authorities to give greater weight to local circumstances and explain their approach to borrowing and investment.

1.3 The Strategy forms part of the Council's integrated revenue, capital financial planning and sets out the long term context in which capital expenditure and investment decisions are made. It is an integral component of the Medium Term Financial Plan (MTFP) and is aligned with the Council's:

- Corporate Plan
- Asset Management Strategy;
- Growth Strategy; and
- Treasury Management Strategy

1.4 The strategy will provide for a balanced, sustainable capital programme over the medium term planning period ensuring that limited resources are applied in the most effective, efficient and economical way to contribute to the achievement of the Council's Corporate Plan.

1.5 The strategy sets out how the Council will prioritise its capital spending plans within the resources available and indicates the action to be taken to maximise resources for capital spending. The strategy is strategic in nature and will focus upon the process for determining capital investment priorities.

1.6 The strategy sets out the strategic approach to the management of debt and borrowing. The detailed implications of this are contained within the Treasury Management Strategy (TMS) which is updated annually. .

1.7 The Capital Strategy will be updated annually alongside the Council's MTFP. There will also be a fundamental review of the strategy alongside a revision of the Corporate Plan.

2. Corporate Priorities

2.1 The Capital Strategy is driven by local priorities. The Council's spending strategy is set out in the Corporate Plan formally adopted by the Council.

2.2 Following the elections in May 2019, there has been a fundamental review of the Corporate Plan focussing on the period 2019-2023 (up to the end of the current political administration). The Corporate Plan was agreed by Council on 16th October 2019 with 2020/21 representing the first full year of the new Corporate Plan.

2.3 The Council's 4-year Corporate Plan (2019-2023) establishes the Council's vision, corporate objectives and key priorities for the medium term. It in effect establishes the Council's commitment in the delivery of service and community leadership to the residents of the Staffordshire Moorlands.

2.3 The Council's vision is restated as:

"Achieving Excellence in the delivery of high quality services that meet the needs and aspirations of our communities"

2.4 This vision is articulated further by four aims:

- Help create a safer and healthier environment for our communities to live and work
- Effective use of resources and provide value for money
- Help create a strong economy by supporting further regeneration of towns and villages
- Protect and improve the environment and respond to the climate emergency

2.5 These aims are supported by a number of objectives which also provide the framework for the delivery of service plans. The Council's objectives are summarised below:

	Aim	Objectives
1	Help create a safer and healthier environment for our communities to live and work	• Increased supply of good quality affordable homes • Develop a positive relationship with communities • Effective relationship with strategic partners • Effective support of community safety arrangements including CCTV • Provision of sports facilities and leisure opportunities focused upon improving health
2	Effective use of resources and provide value for money	• Effective use of financial and other resources to ensure value for money • Ensure services are easily available to all our residents in the appropriate channels and provided "right first time" • A high performing and well motivated workforce • More effective use of Council assets • Effective procurement with a focus on local business • Effective use of ICT

	Aim	Objectives
3	Help create a strong economy by supporting further regeneration of towns and villages	• Encourage business start-ups and enterprises • Flourishing town centres that support the local economy • Encourage and develop tourism • High quality development and building control with an "open for business" approach
4	Protect and improve the environment and respond to the climate emergency	• Effective recycling and waste management • Meeting the challenge of climate change • Provision of high quality public amenities, clean streets and environmental health • Provision of quality parks and open spaces • Car parking arrangements that meet the needs of residents, businesses and visitors

2.6 The Council is committed to playing the lead role in championing the local area. In so doing the Council recognises its community leadership role. Fulfilling this role effectively means influencing partners in a number of key areas in order to ensure that services are shaped and delivered around the needs and aspirations of citizens.

2.7 The Council's influencing role is focused in the following areas:

- Support the police and other partners to reduce crime, the fear of crime and anti social behaviour
- Ensure there is effective health provision particularly for the elderly
- Ensure that there an effective provision of waste and recycling centres across the district
- Work with Staffordshire County Council to provide accessible on-street parking
- We will work with partners to improve the provision of bus services which connect our villages with our three market towns for services, shopping and leisure.
- Expand the Growth Deal partnership with Staffordshire County Council on the will be expanded to provide inward investment
- Work to combat illegal money lenders such as loan sharks
- Continue to support the Churnet Valley Railway with their plans to bring trains back to Leek
- Work with Staffordshire County Council

2.8 The Plan identifies key priority outcomes, which will be the highest priority in the development of performance targets and key actions. A significant proportion of the Council's resources will be directed towards achieving them:

Aim	Objectives
Help create a safer and healthier environment for our communities to live and work	• Increased supply of quality affordable homes • Improved health • Improved community safety
Effective use of resources and provide value for money	• Council services provide value for money • High level of resident and customer satisfaction

Aim	Objectives
Help create a strong economy by supporting further regeneration of towns and villages	• Sustainable towns and rural communities • Increased economic growth • Increased tourism
Protect and improve the environment and respond to the climate emergency	• High recycling rates • Reduction in carbon emissions

3. Capital Spending Priorities

3.1 The Council's capital investment priorities are determined by the corporate priorities set out above. The key capital investment priorities for the Council are therefore as follows:

Corporate Property – the Council will invest in maintaining the properties that support the delivery of services direct to residents.

Other Corporate Assets – the Council will invest in other assets that support the delivery of services e.g. transport fleet.

Affordable Housing & Private Sector Housing Renewal – the Council will support the development of affordable housing and investment in the improvement in housing conditions throughout the district

Enabling Growth – the Council will support the growth of business and employment opportunities within the district in addition to housing development in line with the commitments set out in the Local Plan

Service Transformation – the Council will invest in projects that improve service performance or reduce service expenditure on an "invest to save" basis the will include investment in ICT

4. Asset Management Planning

4.1 The overriding objective of asset management is to ensure that the Council maintains a portfolio of property assets that is appropriate, fit for purpose and affordable.

4.2 The council's property portfolio consists of the following:

- ***Operational property*** i.e. assets that support core business and service delivery
- ***Investment properties*** held to support economic growth and / or to provide a financial return to the Council e.g. industrial units
- ***Community assets*** e.g. parks, playgrounds and open spaces.

4.3 Asset management is an important part of the council's management arrangements and is crucial to the delivery of value for money services. The Council through production of its Asset Management Plan (AMP) is committed to:

- Optimise the Council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal;
- A regular review of the condition of retained properties including a long-term (30-year) assessment of the necessary investment to maintain the assets fit for purpose; and
- Realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the market conditions.

5. Commercial Activities

5.1 The Council currently undertakes and will continue consider commercial activities. These are in two forms:

Alternative service delivery arrangements – where the Council has a stake in a company which is established for the delivery of Council services

Commercial investments **-** investments taken for mainly financial reasons - these may include:

- Investments explicitly taken with the aim of making a financial surplus for the Council.
- Commercial investments also include fixed assets which are held primarily for financial benefit or to support economic growth.

5.2 The reasons for commercial investments are:

- Financial returns to fund services to residents;
- Reductions in service spending;
- Pursuing the Council's Growth Strategy; and
- Economic development and regeneration activity in the district

5.3 The Council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

5.4 Such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported. Before considering any such investments the Council will ensure:

- That it has the appropriate legal powers to undertake such investments; and
- That any investment is proportionate of all investments in order to avoid an excessive level of risk.

5.5 The commercial investments may involve the acquisition of property. The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as property held solely to earn rentals or for capital appreciation or both. Historically, property has provided strong investment returns in terms of stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. These risks will continue to be identified and managed through the Council's Risk Management Framework.

5.6 The council may fund commercial investments by borrowing. The revenue returns should exceed the cost of repaying the borrowed money each year.

6. Loans to Third Parties

6.1 The council has discretion to grant loans to third parties for a number of reasons. These loans are treated as capital expenditure. In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council, in making these loans, will therefore ensure they are prudent and that the risks have been identified and fully considered.

6.2 The Council will periodically review its loan portfolio in order to ensure that the cumulative exposure of the Council is proportionate and prudent.

6.3 The Council will ensure that a full due diligence exercise is undertaken for each individual loan and will ensure that adequate security is in place. The business case for each loan will consider all of the benefits and the risks.

6.4 It will be necessary to assess the level of risk attached to the provision of each individual loan and consequently build in a 'risk premium' into the interest rate charges to account for this. The factors taken into account in determining this premium:

- the level of security;
- financial position and credit rating;
- the overall term of the loan; and
- the value of the loan.

6.5 The step by step process undertaken is outlined below:-

STEP 1 – Assessing State Aid Implications	In assessing state aid implications and due diligence around risk, the starting point used is the EU reference rate: as it stands, this is approximately 1%. Other considerations are then assessed (based on STEP 2 – 4) which potentially increase this rate between 1-10% - resulting in an overall rate chargeable between 2% and 11%.
STEP 2 – Assessing available market rates	In liaison with the Council's Advisors, the interest rate the third party would be expected to pay if accessing funding from the market (based on amount/loan term etc) is estimated. This is to ensure the rate the Council is offering is competitive and not undercutting the market.
STEP 3 – Assessing credit quality	The next consideration is credit quality – which may then consequently reduce/increase the rate. Factors that are taken into account include:- credit ratings (if applicable), the financial position of the borrower, what security is available etc.
STEP 4 – Assessment of Corporate Plan objectives	Finally, there is an overall assessment of the purpose of the third party loan and linking this to the Council's Corporate Plan objectives – local factors based on the outcomes of the loan may have an influence on the rate charged.

6.6 All loans are agreed by full Council in line with the Council's constitution. All loans will also be subject to regular monitoring.

7 Capital Expenditure

7.1 Capital spending decisions will appropriately reflect the aspirations and priorities included within the Corporate Plan and its supporting strategies.

7.2 Any scheme / project to be added to the Capital Programme will be subject to a 'gateway' process and prioritised according to availability of resources and the longer-term impact on the council's financial position. The 'gateway' process will be undertaken in line with the Council's agreed project management methodology with a robust business case being developed at the critical stages of project approval and initiation. This process will be overseen by the Council's Transformation Board.

7.3 The business case will include the following considerations:

- A clear assessment of the cost of financing the capital scheme, net of revenue benefits, profiled over the lifetime of each scheme; and
- Commissioning and procuring for capital schemes will comply with the requirements set out in the Council's Procurement Procedure Rules.

7.4 The Capital Strategy and the Capital Programme will be agreed by the Council in February each year as part of the budget setting process. The Medium Term Financial Plan, Asset Management Plan and Treasury Management Strategy will be considered at the same time. In year variations of spend (subject to budget tolerance levels) and the re-profiling of schemes will be considered and approved by Cabinet.

7.5 The Cabinet and the Resources Overview & Scrutiny Panel receive capital monitoring reports as part of the quarterly performance and financial monitoring reports.

7.6 Cabinet considers and approves new bids for inclusion in the capital programme. Approval to spend on individual capital schemes will only be given once procedural this approval has been achieved.

7.7 Each approved scheme will be included in the Council's Transformation Programme and one of the Council's Alliance Management Team (AMT) will be assigned as Project Executive and will be responsible / accountable for the delivery of the scheme.

7.8 Wherever possible the Council will take a long term view of plans in order to assess affordability and the demand on future capital resources. It is essential for example to consider the lifespan and fitness for purpose of assets. This will be considered through asset management planning (condition surveys) and wider service based exercises e.g. leisure centre provision evaluation.

7.9 There is a clear demand for long term planning for capital and treasury management purposes. The council's current debt portfolio contains loans that mature up to 2021. The debt repayment profile needs to be managed alongside the longer term expectations for capital expenditure and funding forecasts.

7.10 Long-term forecasts are not easily predicted and the accuracy of all financial estimates will be limited. However, long-term forecasting is valuable in informing strategic plans taking account of the cumulative sustainability and affordability of existing and planned investments which will need to be repaid over future periods. For major projects and investment the funding and financial implications need to be planned well in advance.

8 Resourcing Capital Expenditure

8.1 In order to fund its capital investment, the Council will have access to limited sources of funding. The main sources of funding are as follows:

- ***Capital Receipts***

These will be yielded from the disposal of land and property. A programme of disposal will be agreed by the Cabinet. This will be informed by the asset management planning process. In considering disposals the Council will take account of the following:

- Potential loss of income from investment properties
- Projected saving in running costs, and capital costs of major investment required
- Assessment against fitness of premises for purpose and current patterns of need

The Secretary of State has allowed the flexible use of capital receipts. It is considered that individual local authorities will be best placed to decide which projects will be most effective for their area. The key criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings. If the Council plans to use this funding option a proposal will be prepared setting out the planned use, listing the projects and the expected savings and / or improvements in service outcomes for each project, and the impact on the Council's prudential indicators.

- ***Borrowing***

Capital projects that cannot be funded from any other source can be funded from borrowing. Local Authorities can borrow to fund schemes where it is prudent to so. They need to consider their ability to pay for the borrowing. The levels of borrowing are determined by using the indicators set out in the Prudential Code. The borrowing repayment and interest charges on the loan need to be met from existing revenue budgets or identify them as new growth in the annual budget setting process and factor them into the MTFP.

The Chief Finance Officer will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested and the impact of the Council's borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.

The Chief Finance Officer will also determine whether the borrowing should be from internal resources or whether to enter into external borrowing. This decision making will be undertaken in line with the Council's Treasury Strategy and will be reported to the Audit & Accounts Committee as part of the monitoring of treasury management activity.

- ***Revenue Funding***

The Council may use revenue budgets to fund capital expenditure. This may be via a capital reserve which has been established to finance capital expenditure as an alternative to external borrowing.

The Council will formally review such reserves and their application both as part of the budget setting process and at finalisation of the annual accounts.

- ***S106 contributions***

The principal purpose of S106 agreements is to support individual planning applications in line with the Council's planning policies. Wider contributions are constrained by legislation and have to be negotiated and justified.

The Council will ensure these are where possible focussed towards corporate priorities subject to the legislative constraints.

- ***External Grant Funding***

The Council has a history of success in bidding for grants from a number of sources. There is a risk of reacting to funding opportunities informed by external priorities rather than chasing those that match the Council's priorities / needs.

The Council will seek to ensure that bids are submitted to support investment that is directed to the commitments made in the Corporate Plan.

- ***Partnership Funding***

There are a number of examples where the Council has attracted third party funding from partners e.g. leisure centre investment from long-term contractor.

The Council is aware of the need to be innovative and to work closely with the private, public and voluntary Sectors to deliver outcomes in line with the Corporate Plan priorities at a time when there will be reduced levels of capital resources.

Any such investments will be considered only if they are more cost effective than the Council investing directly.

9 Forecast Expenditure and Resources

9.1 The forecasted spend over the current financial planning period (2020/21 to 2023/24) is as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£	£	£	£	£	£
Asset Management Plan	596,870	1,303,170	1,594,610	1,008,100	497,270	5,000,020
Housing Grants	1,211,000	1,245,000	1,515,650	1,500,000	1,500,000	6,971,650
ICT Strategy	138,000	91,900	50,000	50,000	50,000	379,900
Fleet Management	1,285,100	2,568,290	152,500	-	301,640	4,307,530
Other Schemes	76,600	797,020	100,000	50,000	21,920	1,045,540
Total Programme	**3,307,570**	**6,005,380**	**3,412,760**	**2,608,100**	**2,370,830**	**17,704,640**

9.2 The individual projects that are included in the above include:

- Asset Management Plan (AMP) – the costs identified in ensuring the Council's property portfolio remain fit for purpose. This includes:-
  - Public Buildings
  - Car Parks
  - Public Conveniences
  - Waterways & Infrastructure assets
  - Leisure Centres
  - Depots & Parks Buildings
  - Industrial Units

- Housing Grants – the District Council is the duty holder for the mandatory Disabled Facilities Grants (DFG's). All eligible applicants are entitled to receive mandatory funding for certain major adaptations to their properties. Funding for this scheme is provided through the Better Care Fund vi the County Council

- ICT Strategy – the key priorities of the ICT Strategy are to provide the technological infrastructure to support joint working, new ways of workings and improve access to services for the Council's customers

- Fleet Management – the estimated costs of the replacement fleet programme are included within the capital programme. However, options appraisals are undertaken prior to purchase to determine the most cost effective method of financing. Therefore, other funding models, for example, contract hire or leasing may be undertaken for some vehicles categories

- Other schemes – include schemes such as park and play facility improvements, facility improvements, conservation grants, CCTV equipment

9.3 Further detail of the above capital schemes is included within the main body of the Medium Term Financial Plan.

9.4 The resources that are to be used to finance the Capital Programme are as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
External Contributions	1,211,000	1,227,390	1,500,000	1,500,000	1,500,000	6,938,390
Capital Receipts	-	93,000	15,650	-	11,000	119,650
Capital Reserve	1,285,100	214,900	-	-	-	1,500,000
Earmarked Reserves	-	220,850	-	-	-	220,850
Borrowing	811,470	4,249,240	1,897,110	1,108,100	859,830	8,925,750
Total Financing	**3,307,570**	**6,005,380**	**3,412,760**	**2,608,100**	**2,370,830**	**17,704,640**

9.5 The commercial investments held by the Council can be summarised as follows:

- Industrial units – commercial units available for small and medium sized organisations to rent for the operation of their business
- Property rentals – rental streams generated from sharing Council properties with partners/external organisations
- Ascent Housing – a joint venture with Your Housing Group Limited for the provision of affordable housing across the District
- Alliance Environment Services (AES) – company established in partnership with ANSA (wholly owned company of Cheshire East Council) to deliver waste, streets, fleet and grounds maintenance.

9.6 The following investments are currently being considered:

- Investment in key strategic land to enable housing and business development
- The purchase of additional investment property
- An alternative funding model working with Your Housing to further enhance the provision of affordable housing
- Alternative service delivery arrangements for the delivery of trading services

10 Long-term Considerations

10.1 There a number of functions where there are long term capital spending liabilities have been identified.

Asset Management Plan

10.2 In line with the commitment made in this strategy, asset condition surveys were last completed for the Council's property portfolio in 2016. These ascertain the overall condition of the properties and establish the necessary capital investment required to ensure that they are maintained to an appropriate standard.

10.3 The indicative capital investment required at that stage can be summarised as follows:

SMDC - Capital Investment Required*	2016-17 - 2019-20 (MTFP)	2020-21 - 2045-46 (26 Years)	TOTAL
	£	£	£
Public Buildings	1,010,850	2,761,600	3,772,450
Car Parks	754,000	4,293,431	5,047,431
Public Conveniences	181,400	415,800	597,200
Waterways & Infrastructure Assets	479,361	448,761	928,122
Leisure Centres	310,000	10,005,995	10,315,995
Depots and Parks Buildings	97,070	2,355,714	2,452,784
Industrial Units	80,380	392,050	472,430
TOTAL	**2,913,061**	**20,673,351**	**23,586,412**

**The latest update of the 30year plan is presented in the Medium Term Financial Plan report Appendix A*

10.4 The overall outcomes of the surveys can be summarised as follows:

- A number of the Council's operational assets are dated in appearance and require investment;
- The Council's car parks require capital investment;
- There are structural issues associated with a number of the Council's buildings which require resolution;
- There are urgent works related to health and safety requirements that need to be resolved; and
- Investment is required to the electrical and mechanical infrastructure of a number of buildings.

10.5 The results from these surveys have informed the development of the Council's four-year Medium Term Financial Plan (MTFP). Adjustments have been made to exclude any major investment in the Council's leisure centres and operational depots where it is assumed that investment will be deferred pending the major decisions that linked to changes in the service delivery arrangements which are in progress.

10.6 The indicative investment for 30-years will have a significant impact on the Council's future revenue budgets and the analysis showed that the Council's property portfolio in its current form is unaffordable. The estimated impact of the indicative capital projections for the 30-year investment requirements at the point the surveys were completed is detailed below:

SMDC Estimated Revenue Consequences - Cumulative Impact	2016-17 - 2019-20 (MTFP)	2020-21 - 2045-46 (26 Years)	TOTAL
	£	£	£
Fit for Purpose Standard works - Cumulative Cost	115,959	943,653	**1,059,612**
Less Existing MTFP - Cumulative Cost	(111,403)	-	**(111,403)**
Potential Additional Budget Requirement	4,556	943,653	**948,210**

10.7 The above analysis showed that providing the investment in the longer term to maintain the Council's property portfolio in its current form is unaffordable.

10.8 In order to address this, the Council agreed to a number of actions to reduce the impact of the necessary capital spending. It was agreed that the following are considered before investment in each of the assets is made:

- Asset rationalisation
- Shared use of assets
- Reduction in specification and functionality
- Generate additional capital receipts
- Identify grants to support investment
- Generate additional revenue from asset holdings

Review of Strategic Land Holdings

10.9 In order to address a number of the considerations above the Council agreed to review the Council's strategic land holdings with a view to developing options to either generate additional capital receipts or opportunities to generate ongoing financial returns. This review is currently in progress.

Leisure Centres

10.10 Given the age and condition of the leisure centres, significant capital investment is required over the next 30 years in order that these assets remain fit for purpose.

10.11 The Council commissioned a review of its leisure centre provision in the context of its sports facility needs focusing on sports halls, swimming pools and other indoor provision. The purpose of undertaking this review was to inform the Council on options for future provision of council leisure centres and other sports facility based services from 2018 and beyond.

10.12 The outcome from this review in effect set out a position statement on the suggested facility hierarchy and approach, along with recommendations for the phasing of future facility developments and rationalisation. The aim is to ensure that the Council can develop a more sustainable solution in relation to meeting customer needs, affordability and partner aspirations, whilst supporting the overall vision of the Council's newly adopted Physical Activity & Sports Strategy.

10.13 The effectiveness of the current leisure centre provision was also assessed. This assessment considered current income and expenditure benchmarks. The conclusion of the review was that the Council should consider the following investment requirements:

- Replacement of South Moorlands Leisure Centre with smaller community pool and fitness offer, ideally co-located with other public sector services (health / children's services / social care etc.);
- Refurbishment and essential works at Biddulph Valley Leisure Centre;
- Replacement pool at Brough Park Leisure Centre & 3G pitch development;
- Increased access to school sites for sports hall provision / club use; and
- Development of 3G pitch provision – potentially linked to school sites

10.14 The indicative capital cost for these investments would be in the region of £19.25m. At this stage the investment costs are significantly in excess of revenue savings, and consequently it will be necessary for the Council to identify additional sources of capital investment to deliver these improvements.

Operational Depot Provision

10.15 In 2017 established Alliance Environmental Services (AES) which was created jointly with High Peak Borough Council and ANSA (a company owned by Cheshire East Council) to deliver the Council's waste collection, street cleansing and grounds maintenance services. The Council's waste collection service was transferred to the company in July 2018 with the rest of functions expected to transfer in April 2019.

10.16 Major investments in the operational depot facilities which have been leased / licensed to AES has been deferred until the opportunity has been taken to review the requirements of the new company in light of widening of the base of the services provided.

11 Debt, Borrowing & Treasury Management

11.1 Effective treasury management is critical to the safeguarding and management of the financial resources at the Council's disposal. Investment and borrowing decisions are made in accordance with the Council's formally adopted Treasury Management Strategy. The Treasury Management Strategy is presented annually and approved by Full Council.

11.2 There are key prudential indicators set in respect of the impact of capital expenditure. The report details the forecast borrowing requirement over a four year period, the consequential borrowing costs and the impact of the Council's capital financing requirement (CFR). The CFR is total outstanding capital expenditure which has not yet been paid for either from revenue or capital resources, essentially the Council's underlying borrowing need.

11.3 The table below summarises the impact of the Council's capital expenditure plans on the CFR:-

Capital Financing Requirement (CFR)	**2018/19 Actual £**	**2019/20 Estimate £**	**2020/21 Estimate £**	**2021/22 Estimate £**	**2022/23 Estimate £**	**2023/24 Estimate £**
CFR – services	16,230,000	16,936,000	21,182,000	22,732,000	23,495,000	23,907,000
CFR – Commercial activities/ non-financial investments	0	59,000	(1,000)	17,000	(2,000)	59,000
Total CFR	**16,230,000**	**16,995,000**	**21,181,000**	**22,749,000**	**23,493,000**	**23,966,000**
Movement in CFR	*(242,000)*	*765,000*	*4,186,000*	*1,568,000*	*744,000*	*473,000*
Represented by:						
Net financing need for the year	645,000	812,000	4,249,000	1,897,000	1,108,000	860,000
Less Minimum Revenue Provision*	(887,000)	(47,000)	(63,000)	(329,000)	(364,000)	(387,000)
Movement in CFR	***(242,000)***	***765,000***	***4,186,000***	***1,568,000***	***744,000***	***473,000***

11.4 Where a borrowing requirement is identified, an assessment takes place on the most cost effective way to fund this. This could result in 'external borrowing' from the Public Works Loan Board (PWLB), other Local Authorities, direct from the market or by utilising lease arrangements.

11.5 Alternatively, 'internal borrowing' – the use of cash balances – could be used temporarily, particularly in the current interest rate climate where investment returns remain low. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

11.6 The Council's forward debt projections are shown in the table below in relation to the CFR:-

	March '19 Actual £	March '20 Estimate £	March '21 Estimate £	March '22 Estimate £	March '23 Estimate £	March '24 Estimate £
External Borrowing	11,000,000	12,000,000	16,249,000	18,146,000	19,254,000	20,114,000
Other long-term liabilities*	0	0	0	0	0	0
Gross Debt at 31st March	**11,000,000**	**12,000,000**	**16,249,000**	**18,146,000**	**19,254,000**	**20,114,000**
Change in Debt position	(1,854,000)	1,000,000	4,249,000	1,897,000	1,108,000	860,000
Capital Financing Requirement	**16,230,000**	**16,995,000**	**21,181,000**	**22,749,000**	**23,493,000**	**23,966,000**
(Under) / over borrowing	(5,230,000)	(4,995,000)	(4,932,000)	(4,603,000)	(4,239,000)	(3,852,000)

**Other long-term liabilities will include Right-of-Use assets under accounting standard IFRS16 to be adopted from 2020/21. These are assets formerly known as operating leases which will be included on the balance sheet and therefore increase the CFR, similar to the former treatment of Finance Leases. The impact is expected to be immaterial therefore is not included at this stage. Should any changes be significant, the CFR limit and forecast will be revised during the year.*

12 Risk Management

12.1 There are a number of key risks that will impact upon the successful implementation of the Council's Capital Strategy

12.2 The Council operates effective risk management through its Risk Management Framework. Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the Council caused by undesired events and of ensuring that the element of risk in all activities is properly understood.

12.3 In order to manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored. It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns.

12.4 An assessment of risk should therefore be built into each individual capital project and the major risks that identified should be recorded in the Projects Risk Register which is reported to the Council's Audit & Accounts Committee.

12.5 The risks associated with the Capital Strategy are detailed below with the mitigating actions:

Risk	Mitigating Actions
Diminishing Resources	• The Capital Financing Requirement (CFR) carefully monitored and managed • New grant / funding opportunities explored • Partnership opportunities explored to share investment
Project Delivery	• Spending / Funding closely monitored • Projects managed through the Council's project management methodology • Major projects reported through the council's performance framework
Commercial Investments	• Exposure to non-repayment carefully managed through the contract management arrangements • Disinvestment potential will be regularly considered
VAT Partial Exemption	• Each capital investment will be closely reviewed to assess its VAT implications.