

Finance Sub-Committee

Date of Meeting:	5 th January 2022
Report Title:	Draft Capital Strategy 2022-26
Report of:	Alex Thompson, Director of Finance and Customer Services (Section 151 Officer)
Report Reference No:	FSC/19/21-22
Ward(s) Affected:	Not Applicable

1. Executive Summary

- 1.1. The Sub-Committee are being asked to consider the current capital strategy and comment on its appropriateness in light of the ongoing budget consultation document. The Sub-Committee are also being asked to note recent development of the strategy as it is being prepared for approval by Council in February.
- 1.2. The Capital Strategy forms a key part of the Council's Medium Term Financial Strategy (MTFS) alongside the Treasury Management and Investment Strategies. Each of these strategies are reviewed each year.
- 1.3. The MTFS will be recommended to Council for approval on the 24th February 2022 by the Corporate Policy Committee.
- 1.4. The Capital Strategy is a key document for the Council and forms part of the authority's integrated revenue, capital and balance sheet planning. It provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It includes an overview of the governance processes for approval and monitoring of capital expenditure.

2. Recommendations

That Finance Sub Committee:

- 2.1. Consider and comment on the current Cheshire East Council Capital Strategy as set out in Appendix 1.
- 2.2. Note that officers continue to review the Capital Strategy during the Medium Term Financial Strategy consultation period.
- 2.3. Note the activities to date in developing the revised Capital Strategy as detailed in the background section to this report.

3. Reasons for Recommendations

- 3.1. The Finance Sub-Committee have oversight of the Capital Strategy and are being asked to comment on the current strategy during the MTFS consultation period. This will support the Corporate Policy Committee in making recommendations to Council on the setting of the MTFS 2022 to 2026.
- 3.2. Whilst the Capital Strategy is being reviewed it is important that the Sub-Committee understand the activities taking place, to ensure this process is robust.

4. Other Options Considered

- 4.1. None. The Council has approved the annual review of the Capital Strategy, which supports good financial management.

5. Background

- 5.1. The Capital Strategy provides financial background as well as setting out further details of the on-going approach to funding the priorities set out in the Corporate Plan. It will highlight the capital spending plans for the financial year starting 1st April 2022, as well as forecast estimates up to the 2025/26 financial year.
- 5.2. The 2021-25 capital programme is being reviewed in full and as part of the 2021/22 in year reporting process, budgets for committed schemes are being reprofiled to provide updated scheme forecasts for 2022-26.
- 5.3. Finance staff have engaged with the Corporate Leadership Team and Wider Leadership Team to understand the requirements for capital expenditure over the medium term as it relates to the Council's Corporate Plan.

- 5.4. The review includes the requirement to reprofile spending based on latest forecasts, which are affected by capacity and market forces.
- 5.5. As part of the review of the capital programme, it is proposed to remove part 2 of the programme, referred to as the 'addendum'. Previously this section of the programme has listed schemes in the pipeline, which are subject to a detailed business case and evidence of affordability.
- 5.6. The 'addendum', although useful to highlight local capital ambitions, has not actually led to strategic improvements in the programme and has not enhanced financial management and control.
- 5.7. Alternatively schemes will be added to the programme in-year as business cases are developed and will be subject to further approval by Committee and/or Council in accordance with Finance Procedure Rules.
- 5.8. New bids and requests for increased budgets are being submitted as part of the 2022/23 business planning process and these are currently being prioritised for inclusion in the 2022-26 Capital Programme.
- 5.9. In 2020 the strategy was enhanced to improve the whole life costing of capital schemes. This further improved the strategic relationship between capital and revenue spending making overall estimates more robust. The revised strategy will further develop this approach to ensure schemes are fully costed and risk assessed and that ongoing maintenance and repair costs are funded appropriately over the next four years.
- 5.10. The capital programme experiences a significant amount of slippage each year, analysis shows that on average only 60% of the capital programme is spent each year compared to the original budget approved in February. By comparison forecast spend for the financial year 2021/22 is now £145m (as reported to this Committee on 1st December), compared to the original approved budget of £171m.
- 5.11. Inaccurate profiling of expenditure can put potentially unnecessary pressure on the revenue budget. When capital budgets are approved, the payback of borrowing costs must be factored into the calculation of the annual capital financing budget. In recent years any underspends in the budget due to slippage have been transferred to the financing reserve and the impact of slippage has been managed this way.
- 5.12. In order to improve capital planning in the future, realistic assumptions on scheme completion dates is essential and work is ongoing with project managers to review current forecasts.

6. Consultation and Engagement

- 6.1. The Capital Strategy forms part of the budget consultation which involves engagement with local people and organisations to ensure that we seek feedback from all stakeholders.
- 6.2. Major capital schemes are subject to individual consultation exercises.

7. Implications

7.1. Legal

- 7.1.1. The Capital Strategy is a part of the Council's Budget and Policy Framework and as such requires approval by Council.
- 7.1.2. The requirement for councils to prepare a Capital Strategy is set out in the Prudential Code for Capital Finance in Local Authorities (2017), and this report has been produced in accordance with the latest guidance.
- 7.1.3. Any legal implications arising from this report will be addressed through the budget setting process.

7.2. Finance

- 7.2.1. Contained within the report.

7.3. Policy

- 7.3.1. The capital strategy outlines policy and budget proposals which will impact on service delivery arrangements.

7.4. Equality

- 7.4.1. The Council undertakes equality impact assessments where necessary and continues to do so as proposals and projects develop across the lifetime of the Strategy. The process assists us to consider what actions could mitigate any adverse impacts identified. Completed equality impact assessments form part of any detailed Business Cases.

7.5. Human Resources

- 7.5.1. None.

7.6. Risk Management

- 7.6.1. It is important to note that the Council faces significant financial challenges in achieving its desired outcomes. Management of risk is

embedded within the organisation to ensure the Council can seize opportunities, introduce new, innovative models of service delivery, focus on improving outcomes for residents and review its range of services whilst identifying and controlling any resulting risks. The approach to risk management will continue to be assessed as the Council's plans and financial strategy are implemented.

7.7. Rural Communities

7.7.1. The Capital Strategy, along with the 'Green' aim will have direct and indirect implications for our rural communities across Cheshire East. These impacts will be considered and reported through individual capital projects as they are developed.

7.8. Children & Young People/Cared for Children

7.8.1. The Capital Strategy, along with the 'Fair' aim will have direct and indirect implications for children and young people and cared for children which will be considered individually and in line with the actions required. These impacts will be considered and reported through individual capital projects as they are developed.

7.9. Public Health

7.9.1. The Capital Strategy, along with the 'Fair' aim will have direct and indirect implications for public health which will be considered individually and in line with the actions required. These impacts will be considered and reported through individual capital projects as they are developed.

7.10. Climate Change

7.10.1. Any climate change implications that arise from activities funded by the budgets that this report deals with will be dealt within the individual reports to Members or Officer Decision Records to which they relate.

Access to Information	
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Appendices:	Appendix 1: Capital Strategy 2021-25
Background Papers:	Medium Term Financial Strategy 2021-25 2021/22 In-Year Review of Finance