Agenda Item No. 7

Audit Committee – 1 September 2015

Financial Health Indicators 2015/16 and Medium Term Financial Strategy and Capital Strategy Update

1. Summary of report

1.1 This report details the financial health indicators for the first quarter of the year (to 30 June 2015) as shown at **Appendix 1** including the current year end forecast position for both revenue and capital as at as at 31 May 2015.

2. Recommendations

2.1 To note the financial health indicators.

2.2 To note the minor amendments to the medium term financial strategy as set out in section 5.2 of the report

2.3 To note the minor amendments to the Capital strategy.

3. Governance

3.1 Financial health indicators are currently reported on a quarterly basis by the Chief Finance Officer to Corporate Management Team (CMT), all members of the council, to Audit Committee and published on the council's website for transparency.

3.2 Treasury management activity and performance is reported at the start, middle and end of the year to Audit Committee, Cabinet and Council. Corporate financial performance is reported to Cabinet throughout the financial year. Scrutiny panels also receive updates on the financial position of services within their remit. Where overspends are reported, these are required to be managed in year wherever possible. Corrective actions plans are drawn up and reported to CMT, senior management teams and members.

3.3 The primary purpose of this report is to advise Audit Committee of the current financial health of the authority in order to provide assurance to the Audit Committee in their role, and the mechanisms and controls by which the council is managing a challenging national and local financial position.

4. Resource and legal considerations

4.1 The indicators set out in Appendix one cover a number of areas as follows:

4.2 <u>Treasury Management</u>
The indicators show the actual borrowing and investment rates for 2014/15 and the forecast for 2015/16 against set targets. Most indicators are forecast to be achieved with positive variances against net borrowing cost. The only exception is the average investment rates which are currently expected to be marginally below target.

4.3 Balance Sheet

This details ratios for the last 3 financial years 2012/13 and 2013/14 which show the liquidity of the authority. 2014/15 balances are subject to the completion of the external audit. The increase in long term borrowing: tax revenue ratio is due to a decrease in tax revenue and not due to an increase in borrowing.

4.4 Revenue performance

This section shows collection rates for council tax and business rates, the average number of days to collect sundry debt and the number of days to process creditor payments for 2014/15 and the quarterly performance against profile for 2015/16. Sundry debt collection has exceeded the profile with the number of days to process creditor payments fell below profile by 1 day. Council tax and business rates collection came in marginally over achieved.

4.5 Corporate financial performance

This section details the outturn position for 2014/15 (pre-audit) and 2015/16 year-end forecast for revenue and capital, which is based on the financial position as at 31st May 2015. The current revenue forecast for 2015/16 is an overspend of £5.37m. The council, similar to many others, is facing significant financial pressures and an increase in demand for certain services. As a result, this is now translating into some significant cost pressures, particularly within Children's services and Adult Social Care. Actions plans are in place and corrective action is being taken to mitigate the pressures.

Mainstream capital (funded from the council's own resources) is expected to be over budget by £450k but is being addressed to bring back in line with budget. Capital receipts are expected to be on budget.

5. Changes to Medium Term Financial Strategy (MTFS) and Capital Strategy

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

5.2 The MTFS has been updated and amendments approved by Cabinet on 24 June 2015 to reflect the following:

- Reference to the Corporate Plan as approved by Council on 26 February 2015, and its contents regarding council priorities. It is recognised that this will change again once the new Administration have updated the Plan to reflect their priorities.
- Reference to the Corporate Risk Management Strategy as approved by Audit Committee on 20 April 2015.
- Updated national policy, financial context and the medium term financial outlook, following approval of the 2015/16 budget by Council on 26 February 2015.

The revised MTFS is attached electronically to this report on the Council's Committee Management Information System (CMIS) webpage should members wish to refer to the full document.

5.3 The Capital Strategy (Appendix2) has been updated very minor amendments approved by Cabinet on 24 June 2015 to reflect the following:

- Reference to the Corporate Plan as approved by Council on 26 February 2015, and its contents regarding council priorities. It is recognised that this will change again once the new Administration have updated the Plan to reflect their priorities.

- Revisions to the roles and responsibilities in managing capital investment.

6. Performance and risk management issues

6.1 Managers are required to deliver service and improvement targets on time, to standard and within budget. The performance management system uses a red, amber, green (RAG) indicator to show the current status. The current position is amber (to reflect an overspending position) due to the forecast revenue outturn and senior managers are required to review this as part of directorate action plans to mitigate pressures in year.

6.2 Risk management is embedded in budget preparation, monitoring and forecasting to enable variances and risks to be identified early and addressed. A number of assumptions have been made in the forecast figures by managers. There are risks attached to this that could impact adversely on the current position and which are being actively and robustly managed.

7. Equality implications

7.1 None directly associated with this report.

8. Consultation

8.1 The report is prepared in consultation with the Chief Finance Officer, relevant managers and executive directors.

9. Background papers

9.1 Various financial performance, treasury management and budget monitoring reports.

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14 August 2015

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Appendix 1

Financial Health Indicators – Qtr 1 June 2015

Treasury Management	2014/15 Actual	2015/16 Target	2015/16 Actual
Average Interest Rate (Borrowing) - Excluding OLA - Including OLA	4.60% 4.73%	4.60% 4.73%	4.60% 4.73%
Gearing Effect on Capital Financing Estimates	1.0%	5.0%	1.0%
Net Borrowing Costs / Council Tax Requirement and NNDR contribution	13.2%	13.5%	11.85%
Capital Financing Requirement (£m)	306.082	325.077	325.077
Authorised limit for external Debt (£m)	349.022	357.585	357.585
Investment Rate Average	1.13%	1.10%	1.04%

Balance Sheet Ratios	2012/13	2013/14	2014/15 (pre-audit)
Current Assets : Current Liabilities	2.70	restated 2.75	2.45
Useable Reserves : General Revenue Expenditure	0.59	0.53	0.67
Long Term Borrowing : Tax Revenue (Using both council tax and NNDR for tax revenue)	1.13	1.71	1.69
Long Term Assets : Long Term Borrowing	1.84	restated 1.98	2.10
Total School Reserves : Dedicated School Grant	0.08	0.09	0.09

Revenues Performance **% collected for financial year**	**2013/14 Actual Collected in total @ 30.06.15**	**2014/15 Actual Collected in total @ 30.06.15**	**2015/16**	
			Profiled 2015/16	**Actual 2015/16**
Council tax %	97.9	96.3	26.5	26.6
Total Council Tax collected (£m)	94,678,027	95,562,884	28,600,000	28,716,327
National Non Domestic Rate %	98.6	97.5	31.5	31.6
Total NNDR collected (£m)	66,705,823	68,168,227	22,700,000	22,786,197

Debtors and Creditors Performance	**2014/15 Actual**	**2015/16**	
		Profiled Qtr	**Actual Qtr**
Sundry Debtors Collection – Average number of days to collect debt	25 days	30 days	25 days
Average number of days to process creditor payments	12 days	14 days	15 days

Management of Resources	**Actual 2014/15**	**2015/16** **(budget for monitoring)**		
Service Analysis	**Pre-audit**	**Target**	**Actual**	**Variance**
Children's Services	63,329,024	45,104,943	48,214,504	3,109,561
Economy and Environment	62,488,834	41,497,596	41,465,390	(32,206)
Social Care & Inclusion	66,489,200	55,403,846	57,474,863	2,071,017
Resources	12,435,743	24,017,026	24,244,772	227,746
Council Wide	30,110,098	51,168,489	51,169,880	1,391
RSG/NNDR	(146,452,135)	(123,488,933)	(123,488,933)	0
Total	**88,400,764**	**93,702,967**	**99,080,476**	**5,377,509**
General Reserves	**11,515,340**	**Minimum £6.3m** **Maximum £12.5m**	**N/A**	**N/A**
Council Funded Capital Expenditure	15,057,702	36,000,000	36,450,000	450,000
Grant Funded Capital Expenditure	22,274,139	69,440,000	69,440,000	0
Total Capital Expenditure	**45,424,425**	**105,440,000**	**105,890,000**	**450,000**
Capital Receipts	3,600,888	1,475,000	1,475,000	0

What this tells us

Treasury Management	
Average Interest Rate (Borrowing)	The average interest rate we are paying on the money we have borrowed compared to our target.
Gearing Effect on Capital Financing Estimates	Shows how a 1% increase in interest rates would affect the total interest cost to the council.
Net Borrowing Costs / Tax Requirement	Borrowing not financed by a grant from government, as a proportion of our Net Revenue Expenditure
Capital Financing Requirement (£m)	How much money we currently borrow to finance our capital programme.
Authorised limit for external Debt (£m)	The maximum amount of debt we should have at any one time
Investment Rate Average	The average interest rate we are receiving on the money we have invested.

Balance Sheet Ratios	
Current Assets **:** Current Liabilities	Our ability to meet our liabilities
Useable Reserves **:** General Revenue Expenditure	If our reserves are adequate to meet potential future variations.
Long Term Borrowing **:** Tax Revenue Using only council tax for tax revenue Using both council tax and NNDR for tax revenue	The effect of long term borrowing on our budget.
Long Term Borrowing **:** Long Term Assets	This allows us to understand the relationship between the money we borrow and the assets we have as they both change over time.
Total School Reserves **:** Dedicated School Grant	If schools reserves are at an appropriate level.

Revenues Performance	
% Collected for Financial Year Council Tax (%)	As a percentage the amount of council tax we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that its related to, but this won't be included in this figure
National Non Domestic Rate (%)	As a percentage the amount of Business rates we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it related to.
Total Council Tax Collected (£m)	This tells us the amount of council tax we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it relates to, but this won't be included in this figure.
Total NNDR Collected (£m)	This tells us the amount of Business Rates we collected during the financial year that runs from 1 April – 31 March. We collect council tax after the year that it relates to, but this won't be included in this figure.
Sundry Debtors Collection Average number of days to collect debt	How long on average it takes us to collect money owed to us.
Average number of days to process creditors payments	How long on average it takes to pay our bills.

Management of Resources	
Service Analysis	
Children and Young People Neighbourhood Services Regeneration Social Care Resources Council Wide	Shows our forecast for how much we will spend on these services compared to what we planned and compared to how much we spent in the previous year.
General Reserves	Our forecast year end position on reserves against our opening balance.
Contingency	How much we have set aside and for unplanned expenditure, and how much we have left to spend.
Capital Expenditure	Forecast of our spend on capital programmes against our target
Capital Receipts	Forecast of how much money we expect to receive from selling some of our assets, against our target.

Appendix 2

Walsall Council	**Capital Strategy** **Updated : June 2015**

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1. Introduction

The council has an asset portfolio of around £500m. 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 September 2016 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

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 2015-2019 'shaping a fairer future', and referred to in the Medium Term Financial Strategy.

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

- *Support with cost of living*
- *Creating jobs and helping people get new skills*
- *Improving educational achievements*
- *Helping local high streets and communities*
- *Helping create more affordable housing*
- *Promoting health and wellbeing*

6. Key Areas of Capital Programme

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

Social Care & Inclusion
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 new Mozaic system under development will hold 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's Services
The service is currently undertaking a review of family and children's centre provision, along with ongoing support to schools via external funding.

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 2015/16 amounts to £8.3m. This includes basic need, devolved capital and capital maintenance allocations for general maintenance of school buildings.

Economy & Environment

There are a number of leisure based schemes, many of which are funded from external resources. The Active Living leisure centre schemes at Bloxwich and Oak Park are planned for completion by early 2016/17. There is also a refurbishment programme for the Gala Baths, along with the development of the top hanger at Walsall Country Park, Beacon Lodge Activity Centre, Barr Beacon events Arena, Allotments & Community Gardens, Forest Arts Centre Hall Conversion, and a single library management system.

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

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 is also commitment to energy efficiency measures to convert traffic signals and street lighting to LED's.

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. There is a commitment to public realm improvements 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.

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:

- 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 2015/2016
The 2015/16 capital programme was approved by Council on 26 February 2015. This also included the draft capital programme for the period 2016/17 to 2018/19 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 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 outlined in the Corporate Plan:

- *Support with cost of living*
- *Creating jobs and helping people get new skills*
- *Improving educational achievements*
- *Helping local high streets and communities*
- *Helping create more affordable housing*
- *Promoting health and wellbeing*

Other priorities:

- Addresses policy
- 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 Economy, Infrastructure and Development, and Leader of the Council, 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 to finance for consolidation against available resources
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

<u>Borrowing</u>

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 (P) of the MTFS.

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 A** 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 capital forecast is also reported on a monthly basis to Asset Strategy Group as part of a Finance Update report, including progress on capital receipts, and related capital issues.

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 B** 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.

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, where applicable, will be referred to in the finance update report to 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 • To develop a 5 year capital programme for recommendation by Cabinet 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 • Monitor corporate asset management plan including carbon reduction activity
Directorate Capital and Asset Groups (Project Managers)	• To review asset performance and maintenance of asset registers • To review bids for resources and appraise options • Ensure effective monitoring and maximisation of resources and Programme delivery • To identify surplus assets for disposal • Production of directorate asset management plan • To manage project delivery to time and to budget • Identification and development of future capital bids