Agenda No ___

Audit Committee – 16 July 2014

Medium Term Financial Strategy

Summary of report:

The medium term financial strategy is the framework within which the councils financial planning and management is undertaken, along with the medium term financial plan. The strategy is reviewed regularly by the Chief Finance Officer and submitted to cabinet for formal approval.

Background papers:

Cabinet report 2 July **Medium Term Financial Strategy and Capital Strategy 2014/15 – 2019/20, Medium Term Financial Plan and Budget Framework 2015/16**

Recommendation:

1. That members note the medium term financial strategy and consider its contribution to the effectiveness of the internal control environment, the management of risk and corporate governance.

James T Walsh
Chief Finance Officer
2 July 2014

Introduction & Background

The medium term financial strategy is the strategic framework within which the Council's finances are constructed and managed. It is part of a suite of documents that together comprise the Council's approach to effecting sound governance and good practice. It is how the organisation translates vision, aims and objectives into a financial plan, which thereby facilitates delivery of those to the corporate and service planning process.

The medium term financial strategy is intended to support the allocation of financial resources to meet the councils priorities set out in the sustainable community strategy and corporate plan, whilst maintaining financial stability into the medium and longer term.

The medium term financial strategy is the overarching corporate financial strategy, sitting below the sustainable community strategy and the corporate plan, and above the other elements of the financial cycle. Below the medium term financial strategy is it the other financial strategies; the capital strategy, and the treasury management strategy.

The medium term financial strategy is an integral part of how the Council integrates planning, performance and risk and is the framework within which the Council is capital and revenue financial planning and management are undertaken the document is key in bringing together the level of available resources with the demands the service delivery and investment, facilitating sound financial service risk an opportunity management, whilst linking the impact of the Council's capital resources and external funding opportunities.

Resource and legal considerations:

None directly related to this report.

Performance and risk management issues:

The medium term financial strategy is one of the key components in managing financial risk and corporate governance.

Equality Implications:

None directly arising from this report.

Consultation:

Consultation has taken place with relevant officers

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Cabinet – 2 July 2014

Medium Term Financial Strategy and Capital Strategy 2014/15 – 2019/20, Medium Term Financial Plan and Budget Framework 2015/16

Portfolio: Councillor M. Bird, Leader of the Council

Related Portfolio: All

Service: Finance – council wide

Wards: All

Key decision: No

Forward plan: No

1. Summary of report

1.1 This report seeks Cabinet endorsement of an updated corporate medium term financial strategy (MTFS) – *Annex 1*; the framework within which the council's financial planning and management is undertaken, an updated Capital Strategy – *Annex 2*; the framework within which the council's capital financial planning and management is undertaken, along with the council's medium term financial outlook (MTFO). It is good practice to regularly review and update these key strategic documents and obtain formal Cabinet approval.

1.2 The report also sets out the process and timeline for the four year budget process for 2015/16 to 2018/19.

2. Recommendations

Cabinet are requested:

2.1 Approve the updated Medium Term Financial Strategy at Annex 1.

2.2 Approve the updated Capital Strategy at Annex 2.

2.3 Approve the process and timetable for setting the budget.

3. Report detail

3.1 Best practice financial management requires an MTFS and Capital Strategy which is regularly updated to take into account the changing environment in which we work.

The Medium Term Financial Outlook

3.2 The draft settlement for 2015/16 is known, with government grant announced at £125.35m, a reduction of £21.55m on 2014/15 funding. The council's medium term financial outlook has been updated to reflect this reduction and other known cost pressures (contractual inflation, pay and grading costs, pensions revaluation etc) resulting in a forecast funding gap of c£29m against our current net council tax requirement.

Government funding is not yet known for 2016/17 and future years, therefore assumptions have had to be made. The total savings required to be delivered over the next 4 years from 2016/17 amount to a further c£80m.

3.3 There is therefore no headroom for new ongoing revenue investment unless financial capacity is liberated from existing financial resources. This is due to cost pressures being higher than the additional resources that will be received in income to the council via the Government settlement and external fees and charges.

Budget Framework and Timetable

3.4 Resources are allocated and budgets are set within a framework of protocols and guidelines, in particular the medium term financial strategy, the Walsall Performance Framework and Corporate Plan. The council has established four key priorities:

- Supporting business to thrive and supporting local people into work
- Improving health including well being and independence for older people
- Creating safe, sustainable and inclusive communities
- Improving safeguarding, learning and the life chances for children and young people

3.5 The council has established a working smarter programme incorporating all key change activity, and is using this as an approach to 'shaping the future' of public services in Walsall. The working purpose for the council has been defined as: *'we want Walsall residents to lead healthy and fulfilling lives with least recourse possible to help from the state.*

3.6 Decisions will need to be made about how to achieve a balanced budget, in the context of the needs of the borough and also to ensure that we continue to care for the most vulnerable in our communities. Whilst it is recognised that Council will only set the council tax bands for 2015/16 in February 2015, the budget will aim to take a four year view, allowing for a more strategic focus to service re-design and savings aligned to the longer term priorities of the council.

3.7 The council is committed to adopting a holistic and collaborative approach, and there is strong consensus that this radical approach will produce better results than taking a traditional perspective on the financial challenges facing the council. By taking this collaborative approach, using knowledge and understanding of our communities and evidence about the impact of service delivery, proposals will be developed that will be designed to make best use of all of our resources and to make the optimum impact that we can for the residents and businesses of Walsall.

3.8 Notional cash limits will be identified which meet the seven elements of the ‘shaping the future’ programme, and linked to the four key priorities set out by Council and its key partners in the Walsall Performance Plan. Services will identify new key change activity required to ensure delivery of the MTFO and these notional cash limits. These will be considered by Cabinet with a view to presenting a draft revenue and capital budget for consultation in October 2014.

3.9 In considering resource allocation, funding for the development of services will need to be met from the redirection of existing resources through the implementation and rollout of the ‘shaping the future’ programme; and the identification of new or revised income sources. The council will need to be a leaner, more focussed organisation. The budget process considers:

- The council’s priorities – what does it want to do, to what standard and what results does it want to achieve and at what cost
- The methods of service delivery that will deliver value for money (e.g.: in-house, partnerships, outsourcing).
- The organisational structure that is needed to support the above.
- The level of council tax increases (subject to Government direction and referendum levels) and what this means for the council’s overall budget.
- Income that can be generated (through the charging policy, increased charges, new charges, new grants, etc).
- The levels of reserves and contingencies required for financial prudence and to proactively manage the council’s risks (set out by the Chief Finance Officer).
- The use of unringfenced grant – it is assumed that all unringfenced grant be pooled to support the corporate good, unless Cabinet approve otherwise during the budget process.
- Stakeholder consultation and lobbying.

3.10 *Timetable 2015/16 onwards*

The process has commenced. Activity to date includes;

- Update of the revenue MTFO.
- Establishment of a programme incorporating existing key change activity across all services.
- A separate review of support services linked to ‘supporting the future’ of identified change activity.
- Draft savings options are currently being produced.
- Capital project mandates requesting consideration for capital investment for 2015/16 and future years are currently being produced.

Process and key dates to come include:

- Informal briefings to be held with Cabinet and CMT
- Production of plans and detailed revenue cash limits for individual portfolios linked to the MTFO.
- Consultation with the public continuing through to late Autumn on proposals for future service delivery.
- Identification of proposals for service delivery within the allocated resources. All portfolio holders will review and agree preferred proposals. These will be subject to discussion at budget briefings in year, and then to stakeholder consultation in October.

- Cabinet meet on 22 October to approve a draft revenue and capital budget for consultation.
- Scrutiny of the first draft budget proposals, including the draft capital programme, by scrutiny and performance panels from 4 November to 27 November, and feedback to Cabinet on 10 December.
- Cabinet consider recommendations of scrutiny panels on first draft budget and make any amendments.
- Budget briefings for political groups and independents through the year.
- Budget consultation with stakeholders between October and December 2014.
- Receipt of the final 2015/16 settlement estimated in late January / early February 2015.
- Approval of the 2015/16 revenue budget and council tax bands, capital programme and Treasury Management Strategy by Cabinet on 4 February 2015 and by Council on 26 February 2015.

4. Council priorities

4.1 The MTFS and Capital Strategy are intended to support the allocation of financial resources to meet the council priorities set out in the Walsall Performance Framework and Corporate Plan, including the agreement to use Marmot objectives to help redirect existing resources, whilst maintaining financial stability into the medium and longer term.

5. Risk management

5.1 The MTFS is the overarching corporate financial strategy, sitting below the Walsall Performance Framework and Corporate Plan and above the other elements of the financial cycle. Below the MTFS sit the other financial strategies; the Capital Strategy and the Treasury Management Strategy.

5.2 The MTFS and Capital Strategy are an integral part of how the council integrates planning, performance and risk framework and is the framework within which the council's capital and revenue financial planning and management are undertaken. The document is key in bringing together the level of available resources with the demands for service delivery and investment, facilitating sound financial and service risk and opportunity management, whilst linking the impact on the council's capital resources and external funding opportunities.

6. Financial implications

6.1 The MTFS is the strategic framework within which the council's finances are constructed and managed. It is part of a suite of documents, including the capital strategy, that together comprise the council's approach to effecting sound governance and good practice. It is how the organisation translates the vision, aims and objectives into a financial plan, which thereby facilitates delivery of these through the corporate and service planning process.

7. Legal implications

7.1 None directly associated with this report.

8. Property implications

8.1 None directly associated with this report.

9. Health and wellbeing implications

9.1 The MTFS and Capital Strategy are prepared with consideration of health and wellbeing implications.

10. Staffing implications

10.1 None directly associated with this report.

11. Equality implications

11.1 None directly associated with this report.

12. Consultation

12.1 These strategies are prepared in consultation with relevant officers. Budget consultation will take place more widely via scrutiny and key stakeholders.

Background papers
Various financial working papers

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James T. Walsh
Chief Finance Officer

24 June 2014

Councillor M. Bird
Leader of the Council

24 June 2014

Walsall Council	# Medium Term Financial Strategy (MTFS)

CONTENTS

1. INTRODUCTION

The council has been operating a medium term financial strategy (MTFS) since 1999. The main objectives of the strategy are to set out how the council will structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.

In practice the MTFS is very much a part of the council's mainstream activity, and whilst this document seeks to bring together in one place the major components of the strategy, in practice elements of it are evident in a range of council documents such as the corporate plan, and monitoring reports, and of course in our activities, processes and culture. The MTFS document considers a wide range of issues, under the following headings:

- The Walsall Performance Framework
- The financial framework within the WPF
- Our key financial objectives
- The principles adopted in strategically planning our finances
- Our operational principles
- The identification and management of risk
- The impact of joint plans with other stakeholders
- The resulting medium term financial plan

The principles are intended to remain relatively constant thus providing a robust and consistent approach that maintains the council on a sound and stable footing, whilst enabling us to deliver better outcomes for our citizens, take out waste and radically change the way we deliver our services. Although intended to remain broadly constant, these principles will continue to be reviewed and refreshed each year to reflect our learning and our adaptation to the changing demands of our citizens.

The national and local context elements will vary more frequently and influence the baseline position and future outlook. For those reasons, these elements of the MTFS will change more substantially each year, whilst remaining true to the principles established.

Risk will be managed using our established best practice principles. Prevailing risks will be identified and managed within that framework and updated regularly, according to the nature of each risk. We also use this process to identify and maximise opportunities.

Councils increasingly operate within the wider local, sub-regional, regional and national communities; working with a range of partners and other stakeholders to deliver joint aims and objectives, most notably those in the local Walsall Performance Framework. It is essential, therefore, that the financial implications of joint work are considered and addressed, demonstrating how the MTFS has contributed to the delivery of the council's own vision, and those of partners and stakeholders either collectively or individually. All the above components inform the production of a medium term financial plan (MTFP). This effectively translates the strategy into a practical plan of action for the council. The mtfp for 2014/15 – 2018/19 is currently under construction.

2. INTEGRATED PLANNING & PERFORMANCE

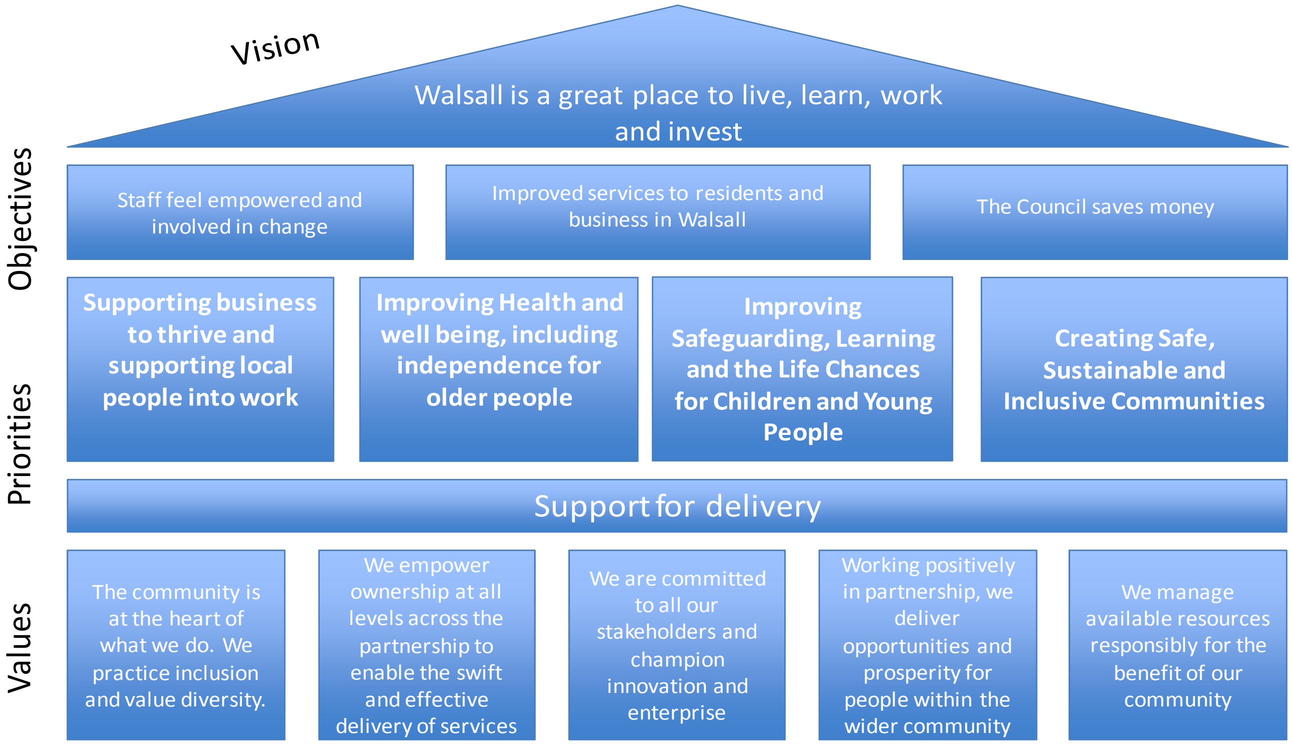
The Walsall Performance Management Framework serves as a support or guide for the delivery and improvement of services to ensure the appropriate level of governance is maintained.

The Council exists to benefit the public, responding to their needs to ensure the delivery of effective local services. We do this with limited resources and so must always work to ensure that public money is targeted to where it is most needed and used in the most efficient way possible. This means we need to listen to the demand coming from local people and build up a thorough understanding of how we can better serve them by equipping our staff with the skills, knowledge and freedom to respond. It also means we need to look outside our own organisation and work with partners in the public, private and voluntary sectors.

The plan will be achieved through the Council working more smartly in the way it operates through an ambitious change programme that attempts to bring this about through taking out waste and spending less, improving customer service and changing the way we do our business. The way the council does its business will be underpinned by good governance and upholding high standards of conduct. But as well as a specific programme of change, this is also a culture that will become embedded within the council, underpinned by three key objectives:

Our vision, objectives and priorities, underpinned by our values are expressed in the Corporate Plan 2013 and summarised in **figure 1** below.

Figure 1- vision, priorities and values



3. THE FINANCIAL FRAMEWORK

The financial framework is an integral part of our planning process and comprises a series of documents and processes which together facilitate our strategic financial planning and operational financial management. The financial framework does not exist in isolation; it is inextricably entwined with other planning processes, most notably the various levels of service planning, risk management and employee performance assessment.

The key aspects of the financial framework are as follows:

<table>
<tr><th colspan="6">THE FINANCIAL FRAMEWORK</th></tr>
<tr><th>CATEGORY</th><th>OVERALL</th><th>REVENUE</th><th>CAPITAL</th><th>TREASURY MANAGEMENT</th><th>RISK MANAGEMENT</th></tr>
<tr><td rowspan="2">Strategies</td><td colspan="5">Medium Term Financial Strategy</td></tr>
<tr><td colspan="2"></td><td>Capital Strategy</td><td>Treasury Management (TM) Strategy</td><td>Risk Management</td></tr>
<tr><td>Guidance</td><td>CIPFA and technical guidance</td><td>Budget Guidelines</td><td>Capital Guidelines</td><td>CIPFA Code of Practice for TM</td><td>Risk Management Toolkit</td></tr>
<tr><td>Plans</td><td>MTFP</td><td>Annual Budget</td><td>Capital Programme and Asset Management Plan</td><td>Treasury Policy Statements</td><td>Risk Management Action Plans</td></tr>
<tr><td rowspan="3">Governance</td><td>Constitution</td><td colspan="2">Budget Management and Control Manual and the Annual Governance Statement</td><td>Prudential Indicators & Annual Report</td><td>Risk Register reporting and regular review</td></tr>
<tr><td colspan="4">Contract and Finance Rules</td><td>Audit Committee Reports and Annual Report</td></tr>
<tr><td colspan="5">Internal and External Audit Plans and our response to inspection and audit</td></tr>
</table>

4. KEY FINANCIAL OBJECTIVES

A main objective for the council is to maintain good long-term financial health. Achieving this allows us to deliver good quality, value for money services, shaped by our customer demand. Services that are modern, efficient, effective, and fit for purpose. This requires a framework that delivers both continuous, adaptive improvement and core strength.

How we will achieve this is through:

1. Financial Governance and Leadership
2. Financial Planning
3. Finance for Decision making
4. Financial Forecasting and Monitoring
5. Financial Reporting

1 Financial Governance and Leadership

1. Our senior management will be financially literate and able to understand fully the financial environment in which the council and our partners operate. Senior management and budget holders will operate within the approved financial framework at all times.

2 Financial Planning

1. Our financial planning will be inextricably linked to the council's strategic and corporate planning process. Our financial plans will reflect the councils key strategic priorities.
2. The council will take a longer term approach to financial planning and budget setting, allowing for a more strategic focus to service re-design and savings aligned to the longer term priorities of the council. This annually updated medium term financial plan will integrate current expenditure plans and investment programmes with cash-flow and balance sheet projections, developed in the context of a longer-term strategy, which supports the council's corporate plan and the Walsall Performance Framework.

3 Finance for decision making

1. In developing our strategic and corporate plans we will consider the value for money achieved by allocating resources to different activities.
2. We will understand the financial implications of current and potential alternative policies, programmes, and activities.
3. We will analyse our cost profiles and cost drivers and how they will behave under different circumstances
4. We will understand the whole-life costs associated with capital investment.

4 Financial Monitoring and Forecasting

1. Senior management will assure itself that financial performance to date and forecast financial outturns are accurate and in line with the plan, including cash-flow and balance sheet projections.
2. Variances will be identified as soon as possible, so that management can either take corrective action to manage unfavourable variances or apply any favourable variances to corporate priorities.

3. The underlying costs of the organisation’s key activities and how these are profiled over time will be monitored and reviewed.
4. Financial information will be integrated with non-financial performance and activity information. Together, such information forms the basis for financial forecasts and enables value for money to be monitored.
5. The financial information used both for setting the budget and internal accountability, monitoring and forecasting throughout the year is derived from the same systems that are used to generate the results reported externally in the organisation’s statutory financial statements.

5 Financial Reporting

1. To run the organisation effectively, senior management will have up-to-date financial and non-financial performance information on a timely basis.
2. Reports will be presented in a form that is tailored to user needs, is easy to understand and highlights the key financial issues that they need to be aware of and take action on.
3. For its part, senior management needs to provide timely, accurate and balanced information about its stewardship and use of resources and its non-financial performance to the organisation’s different stakeholders. Such information will be presented in a form tailored to meet their needs.

The principles within which we will work to deliver our aims and objectives are described in the next section.

5. STRATEGIC PRINCIPLES

Our strategic principles relate to how we will deliver our overarching objectives, ensure good governance, a strong control environment and consistently adopt a longer-term perspective in all aspects of financial planning.

A: LEVELS OF REVENUE RESERVES AND CONTINGENCY FUNDS

CONTEXT: The council shall maintain a prudent level of general reserves, which, in the same way as central revenue contingency, will be index linked to the level of the gross revenue budget and continue to be informed by a financial risk assessment. A prudent central capital contingency will also be established.

A1 The council will establish opening general reserves of between 1% and 2% of the gross revenue budget approved by Council each year.
A2 A central revenue contingency of between 0.1% and 0.15% of the year's gross revenue budget will be established for each financial year. In addition, specific earmarked reserves and provisions will be established as required, on the advice of the CFO.
A3 The precise level at A1 and A2 being informed by risk assessment and set by the Chief Finance Officer (CFO).
A4 The level of general reserves, specific earmarked reserves and central revenue and capital contingency will be reviewed each year by the CFO and reported to Cabinet, informed by a comprehensive risk assessment and consideration of the opportunity costs of maintaining reserves at certain levels.

B: MANAGEMENT OF FINANCIAL RISK AND OPPORTUNITY

CONTEXT: The council embraces the concept of risk and opportunity management, taking a proactive approach to the identification and management of risk to ensure we are best placed to seize the opportunities that we have.

B1 Financial activity will take place within the principles set out in the risk management strategy.
B2 In constructing and assessing the annual budget for the forthcoming year, a comprehensive financial risk assessment will be undertaken for all parts of the budget, including sensitivity analysis and active steps will be taken to manage identified risks.
B3 We will not be risk averse, and will seek to seize and maximise opportunities by the appropriate identification and management of risk.

C: INCOME

CONTEXT: The council has a good track record in securing external grant funding. This will be embraced within a wider inclusive income generation strategy that seeks to maximise income in accordance with our priorities and receive all types of income as promptly as possible.

C1 We will develop and maintain an overarching income generation strategy and charging policy.
C2 We will seek to maximise income in accordance with the council's priorities.
C3 We will seek to promptly receive and recover all income due to us.

D: RESOURCE ALLOCATION

CONTEXT: The council will allocate resources in line with council priorities and with regard to our statutory obligations.

D1 Capital and revenue resources will be allocated according to the vision, aims, objectives, and priorities approved by Cabinet.
D2 Within the remit of D1 above, resources will be allocated through an options appraisal process, which has regard to: current and future required levels of service delivery and delivery methods and performance, investment needs to secure service improvement and/or invest to save, legislative changes, best practice development, affordability tests and whole life costing where appropriate, in order to demonstrate value for money.
D3 The council will demonstrate value for money by critically examining services that meet citizen demand and how they meet quality cost and delivery metrics.
D4 All Government funding intended for schools will be passed through to schools unless there is a clear objective policy decision to do otherwise.
D5 No other predetermined earmarking of revenue funding will occur i.e. unringfenced grant will be pooled centrally to meet priorities, unless approved otherwise by Cabinet.

E: ACCOUNTABILITY

CONTEXT: The council requires senior managers to formally acknowledge they recognise their responsibilities to deliver services to the required standard within budget, and to implement any savings and investment allocated to their areas. Relevant members and managers are required to participate fully in all aspects of the financial processes.

E1 All senior managers (i.e.: chief executive, executive directors, assistant directors, heads of service, budget holders, etc) and members of the Cabinet are required to participate fully in budget setting and management processes.
E2 Managers are personally accountable for delivering their planned service outputs within the cash limited budget allocated to them. This will be a key performance in all managers' annual employee performance assessments.
E3 The council (through the CFO) will regularly review its financial management arrangements to ensure they remain fit for purpose.

F: LOCAL TAXATION

CONTEXT: Our aim is to see that our council tax is appropriate to support the provision of good quality, value for money council services.

F1 The council will establish and maintain local tax at a level that ensures adequate ongoing income sufficient to support planned levels of expenditure.

F2 In setting the local tax level each year, the council will ensure that the annual increase is sufficient to ensure adequate resources are available to provide both the current and planned levels of service provision reflected in the annual budget and adequate specific and general reserves in the context of the medium term.

F3 The council will publish indicative increases for future years where this is required, and if not required, where this is possible and appropriate.

F4 The use of future funding mechanisms such as Tax Incremental Financing (TIF), Enterprise Zone business rate uplifts, etc. will require full analysis and approval before adoption.

G: TREASURY MANAGEMENT

CONTEXT: We have a successful track record of effective treasury management, securing low cost borrowing to fund capital investment. Our aim is to continue to do so within the requirements of the prevailing policies and Codes of practice.

G1 All borrowing and/or investment activity will be carried out in accordance with the Prudential Code, the Code of Practice for Treasury Management, the council's approved Treasury Strategy and treasury policy statements and within approved prudential indicators, having the highest regard for prudence, affordability and sustainability in the longer term.

G2 The overriding investment strategy will be to protect the principal, ensuring liquidity, whilst minimising risk. Maximising yield will always be subsequent to these.

G3 Appropriate use will be made of the Prudential Code for capital investment within approved prudential indicators and subject to medium term affordability and sustainability.

G4 The treasury management panel, chaired by the CFO will oversee this and report on performance regularly to Cabinet. This will include prudential indicators, financial health indicators, borrowing and investment performance and outturn against budget.

H: CONSULTATION

CONTEXT: The council consults with stakeholders in advance of the budget being set. Our approach has become increasingly sophisticated in recent years, and we now have comprehensive consultation, the outcomes of which are used to inform the final budget.

H1 Residents, service users, business ratepayers, employees' and their representatives, and other stakeholders will be consulted on the budget and the presentation of financial information.

H2 An equality impact assessment will be conducted both for individual service policy and organisational structure changes prior to submission of the budget to full Council for approval.

I: CAPITAL PROGRAMME

CONTEXT: The capital programme represents, in financial terms, the council's capital investment priorities. This is a complex, regulated area and is governed by a defined Capital Strategy and guidance. The council has comparatively limited council funds available for capital investment and therefore will focus on use of external and match funding to maximise a range of funding sources and the use of the Prudential Code, where appropriate and affordable, to deliver the council's objectives.

I1 The capital programme will be constructed in accordance with the principles outlined in the council's approved Capital Strategy, and aligned with the corporate property strategy and the asset management plan.

I2 Borrowing limits will be in line with the advice of the CFO and the Treasury Management Strategy approved by full Council.

J: INTERNAL CONTROL AND REPORTING

CONTEXT: The maintenance of a sound governance framework and internal control environment is paramount, and the council has worked hard to embed good corporate governance. Within the prevailing internal and external protocols and guidance we will strive to deliver best practice in this important arena.

J1 The council will re-affirm the Local Code of Governance.

J2 The council will maintain at least an adequate overall internal control environment.

J3 The council will maintain a fit for purpose overarching financial governance framework as set out in this MTFS and ensure it is kept up to date as appropriate, to reflect the changing financial environment and best practice.

J4 The Head of Internal Audit will provide an annual opinion to those charged with governance, on the overall internal control environment and this will be used to inform the Annual Governance Statement (AGS). The AGS will report on the overall effectiveness of the internal control environment, including any areas for improvement and plans to address these.

J5 Financial monitoring and reporting will be undertaken in accordance with the budget management and control framework and in line with the published corporate financial monitoring and reporting timetable. The council will report on the current and estimated year-end financial position, including progress against investment, efficiency and savings targets at regular intervals to both members and management.

J6 The council will publish each year an annual statement and summary accounts that provide stakeholders with a clear statement of the operating and financial performance of the council compared to targets.

J7 The council will publish on a quarterly basis a set of financial health indicators that are readily available to all stakeholders.

6. OPERATIONAL PRINCIPLES

Our operational principles relate to how the council will conduct its day to day business in financial terms. These are set out below:

<u>K: CALLS ON RESERVES AND CONTINGENCIES</u>

K1 The central revenue and capital contingency will be allocated under the delegated authority of the CFO (or deputy in his/her absence), in accordance with prevailing designated criteria set out in the budget management and control manual.

K2 Services are required in the first instance to accommodate unforeseen expenditure and/or income shortfalls from within their cash limited budgets in any particular year, only seeking allocations from general reserves and contingencies where this is proven to be impossible.

K3 If general reserves are committed during a financial year, alternative savings will be identified and implemented in order to both mitigate the impact and replenish the general reserves in-year as much as possible.

K4 Any use of general reserves in a particular year by an individual service that is not replenished in that year of account will be paid back in the following financial year, by the identification and implementation of savings and efficiencies. It is recognised that on occasion this will be achieved over more than one financial year; this will be permitted only on the prior agreement of the CFO and be referred to as a “licensed deficit”.

K5 Any calls on the use of general reserves which will take reserves below the minimum level required in the MTFS are required to be reported to Council for consideration and approval.

K6 Calls on general reserves above the minimum but below the maximum level required in the MTFS (A1 under Strategic Principles) can be allocated by Cabinet, following written confirmation from the CFO that the intended use is appropriate and subject to K2-K4 above.

K7 General reserves above that required by the MTFS will be appropriately and prudently earmarked in-year or at year-end by the CFO, in consultation with the Cabinet member with responsibility for finance.

<u>L: WORKING WITH PARTNERS</u>

L1 The MTFO will reflect partnerships and other arrangements to give an overall picture of funding.

L2 That any one-off and/or ongoing council contributions to the funding of and/or support in kind to partnership working will always be on the basis of:

- a clear policy decision to do so rather than by default.
- the existence of a formally agreed service level agreement (SLA) and (where appropriate) agreement to the accountable body protocol.
- the existence of a clear, robust and achievable exit strategy at the point of consideration for approval of any funding and/or support. The council will not automatically undertake to fund any ongoing additional costs at the end of any time-limited external funding of any kind.

M: BUDGET AND FINANCIAL MANAGEMENT PROCESSES

M1 The detailed principles applying to all aspects of financial management, including monitoring, operation of virement rules, reporting, internal control are set out in the council's Constitution and budget management and control manual> Council managers and employees are required to adhere to the principles set out within these.

M2 The annual budget process will be governed by the annual budget framework and guidelines approved by Cabinet.

N: INCOME

N1 When acting as accountable body for grant funding, the council will at all times operate in accordance with its agreed practices, including complying with the grants manual and accountable body protocol.

N2 A detailed policy-led review of fees and charges at least once every two years, according to the corporate framework outlined in the budget management and control manual.

N3 Each review will be undertaken within the requirement of a total cost recovery approach or as determined by statute or regulations i.e. building control income.

N4 Any requests by services for use of surplus income will be considered using the councils existing windfall protocol and carry forward protocol and will be subject to a council wide outturn within budget.

N5 All one-off, unplanned "windfall" income will be returned to the corporate centre and pooled for the "corporate benefit" and will not be utilisable by the service. It's use will be determined by the windfall protocol, the details of which are set out in the budget management and control manual.

N6 The windfall protocol requires windfall income to be pooled centrally. A proportion of the resulting fund is transferred at year end (subject to the council outturning within budget) to the project reserve. The remaining proportion is to be utilised to manage volatile areas of spend and/or new pressures in year. The exact proportion within each is to be determined by a risk assessment and set by the CFO in consultation with the portfolio holder for finance. The detailed arrangements for managing and utilising this to be set out in the budget management and control manual.

O: COMPARATIVE SPEND & PERFORMANCE

O1 Comparative spend and benchmarking data will be used to inform the budget setting process. The demonstration of public value and value for money will be from a quality, cost and delivery matrix.

P: CAPITAL PROGRAMME

P1 The annual capital programme will be approved alongside the revenue budget and all known revenue costs arising out of capital spend will be included in the revenue budget.

P2 The capital programme will be compiled using bids submitted by services, with the bids being prioritised and approved according to the council's vision and priorities and within the context of the council's capital strategy.

P3 In addition to the annual capital programme, a prudent capital central contingency will be set, not exceeding 10% of the annual council funded element of the capital programme requirement, to accommodate unforeseen / unbudgeted expenditure (i.e. where, due to the level of uncertainty, the financial impact is not certain at the time of setting the programme). The exact level of the capital contingency to be determined by a risk assessment and set by the CFO in consultation with the portfolio holder for finance. The contingency will be funded from an annual revenue contribution to capital outlay from the project reserve.

P4 As an incentive, a small proportion of newly identified usable (non-ringfenced and/or not subject to secretary of state approval) capital receipts (i.e.: up to 10% of the usable/non-ringfenced element only) are permitted to be recycled to projects either within the geographical area or service from which the receipt arises, with approval for any such earmarking being sought in advance from Cabinet.

P5 Where there is a statutory obligation to ring-fence receipts (e.g. playing fields or allotments) for a specific purpose, these receipts will be treated as specific, earmarked receipts. The spending allocation for these receipts will be required to be approved by Cabinet.

P6 In exceptional circumstances, earmarking may occur where there is a specific proven business case, approved in advance by Cabinet.

P7 Other than P4, P5 and P6 above, no other earmarking or underwriting of capital receipts is permitted in the interests of prudent corporate financial management and to enable corporate allocation using our policy-led medium term principles and in accordance with the capital strategy.

P8 Reallocation of existing capital funding within years is permitted, subject to compliance with the Constitution, Finance Rules, and CFO delegations and as set out in the budget management and control manual, provided that funds are guaranteed to be available and that the allocation aligns with the council's defined priorities.

P9 Where applicable, reserve list items approved by Cabinet and in priority order, are permitted to be started should funds become available, for example, by services reporting underspends and returning these back to the corporate centre.

P10 Prudential or unsupported can be used in the following circumstances:

- For schemes of strategic importance to the council, approved in advance by Cabinet and where a defined revenue stream is identified to fund the repayment of principal and interest.
- To cover temporary cash flow requirements in advance of a capital receipt, approved by Cabinet in advance.
- To support one-off invest to save schemes where there is an identifiable net saving to be gained, with an acceptable payback period.

P11 Borrowing under P10 and the Council's borrowing limits must be in line with the advice of the CFO and the prevailing guidance in the treasury management strategy and policy statements.

Q: BUDGET REALIGNMENT

Q1 All budget realignment will be undertaken within the medium-term policy-led framework identified throughout this strategy document.

Q2 All potential budget reductions will be fully financially and operationally appraised and risk and impact assessed before approval and any one off delivery costs identified and reported alongside the reduction.

Q3 All approved budget reductions will be implemented according to a pre-determined implementation plan.

Q4 Each approved budget reduction will be allocated to a named individual who is accountable for the planning, implementation and delivery of that budget reduction in the timescale required.

Q5 Where it is determined in-year that a budget reduction cannot be fully implemented, the accountable manager will implement a corrective action plan and, where required, seek alternative offsetting reductions.

Q6 Any proposed investment funding will be fully financially and operationally appraised and risk assessed before approval.

Q7 All approved investment funding will be implemented according to a pre-determined implementation plan.

Q8 All approved investment funding will be allocated to a named individual who is accountable for its planning, full implementation and post implementation review in the timescale required.

Q9 The investment will be held centrally until implementation has commenced. Where it is determined in-year that a budget investment cannot be fully implemented, the investment will be returned to the corporate centre in the year that it occurs, except where this is due to genuine slippage, as determined by the CFO.

Q10 Revenue and capital budget realignments in year can be undertaken subject to compliance with the Council's Constitution, Finance rules (virements) and CFO delegations.

R: CONSULTATION

R1 This will be achieved using the most appropriate methods, which may include opinion polls, questionnaires, focus groups, residents panels, presentations, the website and other methods and media, in accordance with the council's consultation strategy.

S: CARRY FORWARD PROTOCOL

S1 A carry forward protocol will be used to reward sound budget management, by allowing the carry forward of *planned* revenue underspends and/or achieved revenue savings, up to a maximum of 50% of said underspend/saving, excluding the use of windfalls/ unplanned underspends/savings. This is dependent on achievement of planned service delivery targets/ outcomes and no overspends appearing elsewhere within the service and a balanced position council wide at year end.

S2 Where it is proven that expenditure originally planned to fall in the previous year will now fall into the next year for sound operational reasons, up to 100% (dependent on requirements) will be permitted to be carried forward. This will be permitted to be spent on that item only and any excess not required will be returned to corporate reserves.

S3 Where it is clearly demonstrated that an overspend has occurred for any operational service reason and/or financial management reason, between 25% and 75% of the overspend may be carried forward into the following year. The percentage will depend on the ability to recoup, the nature of the service, the track record of the relevant service, and the reason for the overspend. This would not be applied where it can be clearly demonstrated that the expenditure was unforeseeable at the time the budget was set and beyond the control of the individual manager or the directorate management team, and where the directorate had made robust attempts to mitigate its impact.

S4 For capital projects, 'carry forward' is a means for carrying forward budgets from one year to another to cover definable commitments that have moved from one year to another, and not a means to carry forward underspends.

S5 Any carry forward request, both revenue and capital, needs to be agreed with the CFO in consultation with the portfolio holder for finance, and evidence will need to be presented on what the defined commitment is. Approval for under/over spend carry forwards rests with Cabinet, on the advice of the CFO, within a corporate context.

T: PERFORMANCE MANAGEMENT

T1 The delivery of required service outcomes and the achievement of financial performance will be reviewed by line managers as an integral part of the council's performance management framework through various mechanisms including but not restricted to: service plan reviews, EPA's and performance boards.

T2 The principles outlined throughout this document will be used as objective measures of managers' performance.

7. THE IDENTIFICATION AND MANAGEMENT OF RISK

Walsall council has long embraced risk management as an integral and important part of its business processes. The concept and practices are a key element in the management of the council and it is an integral part of our governance culture.

The principles of corporate governance apply as much (if not more) in the public sector as they do in the private sector in exercising our community leadership role, working with a wide range of partners, providing diverse and sensitive services and making decisions that impact on the lives of residents, visitors, businesses and other stakeholders.

The council will continue to use the risk management framework to identify, analyse and manage the risks associated with our activities with the objective of:

- Providing objective information to decision makers;
- Reducing health, safety and environmental risks as far as reasonably practicable;
- Minimising financial and reputational losses;
- Maximising opportunities;
- Identifying cost effective risk treatment options.

The councils approach to risk management is set out in its corporate risk management strategy (CRMS) which designates responsibility for the management of risk across all members and officers of the council and was updated and approved by Audit Committee in February 2014.

The responsibility for ensuring that the council meets its statutory requirements as stipulated in the Account and Audit Regulations 2011 rests with the Audit Committee together with the responsibility for reviewing the mechanisms for the management and assessment of risk; giving assurance about the process and ensuring that corporate business risks are being identified and actively and effectively managed. A set of risk registers is maintained which are structured and reported as follows:

ELEMENT	REPORTED TO	FREQUENCY
Corporate Risk Register (CRR)	Corporate Management Team (CMT) Audit Committee and Directorate Leadership team	Twice a year Twice a year
Directorate Risk Registers	Directorate Leadership Teams	Quarterly
Service Risk Registers	Service Management Teams/ Performance Boards	As required

The CRR is reported to Audit Committee which selects risks for further scrutiny. Directorate risks are reviewed and discussed at directorate management teams/performance boards. Directorate risk registers are obtained quarterly and CMT receive details of all of the directorates' top risks and consider any for evaluation onto the corporate risk register.

Risks are evaluated both within regular monitoring reports to Cabinet and CMT and within the annual budget report to Cabinet and Council. The CFO uses this risk assessment to inform his decision on the appropriate levels of general reserves, central contingency and specific reserves.

8. NATIONAL POLICY, FINANCIAL CONTEXT AND MEDIUM TERM FINANCIAL OUTLOOK

Financial Context

The council continues to be financially stable in the normal local government context, however it is experiencing, as other local authorities are, an extremely challenging financial position. The 2014/15 budget was set using our long standing policy-led approach which delivered a balanced budget with no council tax increase. A detailed financial risk assessment was undertaken to appraise and manage the potential impact of various demands on the budget.

Spending Review

Spending reviews set government departmental budgets over several years. It is then up to departments to decide how best to manage and distribute this spending within their areas of responsibility.

In the spending review 2010, DCLG announced a 28% reduction in funding to local government.

- A two year settlement was announced in 2010. In 2011/12 and 2012/13, Walsall experienced reductions in formula grant of £26.6m and a further reduction in specific grants of £12.2m, the total overall reduction therefore being £38.8m. This equated to a 7% reduction in total funding compared to the councils opening net budget for 2011/12.
- A further two year settlement was announced on 4 February 2013 for 2013/14 and 2014/15. The settlement for 2013/14 represented a reduction of £6.1m, but together with a 10% reduction in council tax support grant, fall out of the 2012/13 council tax freeze grant, and changes to funding of academies, the total funding reduction for Walsall was £13.9m (7.7%). For 2014/15, Walsall received a further reduction of £16.6m.

Future Funding and Walsall's Medium term outlook

The council produces and regularly updates a medium term financial outlook, which integrates current expenditure plans and investment programmes with cash-flow and balance sheet projections, and which supports the council's corporate plan and the Walsall Performance Framework.

A Spending Round was announced on 26 June 2013 for 2015/16. The provisional grant allocation announced on 5 February 2014 results in an expected further reduction of £21.55m for Walsall. This spending round is similar to a spending review, but allocates spending for one year rather than multiple years.

The council's medium term financial outlook has been updated to reflect this reduction and other known cost pressures (contractual inflation, pay and grading costs, pensions revaluation etc) resulting in a forecast funding gap of c£29m against our current net council tax requirement for 2015/16.

Funding is expected to continue to fall beyond 2016/17. This is subject to confirmation of specific grant allocations and receipt of the Spending Review expected in October 2015 for 2016/17 and 2018/19.

In line with the rest of local government, the medium term financial outlook is extremely challenging. Our latest monitoring reflects many national and regional spending patterns. As with all councils and public sector organisations, there are pressures in current and future years that need to be funded. A particular issue for us is the Government funding reductions mentioned above, alongside the as yet not fully known impact of recent and future expected Welfare Reforms. Alongside this, the implementation of a new referendum requirement and a reduced income yield available from council tax restricts our ability to generate income overall to offset cost pressures.

The starting point for the MTFO is the approved 2014/15 base budget and provisional estimates for future years. These are currently being updated to reflect currently available information. In particular the following assumptions are used:

- A focus on a policy-led budget setting approach using corporate priorities established by Cabinet
- Provision for inflation, contractual inflation and pay awards to all services.
- PTE/environmental agency levies are based on up to date soundings.
- All education schools spend and resulting budget pressures are to be funded via dedicated schools grant and other specific education grants where applicable.
- Business rates local share retained continues at the current rate, although there is no guarantee that existing income levels will be maintained.
- Account will be taken of changes to the council tax base and collection rates. Council tax collection rates are assumed to be 98.5%.
- Full year effect of 2013/14 and 2014/15 approved investment and savings approvals are funded.
- Sensitivity analysis will be conducted on our key activities and the impact, if any, on the outlook.

Work is ongoing in respect of the medium term financial outlook. The level of business rate yields, income generated via fees and charges and council tax informs the level of overall efficiencies required to deliver a balanced budget. At this point in time, it is estimated that savings in the region of c£85m will be required over the next four years in order for the council to set a balanced budget. A budget framework is included within this report, and services have commenced their review of savings options for 2015/16 to be linked to the ‘shaping the future’ approach to future service delivery.

KEY DOCUMENTS – RESPONSIBILITIES **APPENDIX A**

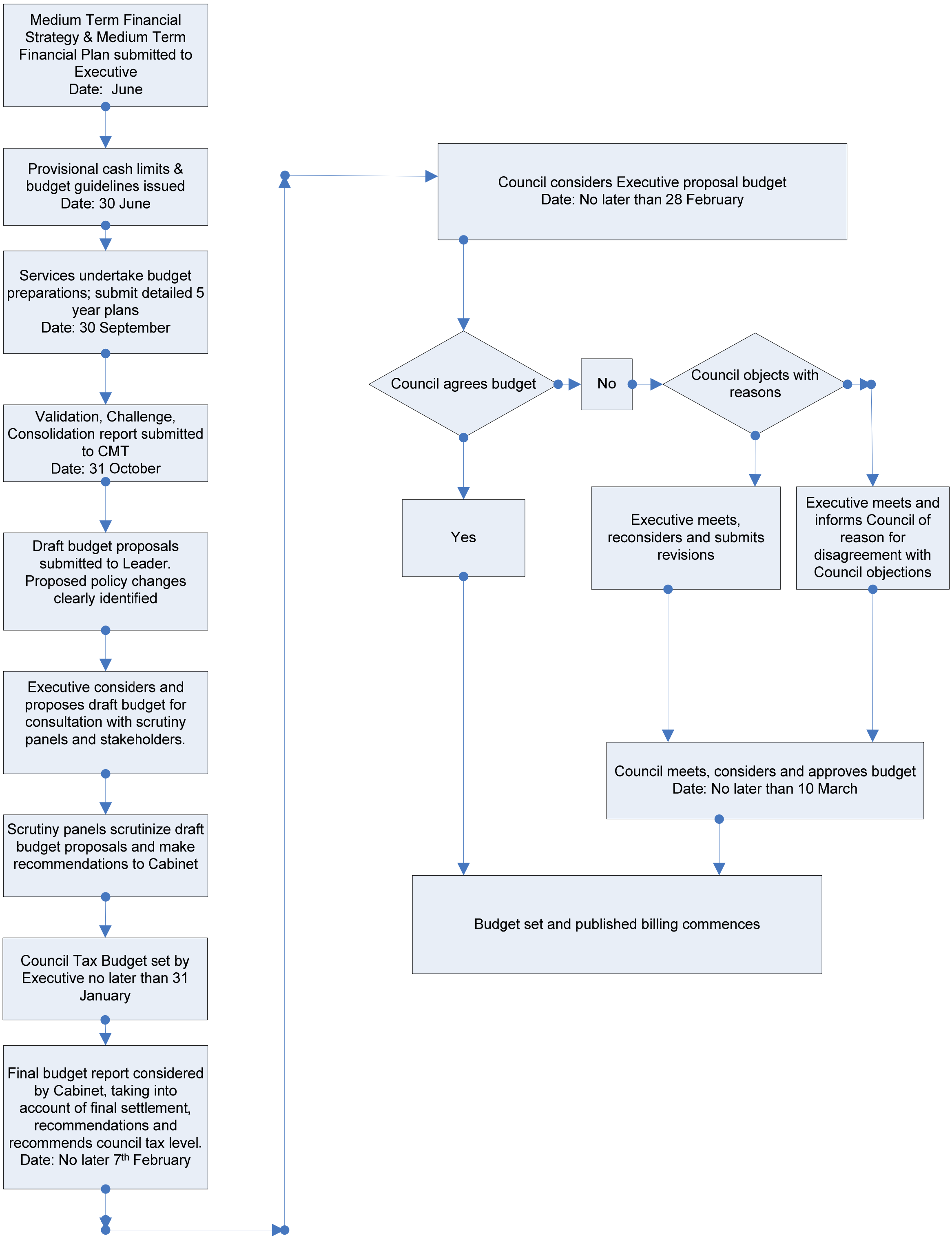
Document	Brief Description	Detailed Drafting	Officer Approval	Member Approval	Date	Review Frequency
Medium Term Financial Strategy (MTFS)	Sets out how the council wishes to structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.	HF	CFO	Cabinet	Summer	Annual
Capital Strategy	The council's intentions for its capital income and expenditure to deliver the organisation's aims and objectives.	HF	CFO	Cabinet	Autumn	Annual
Treasury Management Strategy and Policy Statements and Annual Report	The council's overarching strategy and operational procedures in the management of its debt portfolio and investments. Annual report on performance.	TM	CFO	Cabinet Cabinet Audit Committee	Strategy: Feb/Mar Policy Statement – Sept/Oct Annual Report – Summer/Early Autumn	Annual
Risk Management Strategy	The council's approach to managing risks to avoid unnecessary cost and reduce liability, whilst still maximising opportunities available.	HF/SFM	CFO	Audit Cttee	Winter	Annual
Budget Framework	Guidance to practitioners on the construction of the annual revenue budget and capital programme.	HF	CFO	N/A	Summer	Annual
CIPFA guidance	• Annual Governance Statement • Codes of Practice • Prudential Code	CIPFA	Implementation - HF/CFO/HIA	N/A	Various	As required

Document	Brief Description	Detailed Drafting	Officer Approval	Member Approval	Date	Review Frequency
Medium Term Financial Plan (MTFP)	The annual 5 year revenue budget plan.	HF	CFO	Cabinet	Summer (with MTFS)	Annual
Budget Management and Control Manual	Detailed guidance for practitioners on the management and control of budgets and allied activities.	FM/HF	CFO	N/A	Spring	Every 2/3 years or as required
Annual Governance Statement (AGS)	Statement setting out the council's approach to implementing and reviewing governance procedures, including internal control mechanisms in order to ensure the management of the council is adequate, including the reduction of risk.	- CFO/MO/ HF/HIA	Approval - CEO Implementation – CEO/EDs/ CFO/MO/ HF/HIA	Leader and Audit Committee	September with Statement of Accounts	Annual
Revenue Budget	The annual budget used for setting the council tax and the allocation of financial resources to the services	HF	CFO	1. Cabinet 2. Council	February February/March	Annual
Capital Programme	The annual capital programme	HF	CFO	1. Cabinet 2. Council	February February/March	Annual
Asset Management Plan (AMP)	The overall plan setting out the council's approach to managing its asset base and securing value for money in their deployment	Asset Manager	Executive Director - Regeneration / CMT	Cabinet	Summer/Autumn	Annual
Constitution	The overarching document setting out the council's governance arrangements	ADL (MO)	CMT	1. Cabinet 2. Council	As required	Bi-Annual/ as required
Contract Rules (CRs) & Finance Rules (FRs)	Detailed guidance setting out procedures to follow in procuring goods and service, securing value for money and ensure the financial management of the council is adequate and safeguarded	HIA/HF/HL	MO / CFO	Consultation: 1. Audit Committee 2. Cabinet 3. Approval: 4. Council	As required	Annual/ as required

ADL / MO – Assistant Director of Legal & Constitutional Services (Monitoring Officer) **CFO** - Chief Finance Officer/S151 Officer **CEO –** Chief Executive Officer **ED** – Executive Director **HIA** – Head of Internal Audit	**HF** - Head of Finance, **SFM** – Senior Finance Manager **RM** – Risk Manager **TM** – Treasury Manager **CMT** – Corporate Management Team **HL –** Head of Legal (non-contentious)

APPENDIX B

Budget Process



APPENDIX C - GLOSSARY OF TERMS

Accountable body	Responsible body for finance and governance purposes, accountable for ensuring financial and governance arrangements are adequate.
Base budget	The amount required for services to continue at their current level, adjusted from the previous year's budget for inflationary pressures, not changes in service levels provided.
Baseline	The starting point for financial planning. The current position taking into account all currently known financial issues.
Benchmarking	The process by which a council service, process and/or cost is compared with that of other councils, organisations, prices and/or functions.
Billing authority	Walsall Council is the billing authority responsible for the collection of the council tax and non-domestic rates which includes amounts from the local precepting authorities – the West Midlands Fire and Civil Defence and Police Authorities.
Business rate retention	A new funding scheme for local government implemented in 2013/14 to replace the previous Formula Grant funding scheme.
Capital expenditure	Expenditure on major items e.g. land and buildings, which adds to and not merely maintains the value of existing fixed assets.
Capital grants	Specific targeted grants to cover capital expenditure.
Capital programme	The annual plan of capital spending and how it is funded, approved by full council each February/March.
Capital receipts	Money received from the sale of council assets e.g. land.
Capital strategy	The council's intentions for its capital income and expenditure to deliver the organisation's aims and objectives.
Carry forward protocol	The process by which annual underspends are carried forward between financial years to either reward good financial management.
Central contingency	A small budget set aside each year to cover unforeseen items of expenditure.
Collection fund	A statutory account which billing authorities have to maintain for the collection and distribution of amounts due in respect of council tax, NNDR and residual community charge accounts.
Corporate plan	Our current corporate plan covers the period 2011/12 -2014/15 and sets out the main objectives the council will be pursuing to improve services and make Walsall a better place. The plan looks at our priorities now and in the future.
Council tax	The tax levied on domestic properties, which depends on the 'band' of value for the property based on estimated property values at 1 April 1991.
Council tax base	The total number of band D equivalent properties upon which the council tax can be levied.
Council tax support localisation	New local scheme of council tax discounts to replace council tax benefits abolished from April 2013.
Earmarking	The process of setting aside a specific sum of money for a specific activity, liability or incident.
Financial standing	The council's financial health and solvency.
Financial strategy	The policy whereby the council establishes the financial principles upon which it builds its revenue and capital budgets.

Employee Performance Appraisal (EPA)	The process for reviewing the performance of individuals, which translates the priorities from directorate, service and team plans into individual targets. It demonstrates how each person contributes to service priorities and the council's vision.
Governance	The arrangements in place to ensure that the council fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.
Internal control	Mechanisms and systems to ensure that the arrangements for financial management are adequate and public money is safeguarded.
Levies	Charges made upon Walsall council by other organisations which serve several authorities (e.g.: Passenger Transport Authority)
Licensed deficit	A specific permission (given in advance) for a service to overspend and for that overspend to be temporarily funded from general reserves. Any such overspend would have to be for a particular reason to a predetermined level. Any such permission is given on the basis of an agreement to pay it back in full over a defined period, usually the following financial year.
Medium-term financial planning/outlook (MTFP/O)	Consideration and forward planning of the council's finances over a period of at least three years.
Medium term financial strategy (MTFS)	The main objectives of the strategy are to set out how the council will structure and manage its finances now and in the future and to ensure this approach facilitates delivery of the council's vision, aims and objectives.
National non-domestic rates (NNDR)	A tax levied on business properties, also referred to as business rates. NNDR poundage is set annually by the Government. A new Business Rates Retention scheme introduced in 2013/14 whereby local authorities retain 50% actually collected, with the remaining passed to government to be reallocated to councils in the form of a top up grant.
Net council tax requirement	The amount of council spending needed to be financed by council tax, following the receipt of central Government formula grant, other specific grants, use of reserves and external fees and charges.
Options appraisal	The process by which several possible courses of action are assessed against a range of objective criteria to determine the best way forward.
Policy led budgeting	A system of budgeting where resources are linked to council priorities to ensure that projects with the highest priority receive the funding necessary to implement them.
Precepting authority	An authority e.g. police and fire which sets a 'precept' on billing authorities, who collect it on their behalf.
Prudent	The minimum the council has to do to ensure financial health, manage financial risks and deliver services.
Reserves	The total level of funds the authority has accumulated over the years. Earmarked reserves are allocated to a specific purpose or area of spending. Unallocated reserves (also known as

	balances) arise from an accumulation of previous years' surpluses and deficits and are available to support one-off revenue expenditure.
Revenue expenditure	Expenditure on the day-to-day running costs of services e.g. employees, premises, furniture and equipment.
Revenue support grant (RSG)	The main central government grant paid to each authority to finance its general expenditure. The distribution of the grant between authorities is intended to allow the provision of similar standards of service throughout the country for a similar council tax levy.
Ring fenced	This refers to the statutory requirement for certain funds to be separately maintained.
Risk management	A systematic and proactive way of evaluating potential risks and identifying practical ways in which those risks can be reduced or eliminated so that the objectives of the council can be achieved without interruption.
Risk register	A comprehensive list of risks to the delivery of services at a project, service, directorate or corporate level.
Service plans	A document setting out what a service plans to do for a specified time period. It gives clear direction about priorities and targets and sets out how they will be delivered and resourced.
Tariffs and Top Ups	Calculated by comparing an individual authority business rates baseline against baseline funding levels.
Treasury management	The proactive management of the council's loans portfolio and cash flow, seeking to minimise interest on borrowing whilst maximising funds for capital expenditure to deliver the council's objectives.
Unsupported borrowing / Prudential borrowing	Borrowing where interest and repayment costs are not supported by government revenue grants but are funded from within the council's revenue budget.
Walsall performance framework	The mechanism by which this council undertakes all of its financial, service, performance and risk management and planning.

ANNEX 2

Walsall Council	Capital Strategy

Capital Strategy

CONTENTS

1. Introduction

Walsall Council manages a range of land and property assets, valued on the balance sheet in excess of £415m. We manage these assets as custodians to the residents of Walsall in order that the council can provide services to the public. The authority needs to actively manage these assets in order to ensure that value for money is achieved from their use. In order to establish the parameters within which these assets are managed, it is necessary that a strategy is produced to enable overall plans to be developed. This inevitably involves matching the resources available against the constantly changing demands on the council's assets. Over the previous five years, the council has spent on average c£40m per year, adding to, maintaining and improving the council's stock of assets.

Past governments have been keen for local authorities both to manage and rationalise its stock of property, both to generate income and to ensure that its stock is "fit for purpose".

At an economic level, even though the government have virtually tripled the level of capital receipts expected from disposals in recent years, in reality opportunities for generating capital receipts have significantly diminished. Similarly, with the bank base rate remaining low at 0.5%, until 2015 when they are expected to rise to 1.0%, the council is currently struggling to generate an adequate income flow from any cash receipts generated.

2. Government Funding Issues

The success that Walsall has had in securing a wide range of external funding will be harder to achieve as many of the sources of funding will soon stop or at best be significantly reduced.

The financing for capital expenditure on new investments is heavily reliant on grants and other funding received from the government. It is acknowledged that government policy in the short term is not to spend to offset the effects of the recession and capital expenditure will not be a tool to keep the economy running. The government is clearly, in the medium term, planning to reduce government financed capital spending. It should also be borne in mind that most new, rather than replacement investments bring with them additional revenue commitments which must be evaluated against a background of reductions in government revenue grants.

There will be significant pressure on existing services. This means that projects must be costed over the lifespan of the proposed asset. With the ongoing reduction in government spending on local government anticipated, this leaves no doubt that the pressure to achieve quantifiable operational efficiencies in the public sector is even greater. In the current economic climate this challenge is exacerbated by tightening investment budgets and an increasing demand for demonstrable value for money. These efficiencies need to be reflected in the council's approach to the capital programme.

In the short term whilst overall activity is likely to remain unchanged, the general feeling over the medium term is that capital activity is likely to be scaled back. Walsall needs to position itself to capitalise on new funding opportunities such as the Regional Growth Fund. Furthermore, the basis on which funding is provided and generated may necessitate the use of increasingly complex delivery vehicles to lever in additional public private investment.

The Capital Strategy outlines the council's approach to capital investment ensuring that it is directed to the council's corporate priorities. It is good practice that capital strategies and corporate asset plans are regularly reviewed and revised to meet the changing priorities and circumstances of each authority.

3. Prudential Guidelines

All of the council's capital activity must also be viewed in the context of the Prudential Code for Capital Finance in Local Authorities (introduced through the Local Government Act 2003), where the key principles of **sustainability**, **affordability** and **prudence** must be taken into account when considering capital options. Each year the council agrees a set of prudential limits and indicators to demonstrate that the authority can meet these objectives. This necessitates the development of a Capital Strategy that aims to demonstrate how the council's capital programme supports corporate priorities and outlines the framework within which we intend to deliver those priorities. In essence, the Capital Strategy forms the link between the Medium Term Financial Outlook (financial resources available) and the Asset Management Plan (AMP) (how assets are used) and should be considered in relation to those documents.

4. The key objective of Walsall's Capital Strategy

The key objective of the Capital Strategy is to deliver a capital programme that:

- Ensures the council's capital assets are used to support the delivery of priorities within the Corporate Plan and the council's vision,
- Links with the council's Asset Management Plan,
- Is affordable, financially prudent and sustainable,
- Ensures the most cost effective use is made of existing assets and new capital investment, and;
- Supports other Walsall service specific plans and strategies, including the Walsall Performance Framework.

In practical terms the basic approach is to:

- Maintain existing assets to meet the needs of the services and people that use them,
- Evaluate options for disposal of surplus assets,
- Develop sustainable, cost effective new assets in response to the council's priorities.

However there will be increasing emphasis on:

- Investing in activity that unlocks external investment in the borough,
- Investing in service redesign to drive out long term revenue savings,
- Investing in the creation of an efficient and effective operational estate,
- Investing in assets that support the strengthening of the borough's economy,
- Investing in assets to grow future income streams for the council.

5. Council Vision and Objectives

The capital budgets within the Capital Strategy support the key themes of the council's Corporate Plan. Each capital proposal is required to set out clearly on its appraisal/mandate form how the project links to council priorities.

Walsall council's agreed vision and priorities are outlined in the Corporate Plan 2013 and Walsall Performance Framework, and referred to in the Medium Term Financial Strategy (*Annex 1 of this report*).

To ensure wellbeing, four main priorities have been established in the plan that are supported by a number of ambitions –

- Supporting business to thrive and supporting local people into work,
- Improving health including wellbeing and independence for older people,
- Create safe, sustainable and inclusive communities – reducing levels of crime and providing the right environment for people to live in,
- Improving safeguarding, learning and the life chances for children and young people. Recognising that a person's early years crucially help determine what kind of future they will have.

6. Key Areas of Capital Programme

There are a number of key areas of capital expenditure within the authority, and these are outlined below:

Adults
Funding is centred on specialist facilities to allow service users currently placed in facilities outside of the borough, and new service users, to access services within Walsall which give them the skills and support they require to return to their own homes, either with no ongoing support or with a relevant individual budget, maintaining their independence within their local community.

The PARIS system holds electronic records of client details, support plans and service being provided/accessed, to be used by all social workers. This will enable the move away from paper files, reduce the amount of physical storage space required, and ensure standardisation of records, including the allocation and monitoring of personal budgets for service users.

Children
The service is currently undertaking a review of family centre provision at Dale Street and Stroud Avenue and the potential link to a community facility, subject to ongoing review.

Schools
The education capital programme contributes to the delivery of the local authority's vision for education in nursery, primary, secondary and special schools; the raising of standards and opportunities for all Walsall pupils; anticipated changes in school population and curriculum needs; and delivering the council's landlord duties in community and voluntary schools.

Dedicated schools grant and capital allocations will provide improvements and essential maintenance at Walsall schools, improving accommodation for teachers and pupils and helping to raise educational achievements. In addition targeted capital funding has been made available for replacement schools in the borough.

New capital funding for 2014/15 amounts to £5.2m. This includes basic need, devolved capital and capital maintenance allocations for general maintenance of school buildings. There is also a new allocation for Universal Infant Free School Meals to develop catering facilities in schools.

Neighbourhoods
There are a number of parks based schemes, many of which are funded from external resources. The Arboretum restoration programme continues, including the illumination of key park buildings, key routes and bandstand, and also the replacement of the children's play area. There are also landscape improvements at Willenhall memorial park, to include the building of a regional skate park, and improved vehicular access around the park with repairs to existing pathways and boardwalks. Improvements to Broadway West playing fields are also planned. These projects form part of the overall greenspaces improvement plan, to pump prime a variety of schemes in conjunction with external partners and funding agencies for better improvements in parks and open spaces within the borough.

Within Bereavement Services, funding has been made available for the restoration of unsafe memorials.

There is also a commitment to enhance the digitalisation of the library service, and to renovate the sports hall at Forest Arts centre.

Highways
The ring road redevelopment has cut road congestion around the town centre, improving air quality. There continues to be major investment from the local transport plan, into red routes and bus showcase projects, and further investment in maintaining the highway network. This investment in our roads increases the potential for regeneration within the Borough, creating opportunities and helping to reduce worklessness in Walsall. There will be the construction of a new car park at Lucknow Road, together with energy efficiency measures to convert traffic signals and street lighting to LED's.

Regeneration and Economic Development
The environmental regeneration programme delivers key environmental and heritage regeneration investment priorities developed through the Strategic Regeneration Framework and provides match funding to attract external grants such as European Regional Development Fund, Advantage West Midlands, Heritage Lottery Fund and Big Lottery Fund. The Gigaport project is supported by this funding. There is a commitment to the Primark / Coop development in Walsall town centre, and the permanent relocation of Walsall market.

Investment is also provided to maintain operational capacity of the authority's premises through a rolling planned maintenance programme in order to meet legislative requirements and support developing service provision. This includes replacement heating and ventilation systems for the First Stop Shop and Link Bridge within the Civic

Centre, and energy saving measures through the installation of PV panels to the Civic Centre roof.

The housing programme helps improve homes for disabled clients enabling them to stay in their homes giving them independence and security, it also helps to improve the private housing stock to enable affordable housing and improve the standard of currently occupied private sector housing. The council, together with the use of disabled facilities grant, assists disabled clients to maintain independence, including health through warmth and related retro fit schemes.

Resources
Investment in the council's critical business infrastructure will support modern business practices and a phased plan that implements the new ways of working and organisational structures and processes in a way that is controlled and governed by the Cabinet and Corporate Management Team. There will be support for the transformation agenda and the provision of infrastructure to assist front line services to provide more efficient and accessible services. This includes IT planned replacement and upgrade, and review of data security systems.

7. Links to other relevant Strategies and Plans

The council's overarching document is the Corporate Plan into which links the Corporate Asset Management Plan, all Service Asset Management and Service Plans. The capital project prioritisation process devised has also been aligned comprehensively to the corporate priorities, service/operational plans and the budget process.

In addition to individual service/operational plans, the other main strategies and plans influencing the capital strategy are:

- Walsall Performance Framework
- Schools Asset Management Plan;
- Children and Young People's Plan;
- ICT Development Plan;
- Joint Investment Plan with the Health Authority;
- Local Transport Plan;
- Waste Management Strategy;
- Environment Strategy.

8. Key Partners and Cross Cutting Issues

The council works closely and successfully with a wide range of partners. This effective contribution to cross cutting capital investment initiatives enables a joined up approach to securing external bidding and making effective use of assets through multi use where appropriate. This approach achieves maximisation of resources and ensures stakeholder priorities are addressed and implemented. We will continue to support our partners through either match funding and/or direct capital investment to assist the partnership to achieve its defined outcomes.

9. Approach to investment prioritisation

The Capital Programme 2014/2015
The capital programme was approved by Council on 27 February 2014. This also included the draft capital programme for the period 2015/16 to 2016/17 which is subject to annual review based on available funding.

Identification and prioritisation of Capital Investment Needs

The basis of the capital programme is driven by the budget and service planning process. This process begins early in each financial year, usually around May/June.

The size of the capital programme is determined by:
- The need to incur capital expenditure
- Capital resources available
- The revenue implications flowing from the expenditure.

As part of the councils overall financial strategy the level of unsupported borrowing is closely monitored as a percentage of the net revenue funding. It is currently 2.3%.

As part of the budget and service planning process, services are required to review capital needs locally at directorate capital and asset groups, and to align with service priorities. Where directorate capital and asset groups agree these requirements, then a formal 'capital mandate' form is required to be completed for each proposal for initial assessment. These mandates are required to be completed by the end of June, and will include the following information:
- Project background, including context, key dates and requirements
- Project objectives and outputs
- Scope of the project
- Outline business case, including justification of the project, draft profile of spend by financial year, source of funding, and revenue implications
- References to background papers and key documentation
- Anticipated project sponsor and project manager
- Interested parties, including users and stakeholders

All project mandates are collated for reporting to the Asset Strategy Group (ASG) in July, who agree to support projects linked to council priorities and against available resources, subject to a detailed business case being completed.

Business cases are required to be completed and returned by early September for formal review and assessment. A business case will include:
- Why the project is proposed?
- Options appraisal
- Preferred option and financial information
- Assumptions and dependencies
- Review of risks
- Key milestones
- Outcomes – savings and benefits
- Governance and project management

Capital Projects Priority Assessment

Proposals of a capital nature require rigorous appraisal and testing before they can be considered. All business cases are assessed against agreed criteria based on corporate council priorities.

Priorities linked to the Walsall Performance Framework:

- Supporting business to thrive and supporting local people into work
- Improving health including well being and independence for older people
- Creating safe, sustainable and inclusive communities
- Improving safeguarding, learning and the life chances for children and young people

Other priorities:

- Addresses policy (linked to Walsall Performance Framework above)
- Return on investment / Asset management – schemes that unlock external investment in the borough; drive out long term revenue savings; support the strengthening of the borough's economy; delivers an efficient and effective operational estate linked to the asset management plan; invests in assets to grow future income streams for the council.
- Capital insurance reserve – to protect the council's position, for which funding is available should the need arise to draw it down.
- Priority schemes for which external funding can be drawn down and which may or may not require a contribution from the council's own resources.

The ASG, lead by the portfolio holder for Regeneration, Leader of the Council and portfolio holder for resources, review the draft list of projects for inclusion in the draft capital programme for formal reporting to Cabinet.

Elected members determine the projects to be included within the capital programme in the light of the relative priorities and the overall impact on the revenue budget. Schemes that require use of the council's own capital resources (such as prudential borrowing or capital receipts), are categorized according to the following, in order to assist the decision making process:

- **Level One Priority –** relates to schemes that are unavoidable to meet statutory and legislative requirements in the provision of services. It includes items such as health and safety, new legislation etc. By their nature, these schemes are a first call on available resources. It also includes supported borrowing allocations which are ring fenced to a specific programme of activity.

- **Level Two Priority –** relates to schemes that unlock external investment in the borough; drives out long term revenue savings; support the strengthening of the borough's economy; delivers an efficient and effective operational estate linked to the Asset Management programme; and invests in assets to grow future income streams for the council.

Assessment of Proposals and Timetable

Capital proposals are reviewed at budget review meetings which take place during October and November each year and are attended by the Leader of the council, portfolio holder members, corporate management team members, the chief financial officer and service representatives as required. At these meetings the overall budget of each service is reviewed and new proposals for revenue and capital investment considered. Capital bids are assessed based on information set out in the capital mandate and business case as described above. The council's policy is to agree the capital programme on an annual basis at the Council meeting in February. Once approved, the programme is published in the budget book and on the council's website. The timetable for capital proposals proceeding into the capital programme is as follows:

Date	**Action**
May/June	Directorate Capital and Asset Groups develop project mandates linked to directorate asset management plans
End June	Submission of capital mandates for assessment by an officer review group
July	ASG recommend for detailed business cases to be developed for projects meeting council priorities
End August/Early Sept	Submission of business cases for assessment against agreed criteria
Early Sept	ASG review list of projects based on business case assessment, and recommend a draft capital programme for reporting to Cabinet
Sept/October	Draft capital programme considered at informal Cabinet/CMT budget review meetings
October	Draft capital programme included in budget report to Cabinet
October/Nov	Scrutiny consultation on budget proposals
December	Budget consultation feedback to Cabinet
February	Cabinet considers and recommends final capital programme to Council
February	Council approves capital programme

The first step in the assessment of capital proposals is to divide capital bids into two groups determined by the way in which the proposal is to be funded, as follows:

- Specific capital schemes which attract external funding or already have identified capital funding such as supported borrowing allocations, grants, section 106 funding, partnership funding or revenue contribution and therefore have no capital resource implications for the council, but may have revenue implications;
- Capital proposals which require capital funding from the council's own resources via either prudential borrowing or capital receipts.

10. Funding sources and investment decisions

Borrowing

The council seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring that any surplus assets are sold. The council can decide how much they borrow to fund the capital programme. The current policy is to borrow the amount that the council consider to be prudent and affordable. In the context of the council's MTFO and the projected government grant settlements, the chief finance officer (CFO) takes a prudent view of the overall resources available for the capital programme.

The Local Government Act 2003 replaced the previous system of local government capital finance with a new one, known as the Prudential Regime from 1 April 2004. In the prudential regime each local authority must decide their individual borrowing limits. These must take account of the authority's financial situation, medium term plans and in particular affordability, as funding capital expenditure has an ongoing revenue cost which must be met from either council tax or the revenue support grant.

Walsall council has adopted the Prudential Code of Capital Finance for Local Authorities, and specifies those indicators that the council must consider as a part of their budget setting process. These are regularly reported to Cabinet and are included in the annual budget report to Council and have become an increasingly important aspect of the annual budget setting process.

Specific supported borrowing

Government allocations for education and highways will be used to support the priorities in the relevant service. The reason for this policy is that government allocations are calculated following an assessment of need based on statistics relating to Walsall; or from the local needs laid out in the education basic need, condition and sufficiency assessments, asset management plans or local transport plan. The government awards the revenue funding to pay for this additional borrowing through the annual revenue support grant. However, the grant settlement announced in December 2010 stated that there would be no supported borrowing for two years from 2011/12, and no further allocations have been announced following this.

Unspecific supported borrowing

The unspecific supported borrowing allocation is also part of the government's capital allocation to the council that it funds via revenue support grant. But this element is not service specific so it is used as a general mainstream resource. As above, no supported borrowing allocations have been received from 2011/12.

Unsupported Borrowing – Prudential/Unsupported Borrowing (USB)

In accordance with the MTFO, Prudential or USB can be used in the following circumstances:

- For schemes of strategic importance to the council;
- To cover temporary cash flow requirements in advance of a capital receipt;
- To support invest to save schemes, where there is a defined and appropriate payback period.

The CFO will make an assessment on the overall prudence and affordability of the total borrowing requested, alongside the approved Treasury Management Strategy (TMS). The impact of this borrowing on council tax will be reported in the TMS alongside the prudential indicators required by the Prudential Code of Practice for Capital Finance in Local Authorities. The view of the CFO will be fed into the corporate bidding process so that should the borrowing levels be unaffordable or not prudent, then the schemes are prioritised against the available funding from borrowing.

Capital Receipts
A capital receipt is an amount of money exceeding £10,000 which is generated from the sale of an asset. The need to generate capital receipts is a fundamental part of the asset management strategy. Rationalisation of asset portfolio has benefits such as reducing revenue costs relating to surplus assets and also releases assets for disposal.

Capital receipts are an important funding source for the capital programme. The council's policy is to treat all capital receipts as a corporate resource, enabling investment to be directed towards those schemes or projects with the highest corporate priority. This means that individual services are not reliant on their ability to generate capital receipts.

The council funded programme (that part of the capital programme funded from the council's own resources) is influenced by the level of capital receipts. The asset management team, in partnership with services will review all of the council's property against a number of objective categories as laid out in the property strategy and the corporate asset management plan. Any properties which do not score adequately will be reported to Cabinet, seeking approval to place them on the surplus property list, and sell them.

The protocol around earmarking of capital receipts is outlined in section 6 (P4-7) of the MTFS as outlined in Annex 1 of this report.

Revenue Funding
Services may, in exceptional circumstances, and where approved by the CFO (or CFO nominee) and portfolio holder, use their revenue budgets to fund capital expenditure. This is classed as a 'Revenue Contribution to Capital' and an approval form is required to be completed.

External Funding
Services must seek to maximise external funding wherever possible to support capital schemes, where this supports council priorities. This can be in the form of grants and contributions from outside bodies including central government. Where external funding is secured, officers will need to ensure an exit strategy is produced to ensure the smooth transition for when the external funding ceases, including the effect on staff where applicable.

Leasing
The council may enter into leasing agreements to fund capital expenditure. However, a full option appraisal and comparison of other funding sources must be made and the CFO must be certain that leasing provides the best value for money method of funding the scheme.

The council leases vehicles and equipment through a comprehensive programme of asset renewal. This is done through operating and finance leases, funded through revenue budgets and considered as part of the revenue budget planning process. All service area's leasing requirements must reflect the service requirements, aims and objectives. In addition, the council leases accommodation to meet operational requirements.

Alternative Sources of Capital Funding
The council will continue to examine innovative ways of raising capital funding through initiatives such as the Private Finance Initiative, Public Private Partnerships, Asset Backed Investment Companies, NHS LIFT (Local Improvement Finance Trust).

PFI and PPP
Option appraisals for significant projects must always consider whether PFI/PPP would be an available/appropriate source of funding. The large scale nature of some PFI/PPP projects may impact upon apparent capital priorities for the service. However, this does not exempt such schemes from the normal capital programme processes and policies.

11. Managing the Capital Programme

Demands for capital resources to meet capital investment needs will inevitably exceed the available resources. The council has therefore a robust mechanism in place to assist decision making to prioritise the use of capital resources.

The council's contract/financial procedure rules and constitution provide a clear framework on how all capital projects are to be managed. The diagram in **Appendix 1** summarises the approach taken for schemes that have been approved in the capital programme.

Regular monthly monitoring reports are submitted to directorate management teams and then to Corporate Management Team, and quarterly to Cabinet and scrutiny, showing actual expenditure compared with budget. This enables high-level scrutiny of the delivery of capital objectives against the plan and for action to be taken to ensure the longer term programme reflects emerging priorities.

The monthly forecast is also reviewed by an Officer Group, whose role it is to:

- Receive reports on progress on service capital programmes to monitor and challenge;
- Monitor compliance with the financial approvals process;
- Receive capital option appraisals ensuring that investment proposals are consistent with key corporate goals and service objectives and are affordable.

The group are also responsible for overseeing the co-ordination and prioritising of capital investment. Recommendations will be submitted to senior officers for moderation and then to Corporate Management Team/Cabinet in the annual budget round to assist in decision making.

The council's corporate project management procedures must be followed for the implementation of all capital projects. The extent to which the tools and procedures are implemented depends on the size of the project and to what extent it has a discreet life, some rolling programmes may have exemption. Project managers are required to be trained in project management skills.

When an asset becomes operational the asset objectives are quantified and linked to a range of local and statutory property performance indicators. This approach enables all stakeholders to determine how effectively assets are being used in the provision of services and their impact upon the efficiency of those services. These performance indicators are reflected in the Asset Management Plan.

When capital schemes are completed, a project completion report is constructed comparing the predicted and actual outcomes of the project, including financial issues. This is only expected for large scale projects with a clear start and end date, and is not applicable for rolling programme schemes. Project managers are required to explain variances. The data in the project completion reports are collated to provide and monitor performance information for council-wide capital investment. This will be used to benchmark our performance in relation to capital investment against other councils. This will enable the council to improve capital investment performance. For example, an investigation into the causes of contractual carry forwards has led to capital investment projects being completed more quickly, so stakeholders can use the asset for service delivery at an earlier date. In addition, benchmarks are used to assess the value for money of capital investment which enables us to assess achievements against corporate and service objectives.

Through the council's performance management arrangements, if performance targets are not being achieved services have to take corrective action to improve future performance. **Appendix 2** provides details on the roles and responsibilities of officers, and groups in relation to managing the capital programme.

It is recognised that the council needs to retain an element of flexibility within its capital planning processes and that projects may arise outside of the annual timetable and process.

Any schemes which arise during the year outside the normal budget process will only be considered for borrowing or funding from central resources if they meet a key service need and one or more of the following criteria:

- The location of the property to be purchased will bring added value to the estate
- The requirement for the project is an unavoidable service demand which could not be anticipated in the normal planning processes
- There is a limited time span when the opportunity is available
- There is no flexibility within the service's existing capital or revenue allocations to enable the project to proceed.

To support in year opportunities and commitments the authority will hold a central contingency which is administered by corporate finance. Projects that were deemed worthwhile through the bidding process may be held on a reserve list and commenced if sufficient funding becomes available in year.

The protocol around funding unforeseen projects and use of contingency is outlined in section 6 (K) of the MTFS as outlined in Annex 1 of this report.

The potential use of contingency and reserves for specific projects will be reported to ASG. This will also include the request to use council funds as match funding towards external funded schemes, and the funding to support essential works including health and safety schemes that cannot be programmed at the start of the financial year.

Establishment of Asset Reserves
The council will establish and maintain two reserves to support capital spending – the Projects Reserve, and the Asset Investment Reserve.

The Projects Reserve
This Reserve will provide resources to supplement both the revenue budget of the council and provide resources for major capital projects where necessary. The council has no existing policy to replenish the balance in this reserve, as it relies on the receipt of windfall income and increases arising from under-spends on the council's revenue budget.

Strategic Capital Investment Reserve
The Strategic Capital Investment Reserve will be established, the use of which is subject to Council approval. Part of the reserve will be set aside to purchase strategic properties as part of the economic regeneration strategy. Part will be set aside for emergency schemes.

Carry Forward Principle
It is recognised that capital projects may cross over years and it is sometimes difficult to be accurate in the estimation of which year the expenditure will be incurred. The carry forward of capital budgets is a justifiable means for carrying budgets from one year to another to cover definable commitments that have moved from one year to another. Carry forward is not a means to carry forward under spends to the following years. The capital financing report and the cash flow monitoring process of capital schemes aim to calculate more accurately the cost of capital schemes so that where the original estimation of the scheme was greater such savings can be returned to the corporate centre and used to fund other schemes.

Any carry forward request needs to be agreed with the Head of Finance / CFO in consultation with the Portfolio Holder for Resources, and evidence will need to be presented on what the defined commitment is. Approval for under/over spend carry forwards rests with Cabinet, on the advice of the CFO, within a corporate context.

Option Appraisal – Compulsory System
For schemes costing over £0.25 million, detailed option appraisals and whole life accounting **must** be completed by the service manager, with the support of the relevant lead accountant / finance manager. Appraisals must be approved by the relevant Executive Director and cleared through Finance. The option appraisal will look at all the possible alternative options for the capital scheme. These may include new build, purchase of existing property for improvement, leasing, and consideration of the alternative service delivery options including the "do nothing" option. Explicit adjustments should be made within the options appraisal for Optimism Bias, which is the demonstrated systematic tendency for project appraisers to be overly optimistic. The appraisal will be completed on a whole life costing basis. Schemes which already go through a complex and robust appraisal system, such as those required for the local transport plan, will not be required to complete an additional appraisal. The intention is

that every significant scheme has a robust appraisal whether through an internal or external process.

Where invest to save schemes are being completed careful consideration of future income/saving streams need to be undertaken and in all cases the income/savings must be underwritten by the service directorate to ensure future budget problems are avoided.

Procurement

The council has a procurement team who review the council's procurement processes to ensure they provide value for money and advise on the achievement of efficiency savings. This also covers capital procurement. It is essential that all procurement activities comply with EU procurement directives and adhere to the relevant requirements stipulated in the directives. Guidance on this can be sought from the Head of Procurement and/or the Assistant Director of Legal Services. Procurement must also comply with the council's policies and regulations such as contract and finance procedural rules. The main aim is to hold value for money as a key goal in all procurement activity to optimise the combination of cost and quality; this may include the need to develop a mixed economy of procurement including partnership and traditional contracting.

Environmental Impact

The quality assessment of capital procurement must also take into account environmental criteria and the evaluation of the environmental performance of goods and practices of contractors. The following procurement hierarchy must be adhered to wherever practicable and in line with the hierarchy of standards detailed in the European Procurement Directives:

- Buy re-used or reusable;
- Buy recycled or recyclable;
- Buy renewable from sustainable managed sources.

Equality Impact

The equality agenda is given high prominence in the council's capital programme and services should include an equality impact assessment for each scheme.

Appendix A

Managing Capital Investment

Project Officer identified to manage the project.

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*Capital financing report (CFR)**
Produced by the Project Officer in conjunction with service accountants

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CFR approved by CFO or Members
- Dependent on funding method

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Expenditure against the project is monitored on a monthly basis by Project Managers/Finance. Information is passed to Project Managers who are responsible for ensuring the project is delivered within budget. In addition information is reported to members on a regular basis on the overall capital programme position.

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On the completion of specified schemes (those with a clear start and end date) the Project Manager completes a report detailing actual expenditure and service outcomes to their respective Directorate Capital and Asset Review Group. These reports are also submitted to Capital and Asset Review Group, Asset Strategy Group & management teams for information. (Not required for rolling programme schemes).

* The Capital Financing Report (CFR) should include; key dates, aims and objectives, project costs, cash flows, how the scheme will be financed and the revenue implications.

Appendix B

Managing Capital Investment - Roles & Responsibilities

	Function
Cabinet (Members)	• To set key political and strategic priorities • To determine investment priorities and approve options • To agree overall resource allocation • Formal decision on key acquisitions and disposals
Asset Strategy Group (Officer / Member Group)	• To advise the cabinet on appropriate Capital Strategy • To advise Cabinet on corporate asset management planning and sign off of corporate Asset Management Plan • Recommend Capital Programme for Council decision • Ensure corporate responsibility and management is taken and capital programme is being delivered to plan • To identify surplus assets and facilitate disposals • Set framework and criteria for prioritising capital bids • To consider urgent items / respond to new opportunities, in the context of available resources and the capital programme. • To oversee key capital / property programmes
Senior Officer Group	• To review asset performance and maintenance of asset registers • To review bids for resources and appraise options • To develop a 5 year capital programme for consideration by Asset Strategy Group • Monitor corporate asset management plan including carbon reduction activity • Review and sign off of directorate asset management plans • Ensure effective monitoring and maximisation of resources and Programme delivery • To identify surplus assets for disposal • Receive post implementation audits
Directorate Capital and Asset Groups (Project Managers)	• Production of directorate asset management plan • To manage project delivery to time and to budget • Identification and development of future capital bids