

Capital Strategy

2019 – 2024



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Capital Strategy Contents

Introduction	3
Key Aims of the Capital Strategy	4
Asset Management Planning	4
Commercial Investment Strategy	5
Council Vision	9
Programme Overview	10
Capital Programme	11
Capital Funding	20
Treasury and Non-Treasury Investments	21
Minimum Revenue Provision (MRP)	22
Risk Management	23
Governance	26
Skills and Knowledge	27
Appendix A Capital Programme	28
Appendix B Action Plan	
Appendix C Capital Receipt Policy	

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Introduction

The updated Prudential Code and Treasury Management Code of Practice, issued in December 2017, set out new requirements in relation to the setting of a Capital Strategy. Detailed guidance on these new Codes were issued in August and September 2018. Additionally, new statutory guidance was issued by the Ministry of Housing, Communities and Local Government (MHCLG) in March 2018 outlining new requirements for the Capital Strategy. Welsh Government has indicated that they will be seeking to adopt this guidance in 2019 and Welsh Authorities should take account of the requirements.

This places a responsibility on senior finance officers to report the capital strategy to Full Council and specifically report on the associated risks on prudence, sustainability and affordability.

The Capital Strategy is fundamental to the effective delivery of priorities. The provision of the right asset in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.

The unprecedented financial constraints defined within the Council's Medium Term Financial Strategy and the impact of these necessitate the delivery of transformational efficiencies and a more effective use of resources. This involves developing a culture of innovation and co-operation not only across the council but with our partners. There are some benefits identifiable from sharing assets and working in partnership, such as reducing the running costs of our assets and the provision of enhanced customer service. Ultimately our aim is to use fewer resources including our buildings but use these far more efficiently.

The new requirements ask local authorities to consider the longer term as well as the short and medium term. The benefits of longer term strategic financial planning include:

- Ensuring that the capital expenditure plans of the council are affordable, prudent and sustainable.
- Supporting transparent options appraisal.
- Giving an outline of future commitments so that the affordability of both the long term plan and any new proposals can be properly understood.
- Informing prioritisation and timing of projects to ensure that both financial and operational capacity is available for delivery.
- Providing an overview of risk so that projects and proposals can be viewed in the overall risk context of capital and treasury investments.
- Enabling the ongoing capital and revenue implications of capital expenditure to be better understood.

This document sets out an integrated plan for the future management of the Council's assets and its capital programme. It facilitates a seamless interface between business planning within the Council and the management of assets and capital resources. This will ensure that the provision of resources and future investment are prioritised. It is a key document running alongside the Vision 2025 and the Medium Term Financial Strategy (MTFS) and will provide the framework for ensuring the effective and affordable management of assets.

Key Aims of the Capital Strategy

- Provide a clear context within which proposals for capital expenditure are evaluated to ensure all capital investment is targeted to deliver the Council's priorities.
- Clarity about how the Council identifies and prioritises capital requirements and proposals arising from various strategies including the Vision 2025, Service Improvement Plans, and other corporate strategies, and how they will be managed within the limited capital resources available.
- Challenge our current estate, continue with the programme of asset rationalisation, ensuring that assets retained are effective, efficient and economically sustainable to deliver services.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Use partnerships, both public and private, more effectively to support our overall strategy.
- Establish effective arrangements for managing capital schemes including assessment of outcomes and achievement of value for money.

Principles

- Set a capital programme for the medium term and build on this to develop a long term plan
- Schemes included in our investment programme have been subject to a review based on the business case and only those of significant priority are included in the overall project plan.
- With Capital and Revenue resources under pressure we will seek innovative and creative solutions to procuring capital assets.
- Assets surplus to requirements will be disposed of when appropriate in order to generate the maximum capital receipt for the Council.

The Capital Strategy and Capital Programme are "living" documents that will be reviewed at least annually and more frequently if events merit an interim update. Updates will be brought back to Council for approval.

Asset Management Planning

The Strategic Asset Management Plan (StAMP) 2017-2020 has the overriding objective to make sure that the Council's property portfolio is efficiently used, fit for purpose and is

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sustainable for the future whilst (where appropriate) producing the best possible return for the citizens of Powys. The key elements are:

- Seeking opportunities for the rationalisation of properties and co-location
- Increasing revenue from the commercial property portfolios
- Maintaining the long term viability of the Farms Estate, which we recognise as a key asset for the Council in both financial and environmental terms
- Acquiring and/or developing new fit for purpose property where all other avenues have been exhausted within our existing stock
- A clearer rationale for deciding which assets may be suitable for Community Asset Transfers so that assets can be retained where there is a compelling strategic reason to do so
- A process for dealing with minor disposals which often detract from more strategic work

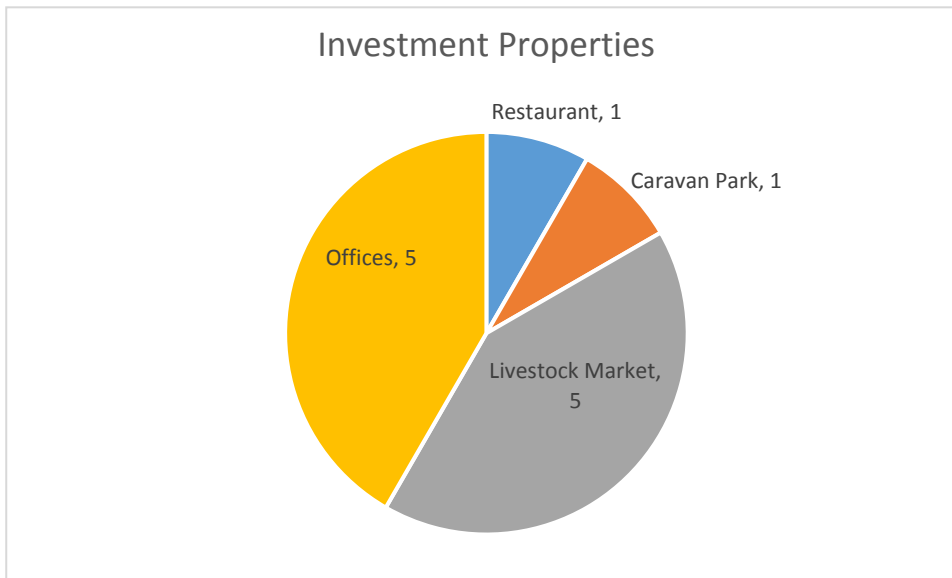
Commercial Investment Strategy

The main commercial activities that the authority has undertaken are:

- Investment properties held either to generate a rental income or for capital appreciation.
- Heart of Wales Property Services - Joint Venture with Keir

Commercial Properties

The Council has 12 properties of these 5 are Livestock markets and 5 Offices.



The council has budgeted to receive £239.8k of rental income for these properties in 2019/20, which is 0.1% of the Council's net cost of service. Where income falls or is projected to fall, below these levels, the shortfall will be managed within the overall Council budget, either by making reductions in expenditure, or supported by underspends or

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virements from other budget areas. This is addressed as part of the risk management approach detailed on page 22.

The council will consider investing further in commercial property to see economic and community improvement and/or regeneration within the county and for investment purposes.

The Council's objective for investing in commercial property are to:

- Support the strategic community objectives of the council,
- Have a balanced investment approach,
- Improve covenant strength
- Drive income generation
- Maintain yield

When considering such investments the council will take the following into consideration

- Affordability,
- Future capital investment requirements
- Covenant Strength of any pre-let tenants
- Income generation
- Yield
- Employment provision
- Economic support
- Voids
- Management costs
- Arrears

The risks of this type of investment include; potential vacant periods, decline in market rents, non-payment by tenants or users etc. these should be evaluated as part of the business case by including a factor for bad debt or vacancy periods, and risks relating to the project should be carefully considered and fully disclosed to decision makers. Where there is a pre-let tenant for a project, their covenant strength will be considered as part of the project proposal.

Heart of Wales Property Services

The Heart of Wales Property Services Ltd (HoWPS) is a 50:50 Joint Venture Company between Powys County Council (the "Council") and Kier Facilities Services Limited (Kier), which delivers responsive maintenance services to council homes, corporate properties (including schools) and building design services.

The JV covers:

- responsive buildings repair and maintenance contracting to housing, public and commercial buildings, including housing void works. The Estate comprises approximately 5,400 homes and 630 corporate properties
- statutory and regulatory testing to assets for the same estate, this includes asbestos management

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Consultancy Services:

- A Design and Build contractor service (Individual works order value £10k to £1.5m);
- Consultancy services to deliver the Council's major capital investment programme in new buildings (construction contract value over £1.5m). The Council has a combined capital works pipeline estimated at around £19m, a significant proportion of which supports the Welsh Government's 21st Century Schools Programme.

Objectives of the Joint Venture

The Joint Venture Company objectives are to:

- Create and maintain a successful long-term partnership spanning at least 10 years;
- Through a Customer Charter and Performance Management Policy provide measurable excellent customer service with a high level of service user engagement with a focus that supports diversity and customers with differing needs;
- Drive efficiencies and continuous improvement across all service areas. These service areas are principally Corporate Property, Housing Maintenance and Consultancy. Savings will be aligned to the Council's annual budget reductions;
- Develop a trusted brand that will encourage and underpin growth in these service areas with a diversified customer base;
- Maintain a safe and accident free working environment for all employees, subcontractors and suppliers.
- Support the local economy and communities by employing local people, contractors and suppliers with a focus on equalities and diversity
- Develop the local workforce through apprenticeships, education and training programmes and creating employment opportunities in the wider Kier Group
- Grow the business supported by the provision of expertise from Kier, the Council and their respective networks

Investing in a joint venture arrangement comes with its own risks for consideration, including

- The Council needs or wants to do things differently,
- The Council and HoWPS have a fundamental disagreement,
- HoWPS fails,
- The arrangements are terminated,
- HoWPS does not perform as expected (including management of health and safety)
- Circumstances (including the law) change the costs of providing the services.
- Conflicts of interest might arise between the Council and company
- Unexpected call on the council for capital to purchase the company or assets on termination.

Mitigating the risks of Commercial Activity – Due Diligence

Due diligence begins at the point a project starts to be considered and continues throughout the processes of approval, implementation and operation.

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Commercial Property Due Diligence – Operational Portfolio

Before a lease is awarded, a due diligence exercise is carried out in relation to the prospective tenant's capability for meeting their commitment under the lease.

Once the risk assessment has been completed, there are three options for proceeding

- Grant the lease and require a deposit that appropriately reflects the level of risk associated with the tenancy
- Grant the lease with an Authorised Guarantee Agreement (AGA) where another body acts as guarantor for the lease commitments
- Refuse the tenancy

Once the lease has been granted the rental income is monitored and managed within the council's sundry debtor processes. If necessary, the council will take appropriate action to terminate the tenancy in line with the tenancy agreement or lease.

Commercial Activity Due Diligence – New Projects

Due diligence on new projects begins at inception by identifying the nature of the project and associated risks. A feasibility process is carried out to clarify whether it is deliverable, the potential costs (capital and revenue), and to assess the risks and the benefits it is intended to achieve (including whether it will be a deliverable return).

Next a viability assessment will be carried out, including a sensitivity analysis. This helps to ensure that the evaluation of the expected benefits are robust and to identify the most effective method of project delivery that mitigates risk.

If a new project involves a property acquisition, rather than a new build, a detailed assessment of the building fabric and utilities will be undertaken. In addition a detailed review of any in situ tenants and their lease terms will be undertaken to identify anything that could pose a potential risk to the Council.

Legal advice will be taken throughout all new projects, whether new build or acquisition. Where necessary independent professional advice will be obtained from relevant specialists, which may include tax advisers, financial advisers, etc.

Commercial Activity Due Diligence – Disposals

External advice may be taken to determine the best method to dispose of such assets and the council is mindful of its value for money responsibilities and its duties under s.123 of the 1972 Local Government Act and provisions under other powers to dispose of assets.

Commercial Activity Approval and Scrutiny

All new commercial projects, whether property or service based, requires cabinet approval based on a report setting out the proposals and associated risks and considerations.

Commercial activity will be reported to and scrutinized through the Council's Scrutiny Committee structure.

Commercial property income is approved annually in line with the Council's income policy and budget setting process. The levels of income will be monitored and reported through the Council's revenue budget monitoring process.

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Council Vision

Vision, Values and Principles

A renewed statement of vision, values and operating principles has been developed, which provides a checklist for the Council and key partners to use as a means of evaluating the effectiveness of the current strategy and deciding if it is improving service provision and outcomes for individuals and communities.

Vision 2025

Building on previous progress to make Powys the best possible place to live, work and visit, ensuring communities feel supported, have a say in what is provided for them locally and feel they play a key role in local service delivery. In an era of continued budgetary pressures, growing demand and increased expectations it is very important that there is clarity about what the Council wants to achieve now and in the future.

An open and enterprising council, this means:

- Working with communities, residents and businesses
- Willing to look at new ways of working and delivering services
- Focussing on solutions rather than problems

Having clear priorities to deliver the vision:

- **The Economy** - We will develop a vibrant economy
- **Health and Care** - We will lead the way in effective, integrated rural health and care
- **Learning and Skills** - We will strengthen learning and skills
- **Residents and Communities** - We will support our residents and communities

To deliver the above there is an enabling priority:

- **Making it Happen**
 - Political & Officer Leadership
 - Workforce Strategy
 - Strategic & Financial Planning
 - ICT & Business Systems
 - Performance Management
 - Communications- Engagement with Residents & Communities
 - Partnerships

Guiding principles

The Council's guiding principles are based on the Well-being of Future Generations (Wales) Act 2015, which means the decisions made must take into account the impact on people's lives in Powys in the future. The Act identifies the following five sustainable development principles:

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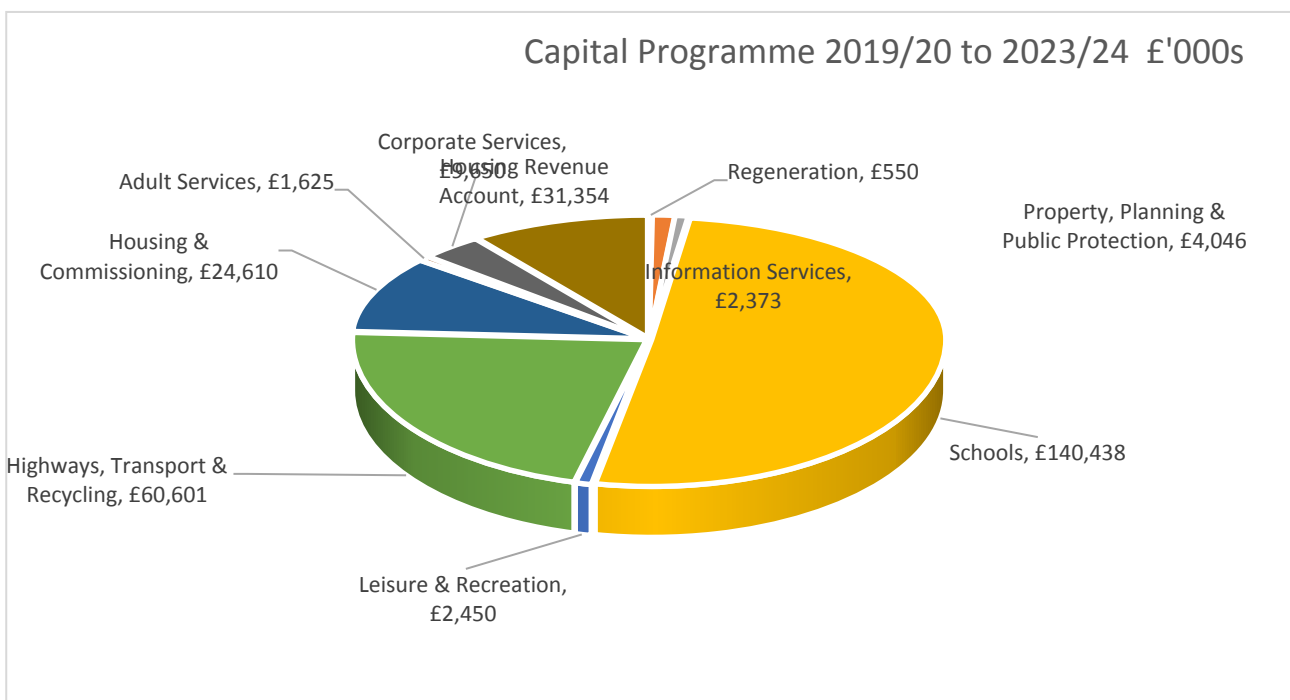
- **Long-term** - Balancing short-term needs with the need to safeguard the ability to also meet long-term needs.
- **Prevention** - Putting resources into preventing problems occurring or getting worse.
- **Integration (cross-cutting)** - Considering how our priorities may impact upon one another, on the well-being goals and on the priorities of other public bodies.
- **Collaboration** - Working together with other partners to deliver our priorities.
- **Involvement** (communications and engagement) - Involving those with an interest in achieving the well-being goals, and ensuring that those people reflect the diversity of the area

Programme Overview

The Capital Programme covers three areas of expenditure. These are:

- a core programme of schemes that are regulatory / statutory in nature, and minimise legal challenge or revenue risk, these schemes are related to day to day activities that will ensure the Council meets its statutory requirements
- a retained asset programme to improve or enhance the life of existing assets, and
- an investment programme in schemes linked to the Council's strategic priorities; schemes to generate income and increase the diversification of the Council's property portfolio, or reduce the revenue costs of running and maintaining the assets.

The current capital programme and new capital schemes approved for 2019/20 onwards total £275,697k and is summarised by year and service below:



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Capital Programme

Appendix A sets out the capital schemes that will be funded over the next five years.

Residents and the Community - We will support our residents and communities

Housing

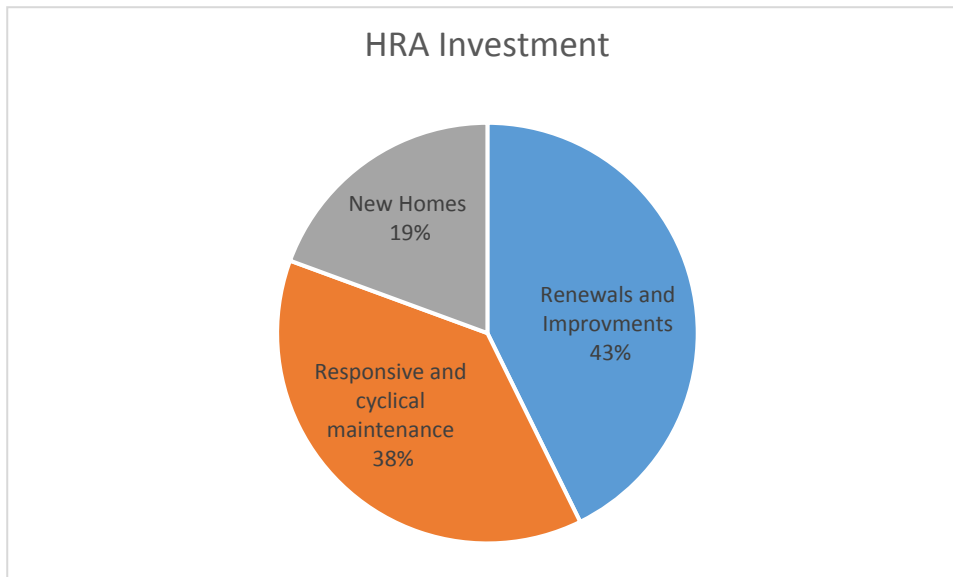
The Council is the largest social landlord in Powys and has more financial freedoms available since exiting the Housing Revenue Account (HRA) subsidy regime. The Council achieved Welsh Housing Quality Standard (WHQS) at the end of December 2018 but this doesn't mark the end of our investment programme in our housing stock. The HRA capital programme will develop new council homes; ensure we maintain the WHQS; increase thermal efficiency; address problems of dampness; improve the fabric of our estates; and improve the quality of older persons' accommodation, to enable vulnerable older people to remain living independently for longer.

The HRA 30 Year Business Plan demonstrates an affordable capital strategy alongside delivering the day to day service and has key objectives linked to the Local Housing Strategy to:-

- Support the public service modernisation agenda in Powys, in particular seeking to reconfigure our older persons accommodation to enable people to live independently for longer
- Make a significant contribution to alleviate poverty in Powys, in particular fuel poverty
- Provide good quality affordable housing to meet the needs and aspirations of the people of Powys, that are located in safe and attractive environments to which residents can relate and take pride in
- Support the regeneration of communities, creating training and employment opportunities
- Significantly reducing the carbon footprint of the housing stock
- Provide excellent customer focused services which meet the needs of our current and future customers.

Over the lifetime of the business plan the service will look to invest:

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The HRA investment programme represents a significant injection of resources into the local economy of Powys and the service will work to ensure that the local benefit of this investment is maximised within the appropriate procurement requirements.

In addition to the ongoing capital schemes, there has been the addition of £15m to be used over three years as a Registered Social landlord loan scheme. This will match fund Welsh Government (WG) monies to support additional social housing in Powys.

Leisure and Recreation

A number of libraries are already housed in open public locations, for example Builth library at Antur Gwy, Rhayader at the Leisure Centre, Knighton Community Centre Library, Hay and Talgarth primary school community areas. Self-service technology funded through capital means that customers can make increased use of the resources available even when staff are not present or are busy supporting others. Powys County Council (PCC) staff using libraries for agile working purposes will be able to borrow resources by self-service. This provides a wider more cost effective service and is linked to improving learning and skills and health and wellbeing. Presteigne library is a new refurbishment scheme to address issues in a recent condition survey.

The Council has statutory responsibilities in terms of the maintenance of public rights of way. Areas that can require significant investment include the repair or replacement of bridges and the surfacing of public rights of way, in particular byways open to all traffic. These tasks have significant legal and health & safety risks if they remain unresolved. They are often issues that are beyond the scope of revenue budgets, therefore capital funding is sought to enable these larger tasks to be completed. Next year's capital programme supports Monks Trod Byway, to ensure that this byway is brought into safe and useable condition as bridleway standard.

Highways and Environment

The Council has a statutory duty to maintain the adopted highway, maintained at public expense in a safe condition for the passage of the user. A strategic approach has been used to develop the Highways Asset Management Plan (HAMP) in identifying and allocating resources for the management, operation, preservation and enhancement of the

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highway infrastructure to meet the needs of current and future customers. Current gross replacement cost of these assets are estimated at £4.4bn.

An Annual Status and Options Report summarises the status of the main asset groups in terms of condition, compliance with meeting repair standards, level of public complaint/contact etc. The report describes the result of the previous year's investment in terms of meeting the target service standards, enabling the Council to determine if the standards in the HAMP are being met or not. This report also sets out future options available, including long term (20 year) predictions of defect levels, condition and other relevant data in sufficient detail to enable future investment plans and any necessary revisions to service standards contained in the HAMP.

Accessibility to and from employment, homes, leisure, health and social activity must be maintained. Economic growth needs to be facilitated. Congestion and delays on our highway network should be minimised. The Council aims to deliver safe access to employment, local services and facilities by;

- Using available funding to support Council priorities for accessing employment, health, leisure and education, and improve road safety on the county's highway network.
- Prioritising the Council's road infrastructure for repairs and maintenance and implement network improvement programmes.

Waste Strategy

Powys County Council faces stringent Welsh Government (WG) statutory recycling targets. These are 64% for 2019/20 and 70% for 2024/25. In addition to this there is a target to reduce landfill to 10% by 2019/20 and 5% by 2024/25. This has required a step change in the way all local authorities approach waste and recycling.

PCC has followed the WG's preferred method for collecting kerbside recycling using their 'blueprint' as specified in the Municipal Sector Plan. This is a kerbside sort with boxes to maximise the quality of material and hence increase outlets for the recycle, reduce gate fees and maximise any potential income. To sort and process this material requires strategically located facilities (delivery points) where the kerbside vehicles can tip whilst maximising their rounds. In order to deliver this service in a county the size of Powys, it is our intention to develop three bulking/baling facilities in the south, mid and north of the county. It is also imperative that these assets are owned by PCC in order that maximum value can be obtained when commissioning the service. Capital funding to develop these are included in the overall programme.

As well as the kerbside collection of recyclables, authorities have an obligation to provide a facility for the public to take household waste. These Household Waste Recycling Centres (HWRCs) make a considerable contribution to achieving recycling targets as 24% of municipal waste is handled through these facilities. The benefits of ownership and control the asset is essential in order to maximize value when commissioning the service.

The capital investment in the Waste and Recycling service will ensure that the Council is able to meet the targets whilst obtaining maximum value from the service. A network of assets under the Council's control allows flexibility to adapt to any changing requirements within the industry and Government policy and legislation. Some of these schemes will

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deliver efficiency savings in future years, whilst others ensure health and safety issues are minimised.

Health and Care – We will lead the way in effective, integrated rural health and care

The capital programme focuses on supporting those who wish to remain in their own home rather than residential care and supports the integrated Health and Care Strategy for Powys. This strategy acknowledges that people in Powys live longer and healthier lives than elsewhere in Wales and that Powys is a place aspiring to help improve the wellbeing of all people. It outlines the direction the Council will take:-

- promoting wellbeing;
- offering early help and support to people;
- tackling the big four diseases that limit life (cancer, circulatory diseases, mental health, respiratory diseases); and
- providing joined up care.

These are the key areas that become priorities for action. Ensuring people stay well, help them act early to prevent ill health and get support, and where care and treatment is required, work with people to ensure care is joined up and based on what matters most to the individual.

The schemes mainly focus on accommodation options for older people and the use of assistive technology, which has a key role to play in the modernisation of health and social care. With ever increasing technological advances, it offers a range of possibilities for greater choice, not only of how people can access the support they need, but also where and when they access support. In doing so, assistive technology enables people to take greater control, and to live independently for longer by preventing hospital admissions and premature moves to residential care. Enabling access to better accommodation options for older people is essential in order to support independent living and reduce demand for other types of care.

Learning and Skills – We will strengthen learning and skills

Schools

Key Purpose

The Council's key purpose is to enable the children and young people of Powys to become:

- Safe, healthy, confident and resilient individuals;
- Ambitious, capable learners, ready to learn throughout their lives;
- Enterprising, creative contributors, ready to play a full part in life and work;
- Ethical and informed citizens ready to lead fulfilling lives as valued members of society.

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Aims

To achieve this Key Purpose, the Council aspires to ensure that Powys has the right number of schools in the right place, and in the right condition, for the current and future pupil population.

The Council aims to have an educational model which fulfils the following:

- Provides all learners with the opportunity to achieve their potential
- Has high quality, resilient leadership and management
- Has high quality learning environments, with the long term aim that all schools will be assessed as condition A or B, the Royal Institute of Chartered Surveyors grading for the buildings condition in terms of its dilapidation and deterioration
- Has a greater focus on collaboration and partnership working, in order to enable schools to provide the best possible opportunities for learners
- Enables schools to operate effectively and efficiently within the funding available
- Increases demand for Welsh-medium provision and provides access to provision which will enable pupils to become confident Welsh speakers
- Develops our schools into establishments that are central to community activity
- Has a high quality ICT infrastructure that will enable all schools to provide enhanced opportunities for learners
- Provides access to high quality early years provision
- Provides support for learners with additional learning needs which aligns with the requirements of the new Additional Learning Needs and Education Tribunal (Wales) Act
- Provides access to high quality post-16 provision in schools, which is attractive to learners, financially sustainable and minimises learner travel

Powys County Council aims to provide learning environments that meet the aspirations of the WG's 21st Century Schools programme. Major capital investment in school buildings in Powys will continue to be taken forward through the WG's 21st Century Schools programme, and the authority's programme for Band B (2019 – 2024) will develop schools according to agreed strategic policy.

Alongside this, capital funding through our major repairs programme will be focussed on where the need is greatest, as identified through the Schools Service's Asset Management Plan.

The authority has submitted a programme of investment for Band B of the 21st Century programme, which has been approved in principle by the WG. This investment targets some of the authority's poorest condition schools, including special schools, and also provides investment to deliver Welsh-medium education, in accordance with the WG's aspiration to create a million Welsh speakers by 2050. It also includes investment in primary reconfiguration. The programme has a 65% capital intervention rate for

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mainstream schools, 75% for special schools and it also offers a new and innovative funding route where the intervention rate is 85% the Mutual Investment Model. The Council will develop its strategies to ensure maximisation of the potential investment opportunities that may be available via WG funding.

The Council aims to improve learning provision and opportunities to achieve better learner outcomes through its improvement programme by:

- Delivering the current Band A Programme (2014 - 2018) jointly funded with WG
- Delivering the Band B Programme (2019 – 2024) via WG 21st Century Schools Programme Band B (2019) which is jointly funded with WG; and
- Present a rolling programme of improvement proposals/plans to Cabinet to ensure that the County has an educational infrastructure that meets our aims.

The Economy – We will develop a vibrant economy

The vision is to ensure that the property and land assets are efficient, sustainable and in the right locations to support the delivery of services and the achievement of key priorities. To facilitate this a proactive and consistent approach is adopted, in terms of the planning and delivery of sound property management throughout the life cycle of the portfolio. To maximise efficiencies and opportunities from our estate, the property team are developing the potential of moving to a Corporate Landlord model whereby all properties will be managed centrally.

In relation to budget challenges and the achievement of the asset vision, it is necessary to ensure that the Council's land and property assets play a pivotal role in the delivery of change and adopts a more dynamic approach to supporting organisational transformation. Buildings can be a catalyst for change, so over the next four years there will be further significant changes required within the organisation. These changes will need to happen in a short time frame and need to be able to respond to these changing needs and must be able to respond to this changing landscape quickly using innovative approaches. The Strategic Asset Board and the StAMP (Strategic Asset Management Plan) are the mechanisms in place to help deliver these changes and greater powers may need to be delegated to the Strategic Asset Board in order to respond as effectively as possible to demands/ changes.

The MTFs forecasts a gap between funding levels and resource requirements over the medium term and therefore enables specific actions to be identified to balance the budget and manage resources. An escalated disposals programme has been developed to help bridge this gap. Any asset investment plan that results in a capital project will have consequences for the revenue budget, both positive and negative. Savings may be generated from reduced running costs or schemes that generate income but revenue costs may be incurred to service any borrowing associated with the scheme. The Council's overarching budget strategy brings together the Revenue and Capital budgets alongside the policy on Reserves to link these three key elements to form the foundation of our financial plans. The Revenue Budget proposed includes these considerations with provision for the financing of capital.

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Regeneration, Property and Development

The provision of sustainable infrastructure and the availability of business units supports the local and regional economy. The commercial viability of our town centres and rural areas must be protected, along with the vitality of town centres as centres for economic activity and social contact.

The Council need to intervene where the private sector is not able to (for economic reasons) to create or facilitate investment in business units in order to keep and attract business to the County. The Abermule scheme is one such scheme that sees the Authority creating a business park on a former WG site which otherwise would not have been developed in the short to medium term.

New approaches need to be developed in community and social sectors to the design and ways services are delivered, known as Alternative Delivery Models (ADMs), to sustain important services and meet future needs.

Our assets are helping community organisations to develop and become more sustainable by putting them on a firmer footing for the future. The Council's Community Asset Transfer programme (CATs) has actively sought interest from community groups with a social purpose in having assets transferred to them on a long term lease basis, or, exceptionally, by freehold transfer for the benefit of local communities.

There have been a number of successes already and we will continue this programme and provide help and support to organisations which want to move in this direction.

The Council aims to support local communities to become more resilient by:

- Designing and implementing alternative delivery models to sustain important services to meet future need.
- Empowering communities to run and manage facilities in their locality through Community Asset Transfers.

The Council's carbon emissions must continue to reduce to meet WG targets and play a part in helping to address the consequences of climate change. Reducing the Council's energy costs will also contribute to balancing the MTFs. The Council aims to establish environmental development which maximises social and economic benefits as follows:

- The Council will minimise and make efficient use of energy and fuel in all its activities. For example recent works to change interior lighting in County Hall should see savings of approximately £20,000 pa. The Council will reduce its energy consumption and therefore costs by monitoring and reducing energy consumption through the creation of energy saving schemes through the RE: FIT programme and where it makes economic sense introduce low carbon technologies to reduce the carbon emissions of the Council's corporate building estate.
- Continue to rationalise assets held by constantly challenging the retention of assets. We will target underperforming assets and those where service delivery can be maintained by sharing and/or using remaining assets more efficiently. We will also eliminate any duplication in the function of our assets. To deliver this the Strategic Asset Board is reviewing assets on a "place" basis to deliver future revenue savings.

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- We are currently reviewing our Corporate Office Accommodation to ensure that our offices are located in the most appropriate location and are modern, flexible and energy efficient. The North Office review has now been completed and is now in implementation phase. We will then undertake a review of our South Office accommodation. We are already working with our partners (Powys Teaching Health Board, Dyfed Powys Police and Welsh Government) to identify co:location opportunities . There will also be a review of our depots linked to the new Fleet Facility which is an opportunity to co-locate with a partner.
- Continue to modernise the way the Council operates and develop agile working throughout the offices. Teams will be expected to work in new ways that will mean ICT investment will be key to delivering efficient office accommodation

County Farms

The County Farm Estate offers support to the largest industry in Wales – agriculture - and when farms become vacant provides young entrants with the opportunity to establish their farm businesses on starter farms, with the prospect of progression to larger farms either within the portfolio, or in the private sector. It is essential that the Council manages its agricultural estate prudently, efficiently, and professionally. Effective management of County Farms estate will enable us to continue to provide the opportunities already enjoyed by current tenant farmers, and maintain an income stream.

A condition survey carried out in 2015 identified approximately £4.5m of works classified as 'urgent' required within two years. To date £1m has already been used to address the health and safety risks due to asbestos, electrical issues and septic tanks. There is a further allocation of £500k in the programme for 2019/20. The financial demands of the Estate need to be evaluated against the competing demands across the council whilst noting the estate produces a surplus of approximately £700k per annum and has made a considerable contribution in capital receipts amounting to approximately £16m.

Making it Happen

Information Technology

The joint Information Technology Strategy with Powys teaching Health Board underpins ICT investment decisions. Its focus remains on developing Information Technology (IT) in Powys to support the delivery of Corporate and Service objectives and priorities, enabling change and driving forward improvement.

The Council has developed a secure, resilient, reliable and high performing IT infrastructure which provides the foundations to deliver real benefits to services, customers and the citizens of Powys. However, the extremely rapid pace of change and development in terms of IT means a constant requirement to identify opportunities for further improvements.

The service engages with change programmes so that investment and resource meets identified priorities. In respect of infrastructure, IT will seek to invest in up to date cloud based technologies including 'Azure' cloud technologies, improved telephony and mobile systems, WEB and share-point and improved wireless. In terms of applications IT is looking to rationalise the number of systems through investment in replacement of legacy

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corporate systems and improved integration between systems notably the WEB and Intranet.

Capitalisation Direction and Transformation

In December 2017 the Secretary of State announced the continuation of the capital receipt flexibility programme for a further three years up to financial year 2021/22. This is significant as it gives authorities the continued freedom to use in year capital receipts from the sale of their own assets (excluding Right to Buy receipts) to help fund the revenue costs of transformation projects and release savings.

Capital receipts, less the administrative costs to sell the asset, will be used to fund the cost of the transformation projects for the next three years. A capital receipts policy has been developed to support this approach together with a schedule of the anticipated receipts and their application over the period of the directive. The policy which is attached as Appendix C forms a key element of the Medium Term Financial Strategy.

Capital Funding

Appendix A shows how the capital programme will be funded. The schemes are reassessed each month to ensure the most cost effective funding streams are utilised, especially when slippage occurs and restricted funding has a deadline for drawdown.

The diagram below shows the sources of funding that are utilised to deliver the capital programme. Each are explained in detail at Appendix B.

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Restrictions around borrowing etc

Powys has a Housing Revenue Account (HRA) this means that any capital receipts received from the sale of its housing assets are retained by the HRA. Any land swaps between the Council Fund and HRA can result in capital receipts for both the HRA and Council Fund. In addition, any borrowing undertaken on behalf of the HRA is financed by the HRA.

Treasury Management and Annual Investment Strategy

The Capital Programme, is closely aligned to the Treasury Management Strategy, in terms of identifying and undertaking necessary borrowing and when cash will be paid into the Council's bank to support cashflow.

The Council's Capital Financing Requirement (CFR) is the amount of capital expenditure that is not financed from revenue resources, capital grants, capital receipts or other contributions. Any expenditure that is not financed from these resources increases the authority's underlying need to borrow. Part of the Council's treasury activities is to address the funding requirements for this borrowing need, based on having sufficient cash to meet the cost of the schemes this may be sourced through prudential borrowing or utilising temporary cash resources within the Council.

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The Council is currently maintaining an under borrowed position. This does not indicate the Council should take out further borrowing but that the capital borrowing need has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cashflow has been used as a temporary measure. This is a prudent and cost effective approach in the current economic climate of low interest rates and is a good use of the Council's cash. Analysis of the balance sheet confirms the Authority to be in an internally borrowed position which, as mentioned above, is a prudent and cost effective approach in the current climate of low interest rates.

The policy of avoiding new borrowing by running down spare cash balances has served Powys well over the last few years and meant that the Treasury Management function has made a considerable contribution to the overall financial position. However, this is under constant review because the Council now has an emerging borrowing requirement. This constant review is to avoid incurring higher borrowing costs in later times when the authority will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt. There will remain what is termed as a cost of carry to any new long-term borrowing. This will see a temporary increase in cash balances due to the difference between borrowing costs and investment returns.

Current forecasts show gradual interest rate rises over the next year. This will be taken into account when considering borrowing options.

Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure value for money can be demonstrated.

In determining whether borrowing will be undertaken in advance of need the Authority will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

Minimum Revenue Provision (MRP)

MRP is the annual charge that councils are required to make for the repayment of their debt liability in respect of capital expenditure funded by borrowing, for both the General Fund and Housing Revenue Account Debt.

This capital expenditure is set out as part of the calculation of the CFR and forecasts updated regularly to reflect changing borrowing needs and the resulting costs. Key, is the requirement for a prudent provision to be made to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits.

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Following an MRP review, Council approved an amended MRP policy to be applied for the 2015/16 financial year and beyond, based on the following:

- MRP on Supported Borrowing. From a 4% reducing balance method to a 2% straight line calculation for supported borrowing.
- MRP on Prudential Borrowing is charged over the life of assets. Using the asset life method for current and future years' calculation of prudential borrowing MRP for both the General Fund and HRA.
- The HRA CFR, which is a combination of historic and settlement debt, would be subject to the 2% reducing balance method calculation.
- For assets under construction, the MRP is allowed to be deferred until the asset is operational so the MRP matches the useful life of the asset.

The Council has revised the method of calculation to 2% straight line for the General Fund, for debt going forward. It has now reviewed the current years MRP liability and will retrospectively make an adjustment for the period between 2007/8 and 2014/15 in order to facilitate the appropriate starting point for 2015/16. This recalculation demonstrates prudence, in that the debt liability will be repaid eight years earlier, and effectively moves the start point of the 50 years useful asset life back to 2007/08. This means that the debt liability will be reduced to nil in 2057, rather than in 2065.

Over the years 2007/08 to 2016/17, the Authority would have charged a total of £19.988m less MRP on the General Fund CFR balance as at 2007/08 if it had adopted the 2% straight line method on its historic/supported debt in 2007/08.

Risk Management

All large capital projects are managed under the Council's Project Management Methodology, which incorporates risk identification and risk management. The Council also has a Risk Management Policy which is applied to all its projects and activities.

For all capital projects, project managers update financial forecasts on a monthly basis identifying any areas subject to risk of overspend, underspend or slippage. The monthly report is reviewed by the officer Resources Working Group, where any issues are discussed and, if necessary, referred for action.

There is also a degree of funding risk in the Capital Programme, reliant as it is on future capital receipts, and the ability to be able to afford borrowing if necessary. These risks need to be managed and monitored on a regular basis, and action taken where necessary.

Risk Appetite

Risk appetite in this context is the level of risk that the Council is prepared to accept to be exposed to at any point in time in relation to its activities. It involves knowing what risks the Council wishes to avoid, what risks it is willing to accept and what risks it is willing and able to manage (including by transferring them to a third party, e.g. through insurance).

The Council is willing to accept and manage the risks outlined in the Corporate Risk Table below in respect of commercial property, provided that the business case and risk

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assessments for the project put the level of risks within acceptable and manageable margins. However, it will not knowingly enter into a commercial lease agreement with an unsuitable tenant.

In addition, the lease terms used for the commercial property include clauses that enable the Council to take action where it has inadvertently entered into a lease agreement with an unsuitable tenant.

The risks are regularly monitored and managed both financially and operationally in accordance with council processes. The financial performance is reported on a monthly basis to the Resources Working Group and on a quarterly basis to Portfolio Holders as part of the revenue budget monitoring.

The Council is willing to accept the risks set out in this Strategy for projects that have Council approval provided that the project management ensures the appropriate mitigations are put in place to bring the project within acceptable risks margins.

The red risks are of the greatest priority and require immediate attention. Amber risks should be reviewed and moderate risk mitigation action may be required. Green risks are likely to require no further action and should be monitored at 3-monthly intervals, in case the situation changes.

Likelihood	A	Very High	G	A	R	R
	B	High	G	A	R	R
	C	Significant	G	A	R	R
	D	Low	G	A	A	R
	E	Very Low	G	G	G	A
	F	Almost Impossible	G	G	G	G
		Negligible	Marginal	Critical	Catastrophic	
		4	3	2	1	
						Impact

Commercial Property Risks Table

The key risks inherent in the Council's commercial property investments include:

Category	Description of Risk	Potential Impact
Financial	Downturn in either specific areas of the property market or the wider commercial property market.	May result in a decline in rents and/or an increase in vacant properties impacting adversely on the Council's income.
Financial	Loss of one or more material tenants resulting in vacant properties and/or bad players.	May adversely impact on rental income.
Strategic	Government intervention, e.g. setting limits on the commercialisation strategies available to local authorities.	May limit resources through restricting potential funding streams.

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Reputational (Risk D)	Unsuitable tenants, for example tenants using premises let by the Council for illegal or undesirable purposes.	May reflect badly on the Council's reputation.
Financial	Over-reliance on commercial income streams to fund core services.	May result in increased financial pressures should one of the income streams fail.
Financial	Ability to fund costs associated with maintaining investment returns (i.e. income streams), for example ensuring that the investment stock suitably reflects market demands.	May undermine investments resulting in increased financial pressures.
Reputational/ Financial	Liquidity and Inflation risks-when the Council invests in commercial property the 'cash' it invests loses its liquidity. If the Council does decide to sell investment property, there is a risk that the market value of the property is lower in real terms than the amount invested.	May result in reputational damage to the Council and increased financial pressures.
Financial	If there are issues with income for an investment property that has been funded by borrowing there is a risk that the costs of borrowing will not be covered by the income from that property.	May result in increased financial pressures.

Capital Programme Risks

The key risks inherent in the Council's Capital Programme include:

Category	Description of Risk	Potential Impact
Financial	The longer a project takes to come to fruition, the greater the risk that the financial cost of the project will have increased, both due to the additional staff time spent on the project and the inflationary impact on the costs involved in bringing the asset into operation.	May result in financial pressures on the other projects/ programmes and service delivery.
Financial	There is a degree of correlation between the length of time a project spends in the feasibility and development stage and an increased risk of project failure or abandonment. Should a project fail for any reason, the regulations require all capital costs to be returned to revenue, which may create significant pressures,	May result in additional revenue pressures on delivery/services.

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	depending on the level of spend at that point.	
Financial	Project expenditure is higher than forecast estimates	May result in increased financial pressures/ limitations on future investment options.
Financial	Once a project has been delivered successfully the cash expended is then bound in the asset. In the case of the assets that are for service delivery and do not generate a rental income stream, the money invested in the asset is only recovered if and when the asset is sold at a future date. This carries inherent financial risks in that the asset may have decreased in value, depending on market conditions, or may not have increased in value sufficiently to mitigate the effects of inflation.	May result in increased financial pressures/ limitations on future investment options.
Financial	The current capital programme is heavily reliant on future capital receipts. Should there be any issues in securing these within the planned timescales, it may be necessary for the Council to review the expenditure in the capital programme or undertaking borrowing, which would come at a revenue cost.	May result in additional revenue pressures on delivery/services.

Governance

The overall programme is significant and governance is a key requirement. Planning for the Capital Programme is determined in parallel with service and revenue budget planning process within the framework of the MTFS.

New capital schemes are rigorously appraised through submission of a full business case which will include schemes funded by grants or contributions from 3rd parties. The business cases will be based on the Welsh Government's Better Business Case templates. Large schemes that are programmes in their own right are subject to gateway reviews at stages during the programme, for example: 21st century schools. These gateways are being introduced for all new capital projects.

Ensuring that the evidence and the case for change when the scheme was initially approved is still valid, and that lessons learned from early stages can be applied to future stages. In order to ensure decisions are linked to revenue consequences this is built into the bidding process.

The Council has the ability to further borrow, to fund additional schemes, which must demonstrate how they can contribute towards the Council's vision and help support

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investment and efficiency. The business cases must be clear about deliverability and added value, with clarity about the level of risk to be managed against expected reward.

Monitoring of the annual Capital Programme is undertaken at service level with progress updates given to the Head of Service, budget holders and project managers through Collaborative Planning (CP). Cabinet receives monthly reports covering:

- New schemes or additions to existing schemes
- Grant and new funding sources
- Removal of or reductions to schemes
- Slippage on schemes, and impact on future years capital programme, with virement request

It is important the Capital Programme has some flexibility to deal with emerging issues requiring funding and therefore some 'headroom' is built in to allow smaller schemes to be presented, considered and approved by Cabinet in year. Such schemes can arise in year where an opportunity arises from (say) grants that require an element of match funding or unforeseen events such as regulatory works.

Knowledge and Skills

The Technical Section of the Finance Department has experienced Capital and Treasury Management Teams. All Councils are supported by an external advisor to provide technical advice and assurance about key activities. Powys uses Link Asset Services that is part of Link Group's Asset Services division and works in partnership internationally with almost 7,000 clients including asset managers and investors, business managers, asset owners, trustees, issuers and borrowers. They provide the infrastructure through which assets are secured or deployed in both regulated and unregulated markets. Link's support is as follows:

- They support their clients through their set up and operating challenges, helping them to avoid pitfalls and to achieve superior levels of performance:
- Their innovative financial and administrative services span the whole asset lifecycle in both the primary and secondary markets
- Their well invested administration and payment platform delivers end-to-end solutions for their clients
- They maintain close collaborative links with industry bodies, intermediaries, market utilities and other key market players
- Their interactions and partnerships with stakeholders across the entire financial ecosystem, give them a unique 360 degree perspective.
- Their operating model ensures they remain agile and innovative allowing them to respond to and evolve with the fast changing financial services market place and the challenges it brings.

CAPITAL PROGRAMME 2019/20 to 2023/24

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000	£000	£000
<u>Schools</u>						
Brecon High School	6,928	0	0	0	0	6,928
Welshpool CinW School	3,589	0	0	0	0	3,589
Gwernyfed High School	5,136	1,800	0	0	0	6,936
Ysgol Calon Cymru	5,948	0	0	0	0	5,948
Band B	21,217	16,489	20,737	25,483	27,111	111,037
Major Improvements	2,000	1,000	1,000	1,000	1,000	6,000
	44,818	19,289	21,737	26,483	28,111	140,438
<u>Highways, Transport & Recycling</u>						
Highways Core Allocation	1,500	1,500	1,500	1,500	1,500	7,500
Recycling Bulking Facility North Powys	3,023	0	0	0	0	3,023
Structural Maintenance	1,120	1,500	1,500	1,500	1,500	7,120
HAMP	3,950	3,950	3,950	3,950	3,950	19,750
Bridge Renewal/Strengthening	500	500	500	500	500	2,500
Strategic Salt Reserve	800	0	800	0	0	1,600
Relocation to Cwt y Plyffin	870	0	0	0	0	870
Street Lighting	100	250	250	250	250	1,100
HWRC Brecon	500	0	0	0	0	500
HWRC Welshpool	0	1,000	0	0	0	1,000
Fleet Facility	0	0	2,500	0	0	2,500
Vehicle Telematics/Technology	200	0	0	0	0	200
Previous Years Capitalisation	466	0	0	0	0	466
Recycling of Highways Arising	0	0	950	0	0	950
Vehicle Replacement Programme	2,122	4,272	2,628	2,500	0	11,522
	15,151	12,972	14,578	10,200	7,700	60,601
<u>Regeneration</u>						
Targeted Regeneration Investment Programme (TRIP)	250	300	0	0	0	550
<u>Property, Planning & Public Protection</u>						
County Farms Estate	600	100	100	100	100	1,000
Targeted Regeneration Investment Programme (TRIP)	250	300	0	0	0	550
County Hall Works	175	0	0	0	0	100
North Area Review	250	0	0	0	0	250
County Hall Swipe Access	100	0	0	0	0	100
Ladywell House	330	0	0	0	0	330
Park Office Roof	191	0	0	0	0	191
Abermule Business Park Units	400	400	400	400	400	2,000
	2,296	800	500	500	500	4,596
<u>Leisure & Recreation</u>						
Byway Network	187	0	0	0	0	187
Refurbishment of Sports Centres	495	465	374	364	302	2,000

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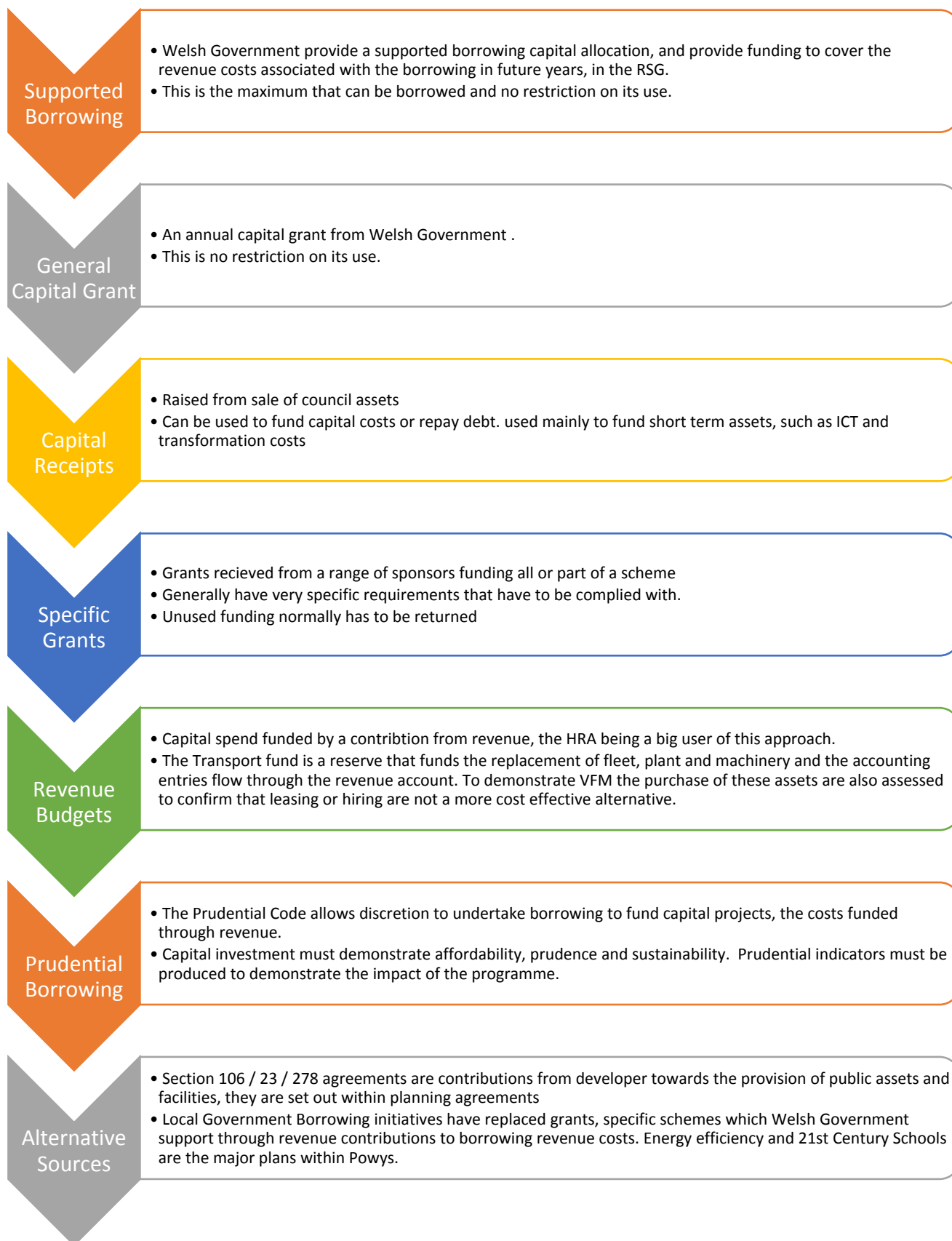
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total £000
Footbridges - Replacement Programme	15	15	15	15	15	75
Monks Trod Byway	188	0	0	0	0	188
	885	480	389	379	317	2,450
<u>Housing & Commissioning</u>						
Disabled Facilities Grant	1,300	1,300	1,300	1,300	1,300	6,500
Safe, Warm and Secure	200	200	200	200	200	1,000
Gypsy & Traveller Site - Machynlleth	870	0	0	0	0	870
CO2i Assistance	48	48	48	48	48	240
Loans to RSL	5,000	5,000	5,000	0	0	15,000
Landlord Loans	200	200	200	200	200	1,000
	7,618	6,748	6,748	1,748	1,748	24,610
<u>Information Services</u>						
Refresh Programme	350	350	350	350	350	1,750
ICT Enterprise Monitoring	100	0	0	0	0	100
ICT Infrastructure and Cyber Security	173	0	0	0	0	173
ICT System Rationalisation	350	0	0	0	0	350
	973	350	350	350	350	2,373
<u>Adult Services</u>						
PCC Care Homes (BUPA) -	90	446	288	0	0	825
Community Equipment e.g. profile beds	100	100	100	0	0	300
Telecare	100	0	0	0	0	100
Innovative use of robotics e.g. Pepper	0	200	200	0	0	400
	290	746	588	0	0	1,625
Local (small) Capital Schemes	500	500	500	500	500	2,500
Capitalisation Direction	3,150	2,000	2,000	0	0	7,150
Total	75,682	43,885	47,390	40,160	39,226	246,344
<u>Financed By</u>						
Supported Borrowing	5,758	4,573	4,573	4,573	4,573	24,050
Prudential Borrowing	37,452	17,517	21,330	13,143	13,651	103,093
General Capital Grant	4,327	4,327	2,782	2,782	2,782	17,000
Grants	22,276	10,598	13,479	16,564	17,622	80,539
Capital Receipts	3,398	2,248	2,248	248	248	8,390
Revenue/Reserves	2,472	4,622	2,978	2,850	350	13,272
Total	75,682	43,885	47,390	40,160	39,226	246,344
<u>Housing Revenue Account</u>						
Welsh Housing Quality Standard	7,112	3,673	3,673	3,673	3,673	21,804
Old Persons Dwellings	700	0	0	0	0	700
Zero Carbon Initiative	3,354	0	0	0	0	3,354

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New Builds/Purchases	3,931	0	0	0	0	3,931
Adaptions	265	0	0	0	0	265
Communal Work/Alarms/Areas	1,300	0	0	0	0	1,300
Total	16,662	3,673	3,673	3,673	3,673	31,354
	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£000	£000	£000	£000	£000	£000
Financed By						
Prudential Borrowing	4,764	0	0	0	0	4,764
Grant	5,473	3,673	3673	3673	3673	20,165
Capital Receipts	0	0	0	0	0	0
Revenue/Reserves	6,425	0	0	0	0	6,425
Total	16,662	3,673	3,673	3,673	3,673	31,354

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Appendix B Capital Funding Options



Powys County Council

Capital Receipt Policy

Introduction

This policy is introduced to provide guidance to Senior Managers on the rules governing the application of Capital Receipts in Powys County Council. This guidance has been drafted in line with the two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). These publications are:

- The Prudential Code for Capital Finance in Local Authorities
- The Code of Practice on Local Authority Accounting.

The two publications referred to above contain guidance on capital receipts and local authority accounting that complements guidance issued by the Welsh Government.

In England and Wales, capital receipts are defined by Section 9(1) of the Local Government Act 2003 to include all instances where property, plant or equipment is disposed of for cash (subject to a £10,000 de minimis). All references to Capital Receipts in this policy therefore refers to this definition.

Application

- This guidance should be read alongside the relevant direction issued by Welsh Ministers.
- This guidance applies with effect from 1 April 2018 and for each subsequent financial year to which the use of capital receipts applies.
- The direction makes it clear that local authorities cannot borrow to finance the revenue costs of service reform. Local authorities can only use capital receipts from the disposal of property plant and equipment assets received in the years in which this flexibility is offered. Officers must therefore not use stock of capital receipts to finance the revenue costs of qualifying projects.

Costs of Disposal

The statutory arrangements for capital receipts in England and Wales permit costs of disposals to be financed from the receipts generated, although there is a cap of 4% of the Capital Receipt for costs incurred in relation to non-housing disposals.

Qualifying Expenditure

The accounting process for disposals is complicated by the fact that proceeds from the sale of property, plant and equipment are generally subject to statutory restrictions over their use. Income that meets the definition of capital receipts is reserved for new capital investment or for the reduction of an authority's indebtedness. This definition has however been extended by a Capitalisation directive (April 2018) on the Flexible Use of Capital Receipt by the Welsh Cabinet Secretary for Local Government and Public Services, in the exercise of his powers under section 16(2)(b) and 20 of the Local Government Act 2003), that the local authorities in Wales treat as capital expenditure, any expenditure which:

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- (a). Is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of services and/or transform service delivery in a way that reduces cost or demand for services in future years for any of the public sector delivery partners; and
- (b). Is properly incurred by the authorities for the financial years that begin in 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2019, 1 April 2020 and 1 April 2021.”

While this directive extends the scope of expenditure that qualify for the use of Capital Receipts, it also restricts the period during which the flexibility can be applied. Therefore any decision to apply Capital Receipt, must meet the conditions of both the qualifying period and the qualifying expenditure.

The qualifying period during which flexibility can be applied is the financial years that begin from 1 April 2016 and end on 31 March 2022. This means that any Capital Expenditure received prior to 1 April 2016 or received after 31 March 2022 cannot be applied under the exemptions of the Capitalisation Directive. Capital Receipts received during the directive period can also not be applied with the same flexibility once the directive term has expired.

Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for the Authority or any of the delivery partners. This includes investment which supports economic growth projects which are also designed to reduce revenue costs or pressures over the longer term. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

The set up and implementation costs of any new processes or arrangements can be classified as qualifying expenditure. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

Examples of qualifying expenditure

There are a wide range of projects that could generate qualifying expenditure and the list below is neither prescriptive nor exhaustive. Examples of projects include:

- Preparatory work necessary to support local authority mergers as part of the programme to reform local government in Wales;
- Sharing back-office and administrative services with one or more other council or public sector body;
- Investment in service reform feasibility work, eg. setting up pilot schemes;
- Collaboration between local authorities and central government to free up land for economic use
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief Executives, management teams or staffing structures;

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- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using the National Procurement Service, Crown Commercial Services or other central purchasing bodies which operate in accordance with the Wales Procurement Policy Statement;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others); and
- Integrating public facing services across two or more public sector bodies (for example children’s social care, trading standards) to generate savings or to transform service delivery.
- Investment which supports economic growth projects which are also designed to reduce revenue costs or pressures over the longer term, across one or more local authorities and/or other public sector bodies.

Use of Capital Receipts

The current policy for the use of Capital Receipts is contained in the Corporate Asset Policy.

Capital Receipts will normally be credited to the Central Fund and will be used to progress the Council’s principal objectives defined in the Corporate Improvement Plan. However, up to 4% of the capital receipt may be reclaimed by Property as permitted and approved costs of sale.

Capital receipts from the sale of Farm or Agricultural land under the County Farm Estate and property vested in the HRA will be subject to the following apportionment:

Type	Service Area	Corporate
Agricultural	10%	90%
HRA Dwellings and Land	100%	

This policy proposes to update the use of Capital Receipts between 2018/19 and 2021/22 to the following:

Type	Service Area	Corporate
Agricultural	0%	100%
HRA Dwellings and Land	100%	
Homefinder Receipts	100%	
Vehicles	100%	

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Summary of Transformation Costs and Use of Capital Receipts

	Received	Due	Total	Used	Unused
	£'000	£'000	£'000	£'000	£'000
<u>Capital Receipts</u>					
Total Capital Receipts 16-17	3,088		3,088	907	2,181
Total Capital Receipts 17-18	882		882	605	277
Forecasted Capital Receipts 18-19	677	3,991	4,668		4,668
Forecasted Capital Receipts 19-20		2,880	2,880		2,880
Target Capital Receipts 20-21			2,000		2,000
Target Capital Receipts 21-22			2,000		2,000
					14,006
<u>Transformation Costs 18-19</u>					
Transformation projects			-2,090		
Redundancies excl Schools			-167		
School Redundancies plus Pension Strain			-347		
Organisational Transformation			-500		
			-3,104		10,902
<u>Transformation Costs 19-20</u>					
Transformation Projects to be capitalised			-2,000		
Organisational Transformation			-500		
School Redundancies plus Pension Strain			-650		
			-3,150		7,752
<u>Transformation Costs 20-21</u>					
Transformation projects to be Capitalised			-2,000		
			-2,000		5,752
<u>Transformation Costs 21-22</u>					
Transformation projects to be Capitalised			-2,000		
			-2,000		3,752

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Accountability and Transparency

Welsh Ministers believe it is important that individual authorities demonstrate the highest standards of accountability and transparency. The guidance recommends that each authority should prepare a separate disclosure note of the individual projects that have been funded or part funded through capital receipts flexibility. The disclosure note should be approved by the Responsible Financial Officer at the same time the statutory accounts are certified and can be included as part of the year-end accounts documentation. The disclosure note should be considered and approved by the person presiding at the committee or meeting at which approval of the statement of accounts was given.

Useable Capital Receipts	7,559,202.08	
Less HRA	2,010,519.27	
Less Homefinder Receipts	1,381,210.18	
	4,167,472.63	
Current Capital Projects funded by receipt		Borrowing Costs
2018-19	3,834,480.95	140,652.50