Allerdale borough council
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Capital Strategy 2019/20

"Allerdale – a great place to live, work and visit"

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1. Introduction

1.1 Background & introduction

1.1.1 Introduced on 1 April 2004 the Prudential System for Capital Finance, (the Prudential Framework) establishes the framework for local authority capital investment. It provides local authorities with the freedom to determine and self-regulate their own programmes of capital investment and the amount of borrowing undertaken to fund that investment. In exercising those freedoms authorities must follow due process and be able to demonstrate the affordability, prudence and sustainability of their capital expenditure and borrowing plans.

1.1.2 The statutory framework for the prudential system is set out in Part I of the Local Government Act 2003 ('the 2003 Act') and the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (as amended) - ('the 2003 Regulations'). This sets the legal framework within which local government may undertake capital expenditure and central Government may regulate that activity.

1.1.3 These legislative provisions are supported by the following statutory Codes of Practice issued by the Chartered Institute of Public Finance and Accountancy and by statutory guidance issued by the Ministry of Housing, Communities & Local Government (MHCLG):

- The Prudential Code for Capital Finance in Local Authorities - 2017 Edition - ('the Prudential Code')
- The Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2017 Edition - ('the Treasury Management Code').
- Ministry of Housing, Communities & Local Government (MHCLG) Guidance on Local Government Investments - third edition (February 2018)
- MHCLG guidance on Minimum Revenue Provision - fourth edition (February 2018).

1.1.4 A key element of the Prudential Framework (and the main control over borrowing) is the statutory requirement for local authorities to determine and keep under review the amount they can afford to borrow [affordable borrowing limit]. This limit applies to all borrowing, credit arrangements and other long term liabilities – whether supported by government or entirely self-financed. Authorities are free to borrow up to that limit without Government consent. However breach of the Affordable Borrowing Limit is prohibited by the 2003 Act and any borrowing above the affordable borrowing limit is ultra-vires.

1.1.5 Other key elements of the prudential system include:

- a wide-ranging power enabling local authorities to borrow for purposes relevant to its functions (including temporary revenue borrowing) as well as the power to borrow for normal treasury management (cash flow) purposes. However legislative requirements for authorities to balance their revenue budgets prevent the long-term financing of revenue expenditure by borrowing. In the medium term borrowing must only be for capital purposes.

- a requirement for credit arrangements such as leasing to be treated as borrowing and included in the affordability assessment.
- reserve power enabling central government to impose for national economic reasons 'longstop' borrowing limits that would override authorities' self-determined prudential limits. Any national limit imposed under the reserve powers in section 4 of the 2003 Act would apply to both borrowing and credit
- prohibition on borrowing in foreign currencies without the consent of Treasury and on mortgaging assets
- power enabling local authorities to invest, not only for any purpose relevant to their functions, but also for the purpose of the prudential management of their financial affairs.

1.1.6 In carrying out their functions in relation to capital finance and treasury management (including determination of the affordable borrowing limit) provisions included in the Local Government Act 2003 and accompanying regulations, require authorities to "have regard to" the Prudential Code, Treasury Management Code and statutory guidance issued by MHCLG.

1.1.7 The requirement to "have regard to" means authorities must consider what the statutory guidance says. It does not mean that a local authority is obligated to follow the guidance. However, if an authority does decide to depart from the guidance, it must be able to show good reasons for doing so.

1.1.8 The objectives of the Prudential Code are to provide a framework for local authority capital finance that will ensure for individual local authorities that:

i. capital expenditure and investment plans are affordable (i.e. total capital investment remains within sustainable limits over the life of the asset and underlying borrowing)
ii. all external borrowing and other long-term liabilities are within prudent and sustainable levels
iii. treasury management and other investment decisions are taken in accordance with professional good practice and in full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation
iv. in taking decisions in relation to (i) to (ii) above the local authority is accountable, by providing a clear and transparent framework.

1.1.9 The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long-term financial implications and potential risks to the authority. The Prudential Code acknowledges that a soundly formulated capital investment programme must be driven by the desire to provide high quality, value for money public services. It also recognises that in making its capital investment decisions authorities must have proper regard to regard to option appraisal (value for money) and risk management, asset management planning, strategic planning (service objectives) for the authority and achievability of the forward plan.

1.1.10 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account in setting those indicators. The Prudential Code also sets out a clear governance procedure for the setting and revising of a prudential indicators. These indicators are included in the Authority's Annual Treasury Management and Investment Strategy Statements.

1.1.11 In considering the affordability, prudence and sustainability of its capital expenditure and borrowing plans, the Authority is required to consider the resources currently available to it and those estimated to be available in the future, together with the totality of its capital plans and income and expenditure forecasts. It must also consider its arrangements for the repayment of debt (including through MRP) and demonstrate appropriate consideration of risk and the impact, and potential impact, on the Authority's overall fiscal sustainability.

1.1.12 Other significant matters relevant to consideration of affordability and highlighted in the Code include:

- the extent to which resources are likely to be available to finance proposed capital expenditure immediately (capital receipts, grants and direct revenue contributions).
- the revenue consequences of proposed capital expenditure in both the medium and the long term. This may be any combination of increased revenue expenditure/revenue savings/increased revenue income.
- estimates of total interest costs and interest receivable. These should be the estimates of the actual amounts of interest that will be expended and received, based on the authority's estimates for actual external debt.
- existing expenditure commitments, both capital and revenue. This would by definition include PFI commitments, PPP schemes, financial guarantees, operating leases and all long-term revenue commitments including the level of reserves.
- planned change to revenue income or expenditure, whether through growth or savings.

1.2 Reporting requirements of the Prudential Code

1.2.1 In order to demonstrate that the Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability the Prudential Code for Capital Finance in Local Authorities 2017 (the Prudential Code) requires all local authorities to prepare a capital strategy setting out how the Authority:

- determines it priorities for capital investment,
- decides how much it can afford to borrow, and
- sets its risk appetite.

1.2.2 The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.3 Scope of the capital strategy

1.3.1 Expenditure falling within the scope of the Capital Strategy includes:

- capital expenditure on operational assets
- 'service investments' in financial assets such as loans supporting service outcomes and investments in subsidiaries and joint ventures made for policy reasons, (rather than for treasury management purposes)
- commercial investments in financial assets (such as shares and loans) and in non-financial assets (for example, investment property) held primarily or partially to generate a profit;

1.3.2 This Capital Strategy is reported separately from the Treasury Management Strategy Statement. Borrowing and investments in financial instruments held for treasury management purposes (i.e. investments made to support effective treasury management activity) are dealt with in the Authority's Treasury Management and Investment Strategies.

1.3.3 The Capital Strategy incorporates the disclosures required by Ministry of Housing, Communities & Local Government's (MHCLG) Guidance on Local Government Investments - third edition (February 2018) in respect of:

- financial investments not held for treasury management purposes
- loans to local enterprises, local charities, wholly owned companies, joint ventures and associated undertakings
- non-financial investments held primarily or partially to generate a profit; for example, investment property portfolios.

1.4 Definition of capital expenditure

1.4.1 Capital expenditure is defined as in section 16 of the Local Government Act 2003 and includes:

- all expenditure capitalised in accordance with proper practices (i.e. expenditure which results in the acquisition of, construction of, or subsequent expenditure on non-current assets)
- any items capitalised in accordance with regulation 25 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended),

- expenditure capitalised by virtue of a capitalisation direction issued under section 16(2) of the 2003 Act.

1.4.3 Expenditure capitalised in accordance regulations include the following:

- Expenditure incurred on the acquisition or preparation of a computer program, including expenditure on the acquisition of a right to use the program, if the authority acquires or prepares the program for use for a period of at least one year for any purpose relevant to its functions.
- The giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure (except for advances made to officers as part of their terms or conditions of employment or in connection with their appointment).
- The repayment of any grant or other financial assistance given to the local authority for the purposes of expenditure which is capital expenditure.
- The acquisition of share capital in any body corporate (except for investments in a money market fund, in the shares of a company to which Part 12 of the Corporation Tax Act 2010 applies (real estate investment trusts) or in the shares in an investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961).
- Expenditure incurred on works to any land or building in which the local authority does not have an interest, which would be capital expenditure if the local authority had an interest in that land or building.
- Expenditure incurred on the acquisition, production or construction of assets for use by or disposal to a person other than the local authority which would be capital expenditure if those assets were acquired, produced or constructed for use by the local authority.
- The payment of any levy by a local authority under section 136 of the Leasehold Reform Housing and Urban Development Act 1993 (levy payable on voluntary transfers of housing stock).

1.5 Approval of the Capital Strategy

1.5.1 The Capital Strategy must be approved by Full Council prior to the commencement of the financial year to which it relates. Material changes to the Capital Strategy must be presented to and approved by full council before the change is implemented.

2. Strategic Ambitions & Long term context

2.1 Capital Strategy and policy background

2.1.1 This strategy sets out the Council's approach to capital investment to achieve our purpose of improving the lives of our residents and promoting the long term financial sustainability of the borough. It guides the development of capital projects and sets out the policies and practices that the Council uses to establish, monitor and manage the Council's capital programme in line with the Council Plan, the Medium Term Financial Strategy, the Treasury Management Strategy and the Local Plan.

2.1.2 The Capital Strategy will take account of both local and national priorities that are established through effective consultation with residents and our partners. These priorities inform resource allocation. Progress on achieving these objectives is closely monitored in accordance with the performance framework.

2.2 The Council Plan and strategic ambitions

2.2.1 Allerdale's Council Plan 2019-2023 sets four key priorities:

- Economic opportunity and growth
- Stronger and healthier communities
- Quality places to live
- Transforming the Council

2.2.2 In arriving at these priorities, the Council points to the significant reductions in funding since 2010 and recognises that the next few years will see continued pressure on the Council's finances, with the need to reduce our budget by a further £2m by the year 2020/2021. Rather than letting this challenge hamper our ambitions, we will innovate, seek new ways of working whether through technology or collaboration, and find ways to make the money we have work better for our communities. The Council has devised a strategy to reduce expenditure, increase income, continue to provide statutory services and attract investment to deliver economic development to the area.

2.2.3 Driving growth is critical to maintaining and creating good quality jobs for people, in turn helping to reduce poverty and create a sustainable economy for the future. Achieving growth is also vital to provide the funding that will allow the Council to deliver the high quality services that we know our residents expect.

2.2.4 Building on our previous actions we intend to embark on a substantial programme of regeneration and investment – providing new infrastructure for housing, leisure, business, public realm, tourism and investment opportunities. We will use our ability to secure and generate funding to invest significantly in the future of our district to the benefit of everyone who lives, works and visits here, contributing to the future sustainability of our area for years to come.

2.3 Delivery through programmes

2.3.1 The Council has created a Programme Management Office to achieve its ambition of becoming more innovative and commercial during this time of significant political, economic and technological change. We have identified programmes comprising sets of related projects that align with and support the delivery of the Council's corporate objectives. The programmes approach will enable us to focus on our priorities while simultaneously continuing to provide our day to day services.

2.3.2 Those programmes are:

Regeneration and Investment

Delivering key projects that contribute to the physical development of the Allerdale area and the long term financial sustainability of the Council. This programme contains exciting projects such as the new stadium in Workington, development and regeneration of Council-owned land, investment into and acquisition of property for commercial returns either in the form of capital receipts or long term revenue income.

Maryport Regeneration

The Council's Business Growth Plan highlighted Maryport as a key priority for regeneration. This scheme aims to improve the town's most popular areas to increase tourism, employment opportunities and give a boost to the local economy. It includes key projects at the promenade and harbour, as well as enhancements to the town centre, including the areas around Curzon Street and Senhouse Street and linking the centre to the train station.

Influencing and Reputation

This programme seeks to ensure that Allerdale achieves a national reputation as being the best district authority in the country. We recognise that we will need to successfully work with and influence key partners and agencies. This programme will focus on improving the Council's influence on key issues such as road and rail infrastructure, strategic housing development, health improvements and securing a nuclear legacy for the area.

Transformation and Commercialisation

This major programme is targeted at achieving the Council's ambition to be financially self-sufficient by 2030. It is fundamental to the Council being able to deliver the priorities set out in the Council Plan and this Capital Strategy. The projects in this programme focus on the way the Council works, how to make best use of the resources that we have (for example, using technology to deliver improved customer service and more efficient services) and finding ways to generate more income.

3. Capital Expenditure

3.1 Core Principles of the capital strategy including non- financial investments

3.1.1 Core principles of this Council's Capital Strategy can be summarised as follows:

Table 1 – Core Principles

Principle 1 – Managing the impact of investment decisions on our revenue budgets
We will do this by: • Promote capital investment which allows invest to save outcomes and which contribute to the Council's Corporate priorities and complement the Transformation and Commercialisation programme 2030 • Taking investment decisions that generate an appropriate rate of return to cover costs of funding within an acceptable risk range whilst also meeting Corporate Priorities • Purchase rather than leasing vehicles such as the refuse fleet with programmes for replacement that maximise efficiency and minimise revenue budget costs • Ensuring capital investment decisions do not place unnecessary additional pressure on Council Tax or our MTFS • Prioritise the use of all Council resources and spending programmes to those that maximise the benefit and financial return, within an acceptable risk appetite • Have a defined framework for the management of risk for investments that applies the Security, Liquidity, Yield principles and considers longer term risks and opportunities • Have appropriate exit strategies and contingency plans in place to protect the Council's long term position including maintaining appropriate risk reserves
Principle 2 – Optimise the availability of capital funding where that funding supports the priorities of Allerdale BC
We will do this by: • Reviewing existing assets and disposing of surplus assets so that the capital receipts generated can be allocated to the Regeneration and Investment Programme to deliver on council priorities • Identify funding opportunities and develop efficient working relationships • Listen to and support effective partnering arrangements • Generating capacity within the services' revenue budgets to deliver ongoing contributions towards necessary capital investment • Have clear policies for the consumption of our reserves

Principle 3 – Ensure we have effective pre and post project appraisal
We will do this by: • Developing projects that fully support the council's Corporate Priorities and the Transformation and Commercialisation Programme and the Regeneration and Investment Programme • Ensuring an effective assessment and evaluation for all capital projects. • Fully consider project risk • Carefully consider Value for Money and Use of Resources for every project • Only adding schemes once an affordable business plan is in place
Principle 4 – Performance manage our capital programme
• Integrating the capital programme into our performance management framework • Ensure our capital schemes use appropriate project management tools • Expect responsibility for the delivery of the capital programme to be clearly defined • Make sure our assets perform at an optimal level through effective ongoing asset management, consistent with levels of investment • Reporting regularly on the performance of our property and non-treasury portfolios including updates on risk and recommendations for appropriate mitigation measures.

3.1.2 Key Objectives for non-treasury capital portfolio property investments are to:

- acquire properties that provide investment value in accordance with the Council's corporate and financial objectives,
- maximise return whilst minimising risk through the management processes as outlined in this strategy,
- prioritise properties that yield optimal rental growth and stable income,
- protect capital invested in acquired properties
- work within the developed governance framework that enables the Council to move at a timely pace in line with the market
- build a balanced property portfolio that is proportionate to the overall financial position of the Council.

3.2 Capital expenditure plans

3.2.1 A summary of the Authority's current (2018-19) capital budget and the [proposed] capital programme for 2019-20 and following two financial years is summarised in table 2 along with information about how that expenditure will be funded. Further details of the individual schemes included in the proposed three year capital programme, analysed by Executive Member Portfolio, is included in the appendices.

Table 2: Proposed Capital Programme & methods of financing

	Actual	Approved Budget			
	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	Total £000
Capital Expenditure[1] :					
Housing, Health & Wellbeing	2,164	1,505	1,000	1,000	5,669
Economic Growth	2,295	6,853	20,000	0	29,148
Corporate Resources	269	130	0	0	399
OD & Transformation	225	140	40	40	445
Environmental Quality	4,477	210	140	30	4,857
Tourism & Culture	160	1,090	0	0	1,250
Total Expenditure	**9,590**	**9,928**	**21,180**	**1,070**	**41,768**
Financed by:					
External funding sources:					
Disabled Facilities Grant (Better Care Fund)	2,872	1,125	1,000	1,000	5,997
ERDF grant - Reedlands Rd	0	831	0	0	831
Coastal Communities Fund - Solway Coast	0	840	0	0	840
Other grants - Solway Coast	0	250	0	0	250
Other grants - Stadium	0	0	1,625	0	1,625
ABC resources:					
Capital Receipts	177	380	0	0	557
Borrowing (unfinanced expend.)	6,069	6,502	18,555	70	31,196
Revenue & Reserves	472	0	0	0	472
Total financing	**9,590**	**9,928**	**21,180**	**1,070**	**41,768**

[1] Gross expenditure does not include any proposed budget carry forwards from the approved 2018-19 capital programme; these requests will form part of the 2018-19 Capital Outturn Report.

3.3 Capital Resources

3.3.1 Resources available to finance capital expenditure include:

- capital receipts (usable proceeds from asset sales)
- grants and contributions from third parties
- direct financing from revenue.

3.3.2 Capital receipts are defined in section 9 of the Local Government Act 2003 as a sum received by the authority in respect of the disposal of an interest in a capital asset. An asset is a capital asset if, at the time of the disposal, expenditure on the acquisition of the asset would be capital expenditure. Capital assets will thus include expenditure on the acquisition of assets such as land and buildings, vehicles and plant. It will also include receipts from the disposal of financial assets such as share capital, treated as capital expenditure under the Prudential Framework. Regulations extend the general statutory definition of capital receipts contained in the 2003 Act to include.

- repayment of loans (excluding the redemption of bonds), grants and other financial assistance given for if the same loan, grant or advance would qualify as capital expenditure if incurred on the repayment date.
- repayments of bonds acquired before 1 April 2012 and its acquisition was treated as capital expenditure.
- disposal of mortgage portfolio (HRA – housing land)
- payment made to redeem landlord's share (rent to mortgage properties)
- securitisation transaction receipts.

3.3.3 Regulations also remove from the definition of capital receipts amounts arising from a disposal which do not in aggregate exceed £10,000, as well as certain transactions relating to the granting of a lease (operating leases).

3.3.3 Statutory provisions set out the purposes to which the Council can apply its available capital receipts. Capital receipts cannot be used to fund revenue expenditure. The uses specified in regulations include:

- to meet capital expenditure in the current year
- to reduce the underlying borrowing requirement associated with capital expenditure not financed from capital receipts, grants or revenue
- to pay a premium charged in relation to any amount borrowed
- to meet the administrative costs of, or incidental to, a disposal of an asset.

3.3.4 In accordance with the Codes of Practice published by the Chartered Institute of Public Finance and Accountancy and good professional practice, capital receipts received by the Authority will:

- only be applied to finance capital expenditure when realised (i.e. when the cash has been received)
- be applied to fund new capital expenditure only where, after carrying out option appraisals and whole life costings, it can be demonstrated that this offers better value for money to the Council when compared with alternative uses. Alternative uses include their application to reduce the underlying borrowing requirement associated with past expenditure.

3.3.5 Capital receipts received and potential receipts from planned disposals are monitored as part of the Authority's budgetary control process.

3.4 Asset management planning

3.4.1 The Corporate Asset Management Plan sets out the basis on which the Authority's will be managed in order as to make a positive contribution to the achievement of Council priorities. The Asset Management Plan includes arrangements for the identification and management of risks associated with asset management, the development of annual work plans for planned and responsive maintenance and performance reporting

3.5 Disposals and acquisitions

3.5.1 The principles and processes to be followed in connection with the disposal and acquisition of land and property is set out in the Council's Disposals and Acquisitions policy. Arrangement for acquisition or disposal by the Council of assets must also comply with the requirements of the Authority's Financial Regulations and Scheme of Delegation. The Disposals and Acquisition Policy sets out:

- the process for identifying and declaring assets as surplus
- the Options available for and the Method of Disposal
- the procedure for managing the asset prior to disposal
- criteria for the acquisition of property for service delivery, investment purposes or for future development
- the disposal and acquisition processes

4. Debt and borrowing and treasury management

4.1 Impact of capital expenditure on borrowing

4.1.1 Capital expenditure that is not financed up-front through the application of capital grants, contributions, capital receipts or a direct charge to revenue will increase the Authority's Capital Financing Requirement. The Capital Financing Requirement is a measure of the Authority's underlying need to borrow for capital purposes and represents the historic cost of capital expenditure that has yet to be financed by setting aside resources (grants, contributions, capital receipts or direct revenue financing). It does not necessarily correspond with an authority's actual borrowing position but will be matched by a combination of external debt and internal borrowing (i.e. the use of cash and investment balances to fund capital investment).

4.2 Projection of external debt and use of internal borrowing

4.2.1 A projection of the Authority's Capital Financing Requirement, showing the impact of past expenditure and the capital programme for the years 2018-19 to 2020-22 is shown in Appendix C alongside the current and projected and borrowing position.

4.2.2 Based on the capital programme for the four financial years up to and including 2020-22 the Authority's CFR is expected to increase from £18.9m at the end of March 2018 to a peak of £46.8m in 2020-21. At the end of financial year 2017-18 external borrowing was £15.5m. This is expected to increase to a peak of £43.8m n 2020-21 in order to fund the capital programme. The level of internal borrowing (under-borrowing against the CFR) stood at £3.5m at the end of 2017/18. Forward projections show that the level of under-borrowing is expected to fall gradually year on year but remain above £2m over the course of the next three years. Current projections show that the Authority will remain under-borrowed until financial year 2035-36.

4.2.3 Based on current interest rate forecasts and capital expenditure profiles the amount of capital expenditure funded from borrowing will see gross financing costs (i.e. MRP plus net interest payable) increase from £1.355m – the actual costs incurred in 2017/18 to over £3.8m in 2021-22. Assuming no further borrowing after 2021-22, financing costs thereafter will fall as consequence of loan principal repayments and MRP charges made in the years prior to 2021-22.

Table 3 – Forecast finance costs 2019-20 to 2022-23

MRP & interest costs	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
Pre 2018-19 expenditure incurred	1,496	1,484	1,456	1,428	1,391
2018-19 budgeted expenditure	20	733	718	704	689
2019-20 to 2020-21 budgeted expenditure	-	114	652	1,775	1,745
Less interest receivable - budget	(32)	(32)	(32)	(32)	(32)
	1,484	**2,299**	**2,794**	**3,875**	**3,793**
Less finance charge recoverable from stadium operating company		(89)	(532)	(1,639)	(1,601)
Total – Net	**1,484**	**2,210**	**2,262**	**2,236**	**2,192**

4.2.4 The net amounts shown in table 3 reflect the assumptions used in preparing the Authority's 2019-20 capital budget. In particular this includes the assumption that the Community Stadium development is funded primarily from PWLB borrowing and that Authority is able to recover the related finance costs (MRP and interest) from the net operating income of the stadium operating company.

4.3 Provision for the repayment of debt

4.3.1 In any given financial year the existence of a positive CFR balance, at the end of the preceding financial year, will give rise to a requirement to set aside from the General Fund an annual amount (known as the Minimum Revenue Provision), to meet the capital cost of expenditure funded from borrowing or other credit arrangements.

4.3.2 The 2003 Regulations require authorities to 'make prudent provision' for MRP. However neither the 2003 nor the statutory guidance on MRP issued by MHCLG formally define the term "prudent provision". The statutory guidance does however establish the broad aim of making prudent provision, which is to ensure that revenue is put aside to cover the underlying need to borrow for capital purposes (the capital financing requirement) over a period that is:

- commensurate with the period over which the capital expenditure provides benefits, or
- for historic borrowing originally supported by grant income rolled into Revenue Support Grant (RSG), over the period implicit in the determination of that original grant funding.

4.3.3 The MHCLG guidance outlines four possible 'options' as methods of calculating a prudent amount of MRP. However, approaches other than the four listed in the guidance are not ruled out, provided they are consistent with the statutory duty to make a prudent provision. This provides authorities with wide discretion in determining MRP. The Authority's Minimum revenue Provision Policy will have a critical impact on the overall affordability of new borrowing and for this reason it is important that in evaluating the affordability of capital expenditure plans, this assessments looks not just at the short and medium term time horizons but also over the life of the asset base or underlying debt.

4.3.4 To provide elected members with opportunity to scrutinise how an authority proposes to use the flexibilities provided by the Prudential Framework in relation to MRP, the Statutory guidance on MRP requires a local authority to prepare a statement of its policy on making MRP and submit it to full Council for approval prior to the start of the financial year to which it relates.

4.3.5 The Authority's annual MRP policy is submitted alongside the Annual Treasury Management Strategy and Investment Strategies for scrutiny by the Audit Committee and subsequently for approval by Full Council. The MRP policy statement explains:

(I). the Authority's underlying statutory duty to make 'prudent provision'

(II). consideration of the 'options' for calculating a prudent amount of MRP outlined in the statutory guidance, and

(III). the policy proposed for the forthcoming year.

4.3.6 The Authority's approach for calculating MRP is apply the appropriate option contained in the MHCLG MRP guidance.

4.4 Authorised limit and operational boundary

4.4.1 The Authorised Borrowing Limit represents the statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (Affordable Limit). It imposes an upper limit on the Authority's gross external debt (excluding investments), separately identifying borrowing (external loans) from other long-term liabilities (for example finance lease liabilities). Breach of the Affordable Borrowing Limit is prohibited by section 2(1)(a) of the Local Government Act 2003.

4.4.2 The Authorised Borrowing Limit is set with reference to the Authority's capital expenditure plans, capital financing requirement (or underlying borrowing requirement) and the potential need to borrow to meet temporary revenue borrowing requirements pending the receipt of amounts due to the Council. The Affordable Borrowing Limit also includes headroom over and above the Operational Boundary (see below) to accommodate any unusual or unforeseen cash movements. The indicator separately identifies limits for borrowing and other long-term liabilities.

Table 4: Authorised Limit for External Debt

	2018/19 Limit £000	2019/20 Limit £000	2020/21[a] Limit £000	2021/22[a] Limit £000
Borrowing	28,000	33,000	50,000	48,000
Other long-term liabilities	0	0	0	0
Total	28,000	33,000	50,000	48,000

a: From 2020-21 the Code of Practice on Local Authority Accounting will include adoption of IFRS 16 *Leases*. Pending publication of the 2020-21 Accounting Code the impact of this change on the other long-term liabilities component of the Authorised Limit for External Debt is not reflected in the reported limits

Operational boundary for external debt

4.4.3 The Operational Boundary represents the limit beyond which (gross) external debt is not expected to exceed. It is based on expectations of the maximum external debt of a local authority according to probable events (that is the most likely (prudent) but not worst case scenario) and is consistent with the maximum level of external debt projected by these estimates. The Operational Boundary links directly to the Authority's plans for capital expenditure, estimates of the capital financing requirement and cash flow requirements for the year for all purposes but without the additional headroom included within the Authorised Limit. The indicator separately identifies limits for borrowing and other long-term liabilities.

Table 5: Operational boundary for external debt

	2018/19 Limit £000	2019/20 Limit £000	2020/21[a] Limit £000	2021/22[a] Limit £000
Borrowing	26,000	31,000	48,000	46,000
Other long-term liabilities	0	0	0	0
Total	26,000	31,000	48,000	46,000

a: From 2020-21 the Code of Practice on Local Authority Accounting will include adoption of IFRS 16 *Leases*. Pending publication of the 2020-21 Accounting Code the impact of this change on the other long-term liabilities component of the Operational Boundary for External Debt is not reflected in the reported limits

4.4.4 Provided that the total Authorised Limit and total Operational Boundary for a year is unchanged, the Head of Financial Services has delegated authority to make changes to the separately identifiable limits for borrowing and other long-term liabilities. Any movement between these separate totals will be reported to the next meetings of the Audit Committee and Full Council.

4.5 Treasury management governance & risk management

4.5.1 For public sector organisations, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> "*the management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*".

4.5.2 In ensuring effective management and control of its treasury management activities the Council has put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements complaint with the requirements of the Treasury Management Code'. These include:

- preparing and maintaining a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- creation and maintenance of suitable Treasury management practices (TMPs), setting out the manner in which the Authority will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- submitting to Full Council and the body responsible for the scrutiny of treasury management strategy and policies receive regular reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

4.5.3 Responsibilities of the Section 151 Officer in relation to treasury management activities are set out in detail in the Authority's Financial Regulations

4.5.4 The Audit Committee is responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4.5.5 To enable the Audit Committee to fulfil its responsibilities for ensuring effective scrutiny of the treasury management strategy and policies, the Authority's Treasury Management Practices (TMPs) require treasury management reports to be submitted to the Audit Committee prior to their consideration by Full Council.

Treasury risk exposures and risk management

4.5.6 The Authority is exposed to various (financial) risks in relation to its treasury management activities. The main types of risks are:

- **Credit risk** - the risk that a party to a financial instrument will cause a financial loss for the Authority by failing to discharge an obligation
- **Liquidity risk** - the risk that the Authority will encounter difficulty in meeting obligations associated with financial liabilities as they fall due. It includes the inability to obtain finance or to re-finance existing borrowing as it falls due in order to meet cash flow obligations, or that refinancing can only be achieved on terms that are unfavourable and/or inconsistent with prevailing market conditions at the time
- **Market risk** - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:
  (i) **Interest rate risk** – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates

(ii) **Currency risk** – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates

(iii) **Price risk** – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

4.5.7 The Authority has adopted the CIPFA Code of Practice for Treasury Management in Public Services and regards the successful identification, monitoring and control of risk as the prime criteria for measuring the effectiveness of its treasury management activities. Objectives, policies and processes for managing the risk, including details of how risks are identified, monitored and controlled are set out in the Authority's Treasury Management Policy Statement, Treasury Management Practices (TMPs) and Annual Treasury Management Strategy Statement and Investment Strategy. These have been prepared in accordance with CIPFA Code of Practice for Treasury Management in Public Services and MHCLG's Investment Guidance.

4.5.8 The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under delegated authorities and policies approved by the Council and set out in the Authority's Treasury Management Policy Statement, Treasury Management Practices and Annual Treasury Management Strategy Statement and Investment Strategy.

4.5.9 Regular reports on the Authority's treasury management policies, practices and activities are prepared for consideration by members. This includes consideration by Full Council of the Authority's Annual Treasury Management Strategy Statement and Investment Strategy in advance of the year, a mid-year review and an annual report after the year-end on the performance of the treasury management function, the effects of the decisions taken and transactions executed in the past year and any circumstances of non-compliance with the Authority's Treasury Management Policy Statement and TMPs.

4.5.10 The most significant financial risks to which the Authority is exposed and the policies and strategies employed to manage these risks are described below.

Credit Risk

4.5.11 Credit risk arises from deposits with banks, building societies and other financial institutions, as well as credit exposures associated with trade and other receivables. The Authority's primary policy objective is to ensure the security of the principal sums invested in priority to liquidity and yield. Credit risk exposures are managed by:

- restricting the counterparties with whom investments may be placed to those financial institutions and other bodies with a minimum long-term rating across all three of the main credit ratings agencies (Fitch, Moody's and Standard and Poor) of A- or equivalent (AA+ or equivalent for non-UK sovereigns)

- placing restrictions on the types of investment instruments that may be used
- setting limits on the principal amounts invested and duration of individual instruments dependent on the financial standing (creditworthiness) of the counterparty.

4.5.12 The creditworthiness of counterparties is assessed primarily by reference to published credit ratings. The assessment also includes reference to other sources of information on credit risk including credit default swaps, sovereign ratings and support mechanisms and market sentiment towards counterparties. Credit ratings are kept under regular review and ratings watch notices - indicating imminent downgrading or upgrading of a credit rating - acted upon.

4.5.13 With the exception of funds placed with HM Treasury's Debt Management Office, the maximum amount that may be placed with any institution or group of institutions that are part of the same banking group is £4m. All new investments are subject to a maximum maturity of 364 days.

4.5.14 The Authority's Treasury Management Practices and Annual Investment Strategy specify the types of investment instruments that may be used by the Authority. Permitted instruments are categorised as either "Specified" or "Non-Specified" investments as defined in MHCLGs Investment Guidance to distinguish those instruments offering relatively high security and high liquidity from those with higher credit risk.

4.5.15 The Authority continuously monitors defaults of customers and other counterparties, identified either individually or by group and incorporates this information into its credit risk controls

Liquidity Risk

4.5.16 In relation to liquidity risk the Authority's policy is to ensure:

- it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.
- borrowing is negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

4.5.17 The Authority manages its liquidity needs by:

- effective use of cash flow forecasting and monitoring of cash balances across various time horizons

- maintaining prudent levels of liquid funds in call accounts, Money Market funds and other short term instruments
- monitoring scheduled debt servicing payments for long term financial liabilities and setting limits on the amount of borrowing that matures within any specified period.

4.5.18 The Authority also has ready access to borrowing from the Public Works Loans Board. As a consequence there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. This is managed through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments in order to limit the amount of fixed rate borrowing that matures within any specified period.

Interest rate risk

4.5.19 The Authority is exposed to interest rate risk on its borrowings and investments. The Authority's policy objective is to manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements. The Authority manages its exposures by borrowing mainly at fixed rates, by placing limits on the proportions of fixed and variable rate borrowings and investments and by the use of variable rate debt instruments to offset exposure to changes in short-term rates on investments.

Price risk

4.5.20 The Authority holds a limited number of equity shares. These instruments are classified as held for sale, meaning that all movements in price will impact on gains and losses recognised in Other Comprehensive Income and Expenditure. The Authority consequently has limited exposures to losses arising from movements in the market price of these investments.

5. Commercial investment activity

5.1 Overview of governance process for approval and monitoring of capital expenditure

5.1.1 Capital expenditure projects will be identified and delivered through the Council's Programme Management Office. The Project and programme governance framework has been established through the creation and implementation of a charter and a series of procedures reflecting best practice, all of which is aligned to and integrated with the existing corporate governance framework.

5.1.2 The project management framework manages the full project lifecycle from an initial idea to delivery of projects and a final assessment of benefits. Through the preparation of a project mandate and strategic business case, projects undergo an analysis at the outset of their lifecycle to assess whether they are satisfactorily aligned to the programme vision and corporate objectives.

5.1.3 Potential projects are then evaluated by a team of people with relevant knowledge and expertise including representatives from the Programme Management Office, business or technical officers and where appropriate input from legal, finance and procurement officers. The decision on whether to proceed with developing the project is based on financial criteria as well as other relevant considerations including strategic alignment with programme and corporate objectives. Each project will be evaluated against those criteria and will score higher if it:

- makes significant savings (over £100k);
- makes significant income generation (over £100K)
- enhances the reputation of Allerdale
- reduces failure demand
- improves lives for Allerdale residents
- impact on overall programme objectives

5.1.4 Once evaluated and achieving a satisfactory score, a Project Business Case (or Project Outline Document) is prepared to include detail of the financial implications including expenditure, anticipated return and budget management as well as capital resources and funding requirements.

5.1.5 Project boards monitor and review progress of the projects against the agreed objectives and performance criteria. Programme boards drive the programmes forward to deliver the outcome and benefits by defining acceptable risk profiles, resolving strategic and directional issues between projects, providing independent assurance and protecting the integrity of the programme blueprint through the programme delivery cycle.

5.1.6 The Programme Office provides support for the governance arrangements of the individual programme boards by the collection, aggregation, analysis, and reporting of data to enable the programme/project team to easily assess the overall state of programme/project.

5.1.7 Through monthly programme performance meetings, the Council's senior management team, in their capacity as Sponsoring Group, review performance of live projects including monitoring of key milestones, budget status, reviews of risks and issues and allocation of resources.

5.1.8 The projects and programmes governance arrangements for capital expenditure projects integrates fully with the Council's existing corporate governance framework, including compliance with statutory and constitutional decision making processes. Decisions regarding capital expenditure will be made by the Council, its Executive or delegated, as appropriate, and in accordance with the Authority's constitution, its financial regulations and its scheme of delegation. All decisions require the approval of the s151 Officer and Monitoring Officer. Decisions will not be taken until the Authority can demonstrate through its reporting requirements that it has undertaken a detailed appraisal of the available options, analysis of the financial and legal risks and implications as well as a consideration of the contribution that the decision would make to the Council's priorities.

5.2 Loans and other financial investments

5.2.1 The Authority has the powers to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

5.2.2 In this context loans are defined as to include any written or oral agreement involving the temporarily transfer of by the authority to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. It includes loans made for both revenue and capital purposes. This definition does not include a loan to another local authority, which is classified as a specified investment.

5.2.3 Compliance with the statutory investment guidance issued by MHCLG states that local authorities can make such loans provided they can demonstrate that:

- total financial exposure to these type of loans is proportionate;
- they have used an allowed "expected credit loss" model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9 Financial Instruments, as adopted by proper practices to measure the credit risk of their loan portfolio;
- they have appropriate credit control arrangements to recover overdue repayments in place; and
- it has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

5.2.4 At the end of quarter 3 of 2018-19 the principal amount of loan transactions within the scope of the statutory guidance was £2,049,500 comprising:

- AIP loan notes £1,744,500
- Allerdale business support fund £250,000
- Other loans £55,000

5.2.5 To ensure the total financial exposure to these type of loans is proportionate and to minimise the Authority's risk exposures, the upper limit on the principal value of loans outstanding in 2019-20 is £2,300,000 – inclusive of £1,744,500 AIP Loan notes (£555,000 excluding AIP Loan Notes).

5.2.6 No loans will be made unless sufficient budget provision exists to absorb expected credit losses or reductions in fair value and (in the case of loans classified as capital) to meet the cost of principal advanced. MRP on capital loans which are funded from borrowing will be calculated in accordance with the Authority's MRP policy.

5.3.7 In meeting the requirements of the statutory guidance loans will:

- subject to the expected credit loss model set out in IFRS 9 and the Code of Practice on Local Authority Accounting, in so far as this is consistent with the classification and measurement of the loan under IFRS 9 and the Code
- be subject to appropriate credit control arrangements as described in the Council's Financial regulations.

5.2.8 In making loans the Authority is exposed to risk. This includes the risk that the counterparty fails to discharge its obligations under the loan agreement. To minimise the risk of financial loss, loans will be made only after undertaking appropriate due diligence on the counterparty to confirm the adequacy of the bodies financial standing and financial governance arrangements and its ability to repay loan funding provided.

5.2.9 All loans agreements must be documented in writing and adequate security put in place to protect the Authority from financial loss.

5.2.10 The Section151 Officer must be notified of all loan agreements prior to any advance of funds being made.

5.3 Investment property

5.3.1 Revised Statutory guidance on local government investments was issued by MHCLG in 2018. Among the changes introduced by the updated guidance was the extension of the previous guidance to cover investments (both financial and non-financial) not held for treasury management purposes. This will include the acquisition of investment property.

5.3.2 Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:

a) use in the production or supply of goods or services or for administrative purposes, or
b) sale in the ordinary course of operations.

5.3.3 Examples of investment property include:

(a) land held for long-term capital appreciation rather than for short-term sale in the ordinary course of business.
(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
(c) a building owned by the entity (or a right-of-use asset relating to a building held by the entity) and leased out under one or more operating leases.
(d) a building that is vacant but is held to be leased out under one or more operating leases.

(e) property that is being constructed or developed for future use as investment property.

5.3.4 The Authority's Investment portfolio (as at 31 March 2018) comprises assets falling within the following categories

	Fair value £'000
Retail Lettings	8,482
Commercial Lettings	9,282
Managed Industrial Estates	2,598
Vacant Land & Industrial Sites	3,095
Total at 31 March 2018	**23,457**

Valuation process for Investment Properties

5.3.5 The fair value of the Authority's investment property is measured annually at the end of each financial year by external property valuation experts. Valuations are undertaken in accordance with guidance provided by the Chartered Institute of Public Finance and Accountancy and the Royal Institution of Chartered Surveyors (RICS) Valuation – Professional Standards (the 'Red Book') using an Income (income capitalisation) Approach or Market Approach.

Rental income and operating expenses from Investment Property

5.3.6 In 2017/18 rental income from investment property was £1.71m (2016/17 £1.52m).

5.4 Policy on borrowing in advance of need (including borrowing for commercial investments)

5.4.1 The Local Government Act 2003 allows local authorities to borrow or invest for ''any purpose relevant to its functions, under any enactment'', or "for the purpose of the prudent management of its financial affairs". This allows the temporary investment of funds borrowed for the purposes of expenditure in the near future.

5.4.2 The Statutory investment guidance issued by MHCLG contains the statement that Authorities must not borrow more than, or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. The informal commentary to the investment guidance sets out the view held by Central Government that the statement covers borrowing to taken on to fund the acquistion of non-financial as well as financial invetsments.

5.4.3 The Council will not borrow more than, or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing

Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

5.4.4 Treasury risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

5.5.5 The power to borrow for the purposes of funding a property acquisition including the purchase of investment property, is linked to the powers under which the property it acquired. This will require the Authority to:

- obtain confirmation of the legal powers to purchase or lease the property (whether by way of specific powers to acquire property linked to the purposes/functions of the Authority, general power of competence or investment powers under the 2003 Act)
- establish the extent of any limits or constraints on the exercise of that power (including where relevant the power to operate the property on a commercial basis) and
- demonstrate consideration of 'Wednesbury Principles' of reasonableness in the exercise of the power to acquire the property.

6. Other long-term liabilities and financial guarantees

6.1 Definitions

6.1.1 Other long-term liabilities' relate to the liabilities which are outstanding under credit arrangements (as defined by statute for authorities in England, Wales and Northern Ireland).The definition thus covers amounts recognised on an authority's balance sheet together with statutory adjustments in respect of

- any amounts that are determined by legislation to be other long-term liabilities that would otherwise not be so classified
- less any amounts that are determined by legislation not to be other long-term liabilities that would otherwise be so classified (referred to as statutory adjustments).

6.1.2 The most common examples of other long-term liabilities treated as credit arrangements are on-balance sheet leases and PFI liabilities. The term lease refers to any agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The definition of a lease also include arrangements that does not take the legal form of a lease but conveys a right to use an asset (known as embedded leases), hire purchase contracts and other financing arrangements that regardless of the term used to describe them meet the definition of a lease.

6.1.3 The Authority currently has no on-balance sheet leasing or PFI liabilities. All existing leases arrangements are treated as revenue transactions and as such are accounted off-balance sheet. However, from 2020-21 the Code of Practice on Local Authority Accounting will include the requirements of IFRS

16 *Leases*. This will make significant changes to the existing off balance sheet treatment of lease arrangements. These changes will bring lease liabilities, previously accounted for off-balance sheet, onto the on the Authority's balance sheet. This will in turn bring within these transactions within scope of the prudential system of capital controls and borrowing limits (Authorised Limit for External Debt and Operational Boundary). A detailed impact assessment of the impact of adopting IFRS 16 will be carried out by the Authority during 2019-20.

6.1.4 A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. These contracts can have various legal forms, such as that of a financial guarantee, letter of credit, credit default contract or insurance contract.

6.2 Governance process for approval and monitoring other liabilities

6.2.1 No leases, borrowings (or other forms of credit) may be entered into without the approval of the Section 151 Officer. Subject to the requirements of the Council's Financial regulations and scheme of delegation approval by the s151 officer is not required for leases with a maximum term of twelve months or less (provided the lease does not contain a purchase option) and leases of low value assets (i.e. lease assets with a value when new of £3,000 or less). The Authority's Financial regulations requires the Section 151 Officer to be provided with copies of all leases (regardless of value) and similar credit agreements and with any information relating to those agreements necessary to ensure that the agreement is correctly accounted for.

6.2.2 To ensure the Authority is able to adequately demonstrate value for money, leases (or other forms of credit arrangement) will not be entered into unless appropriate (financial) options appraisals have been completed that evidences leasing (or other credit arrangement) as the most appropriate financing option.

6.2.3 The Authority will not enter into financial (or other) guarantees without first obtaining legal advice confirming the Authority's legal powers to do so and evaluating the financial and budgetary implications over the life of the guarantee contract.

6.2.4 Costs associated with entering into a financial guarantee (regardless of whether a commercial fee is charged) will impact of the Council's general fund. This will include the financial impact of amounts recognised on initial recognition of the guarantee in accordance with the Code of Practice on Local Authority Accounting (i.e. the on date the Authority becomes a party to the irrevocable commitment) and the impact of those amounts recognised after initial recognition to reflect changes in the risk that the borrower guaranteed by the Authority will default and the amounts payable by the Authority as a consequence of default.

7. Capacity, knowledge and skills

7.1 Capacity, knowledge and skills available to the Authority

7.1.1 The Authority has professionally qualified staff across a range of disciplines including finance, treasury, legal and property management.

7.2 Use of external advisors

7.2.1 Multi-disciplinary project teams are established from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decisions.

7.3 Training for Staff and elected members

7.3.1 The Authority regularly reviews the training needs of officers and members and training will be arranged as required to ensure that officers and members have the requisite skills and knowledge needs to effectively undertake their duties and responsibilities in relation to treasury and capital management.

Appendix A

Capital Budget 2018-19 & Proposed Three Year Capital Budget 2019-20 to 2021-22

Description	Updated 18-19 Budget[1] £	Budget Proposals - 2019-20 to 2021-22 Proposed 19-20 Budget £	Proposed 20-21 Budget £	Proposed 21-22 Budget £	Total 19-20 to 21-22 £
Housing, Health & Wellbeing					
The Mandatory Disabled Facilities Grant	1,017,807	1,125,000	1,000,000	1,000,000	3,125,000
Discretionary Grants	743,802	0	0		0
Health Homes (Empty Homes)	198,882	100,000	0	0	100,000
Securing Affordable Homes	40,290	0	0	0	0
Housing Improvement Projects	145,373	0	0	0	0
Central Heating Fund	17,510	0	0	0	0
Conversion of Otley Road	0	130,000			130,000
Maryport Container Village	0	150,000			150,000
TOTAL - Housing, Health & Wellbeing	**2,163,664**	**1,505,000**	**1,000,000**	**1,000,000**	**3,505,000**
Corporate Resources					
Public Toilets Review Works	114,127	0	0	0	0
Demolition Moorclose Sport Centre	25,000	0	0	0	0
Helena Thompson Museum Development	80,000	100,000	0	0	100,000
Workington Hall Repair Scheme	50,000	0	0	0	0
Strategic Priorities and Regeneration	0	0	0	0	0
Riverbank Works - Millfield Workington	0	30,000	0	0	30,000
TOTAL - Corporate Resources	**269,127**	**130,000**	**0**	**0**	**130,000**
Environmental Quality					
Car Park - signage and equipment	59,320	0	0	0	0
Harrington Reservoir	174,500	0	0	0	0
Fleming Sq restoration	26,413	0	0	0	0
Highfield Community Centre	140,000	0	0	0	0
Brow top enhancement works	150,000	150,000	0	0	150,000
Waste Collection - Vehicle Fleet	3,171,251	0	0	0	0
Waste Collection - Wheeled bins for recycling	720,000	0	0	0	0
Keswick Car Park Enhancement	35,000	35,000	0	0	35,000
Biodiversity and Green Infrastructure programmes	0	25,000	40,000	30,000	95,000
Reinstatement of Public Right of Way (Maryport)	0	0	100,000	0	100,000
TOTAL - Environmental Quality	**4,476,484**	**210,000**	**140,000**	**30,000**	**380,000**
Tourism & Culture					
Solway Coast Pathway	160,100	1,089,900	0	0	1,089,900
TOTAL - Tourism & Culture	**160,100**	**1,089,900**	**0**	**0**	**1,089,900**
OD & Transformation					
IT Equipment (ABC Only)	40,000	40,000	40,000	40,000	120,000
Flood resilience	185,000	100,000	0	0	100,000
TOTAL - OD & Transformation	**225,000**	**140,000**	**40,000**	**40,000**	**220,000**
Economic Growth					
Lillyhall - Land Purchase	753,000	0	0	0	0
Reedlands Rd Ind Dev	1,164,968	1,385,032	0	0	1,385,032
Strategic Acquisitions	352,327	393,373	0	0	393,373
Kirkgate Centre Contribution	25,000	75,000	0	0	75,000
Community Stadium	0	5,000,000	20,000,000	0	25,000,000
TOTAL - Economic Growth	**2,295,295**	**6,853,405**	**20,000,000**	**0**	**26,853,405**
Total Expenditure	**£9,589,670**	**£9,928,305**	**£21,180,000**	**£1,070,000**	**£32,178,305**
FINANCING	**£**	**£**	**£**	**£**	**£**
DFG Housing Grant	1,761,610	1,125,000	1,000,000	1,000,000	3,125,000
SCP Housing Grant	175,889	0	0	0	0
ERDF grant - Reedlands Road Development	668,981	831,019	0	0	831,019
Coastal Communities Fund grant - Solway Coast Pathway	160,100	839,900	0	0	839,900
Other grants - Solway Coast Pathway	0	250,000	0	0	250,000
Other grants and contributions - Harrington Reservoir	105,000	0	0	0	0
Potential Grant from Football Foundation	0	0	750,000	0	750,000
Potential Grant from RLWC	0	0	875,000	0	875,000
Total - capital grants & third party contributions	**2,871,580**	**3,045,919**	**2,625,000**	**1,000,000**	**6,670,919**
					0
Capital Receipts	177,000	380,000	0	0	380,000
Revenue Earmarked Reserves	16,000	0	0	0	0
Revenue	3,500	0	0	0	0
General Fund Balances	452,947	0	0	0	0
Prudential Borrowing	6,068,643	6,502,386	18,555,000	70,000	25,127,386
Total - Allerdale Resources	**6,718,090**	**6,882,386**	**18,555,000**	**70,000**	**25,507,386**
Total Financing	**£9,589,670**	**£9,928,305**	**£21,180,000**	**£1,070,000**	**£32,178,305**

[1] Revised capital budget 2018-19 (£8,979k) updated to include £620k reprofiling adjustment agreed by Council on 30 Jan 2019

Appendix B

Capital programme 2018/19

Scheme	Description	Budget £000
Housing Health & Wellbeing		
Mandatory Disabled Facilities Grant (DFG)	This scheme involves mandatory and discretionary grant support to individuals to meet the cost of housing adaptations that enable people to stay living in their own home for longer. The Authority has a statutory duty to provide adaptations to the homes of disabled people who qualify for a mandatory DFG. Expenditure on DFGs is fully funded from an annual grant paid to upper-tier authorities as part of the Better Care Funding allocations and cascaded to district councils responsible for providing DFGs.	1,018
DFG Discretionary Grants		744
Healthy Homes	The Healthy Homes scheme is aimed at securing improvements to sub-standard homes on an individual, block or area basis. The current budget comprises £199k in 2018-19 and £100k in 2019-20. The scheme is funded from borrowing	199
Securing Affordable Homes	Provision of grant support to assist registered housing providers to improve housing stock in high need areas, which would otherwise be sold.	40
Housing Improvement Projects	Budget allocated for Housing schemes at High Street and Senhouse Street, Maryport. Expenditure on these schemes is funded from Housing Grant.	145
Central Heating Fund	Remaining budget relating to a DECC funded scheme to deliver first time central heating systems to fuel poor households that are off gas. Under the terms of the funding agreement Allerdale Borough Council will act as the lead authority for the scheme which covers Allerdale, Carlisle, Eden and South Lakeland Districts. Residual expenditure on the scheme will be funded from borrowing.	18
Flood resilience	The budget of £185k is intended to support a range of small and medium sized projects in the borough that can demonstrate a clear link to reducing the risk of flooding in the future. These will be community based schemes supported by local flood action groups and medium sized schemes in partnership with the EA and other partners. Expenditure on this scheme will be met from borrowing.	185
	Total for portfolio	**2,349**
Corporate Resources		
Public Toilets Review Works	Balance of budget for capital investment in public conveniences as part of the Council's review of the provision of those facilities. The remaining expenditure on this scheme will be met from borrowing (£75k) and general fund balances (£39k).	114
Demolition of Moorclose Sports Centre	Balance of budget relating to ongoing scheme covering demolition of the Moorclose leisure centre and swimming pool along with changes to the existing plant room to enable it to be transferred to the adjoining community centre. The remaining expenditure on this scheme will be funded from general fund balances	25
Helena Thompson Museum	The scheme addresses DDA compliance issues, such as surfacing within the court yard entrance and other capital enhancement works to the Museum. The total budget for this scheme is £18,000 including £80k allocated to 2018-19. The scheme is financed from capital receipts.	80
Workington Hall Repair Scheme	Residual budget for works to Workington Hall works to remove tree growth from walls and ensure progression towards eventual removal of the building from the at risk register. The remaining expenditure on this	50

Scheme	Description	Budget £000
	scheme will be met from general fund balances (45k) and borrowing £5k.	
	Total for portfolio	**269**
Localities & Environmental Quality		
Car Park - signage and equipment	Remaining budget related to the purchase and installation of new and replacement Pay and Display machines and signage (£29k) and purchase of new safes and coin counting machine (£30k). This expenditure is funded from general fund balances.	59
Harrington Reservoir	A budget of £175k (including a revision of £8k to the amount previously approved) is required for a restoration project on Harrington Reservoir Local Nature Reserve which is a key target of the Workington Nature Partnership. The scheme will be partially financed from external grants and contributions totalling £105k and £20k from Revenue (£4k) and Earmarked Revenue Reserves (£16k). Unfinanced expenditure of £50k will be met from borrowing.	175
Fleming Square Restoration	Contribution towards public realm enhancement works at Fleming Square, Maryport. The Council's contribution towards this scheme will be funded from borrowing.	26
Brow-Top Enhancement Schemes	Budget allocation to enhance the quality of the public realm in the vicinity of Brow Top, Workington, transform the Central Way underpass and develop vacant land immediately to the west of the Leisure Centre to create a dedicated events and activity area. The scheme involves expenditure of £150k in 2018-19 and 2019-20. This expenditure will be met from borrowing.	150
Highfield Community Centre	The budget of £140k - agreed as part of the 2017-18 revised budget – is to provide a capital grant to support construction of an extension to the Community Centre at Highfield. The scheme will be funded from borrowing	140
Waste Collection – Vehicle Fleet	Acquisition of vehicles associated with the new waste and recycling contract, scheduled to come into force on 1 April 2019.	3,171
Waste Collection – containers	Acquisition costs for wheeled bins and containers required to implement four-weekly paper and card collections in 2019-20; The expenditure in both is funded from borrowing.	720
Keswick Car Park - Enhancement	A budget of £70k - agreed as part of the 2018-19 revised budget - was created to support a scheme to reconfigure Lakeside Car Park and create 34 additional parking bays is currently being developed. A final decision to progress the scheme is subject to a business case being approved by the Commercial Board and Asset Management Group. The scheme is expected to cost in the region of £70k. However, this will not be confirmed until a more detailed assessment of the required works is completed. If approved, works are expected to be phased over 2018-19 and 2019-20 and is expected to generate additional revenue income from 2019-20 onwards.	35
	Total for portfolio	**4,476**
Tourism & Culture		
Solway Coast Pathway	Allocation for the creation of a multi-user coastal pathway linking Silloth-on-Solway, the West Cumbria Cycle network and the Hadrian's cycle route. The scheme will be funded by a grant of £1m from the Coastal Communities Fund (CCF) and £250k from the RDPE Tourism Infrastructure Fund (subject to successful outcome of funding bid)	160

Scheme	Description	Budget £000
	Total for portfolio	**160**
Transformation		
IT Equipment	With an increasing reliance on data and cloud based services it is imperative that staff have the appropriate equipment to be able to access information and systems quickly and efficiently. A recurring capital budget of £40k per annum is required to upgrade and replace desktop computers, laptops and tablets on a rolling program. The rolling programme will replace 25% of equipment annually to ensure staff are working on equipment compatible with the latest software. Expenditure on this scheme will be met from borrowing.	40
	Total for portfolio	**40**
Economic Growth		
Lillyhall Land Purchase	Budget allocation to support the acquisition of undeveloped portions of the Lillyhall site from the Homes and Communities Agency (HCA). The scheme is funded from a combination of capital receipts £97k; general fund £285k and prudential borrowing of £371k.	753
Reedlands Road Development	Invest to save project involving the development of additional industrial units on land, owned by Allerdale Borough Council, at Reedlands Road, Workington. These units will allow the Authority to secure additional revenue income whilst supporting business in the area. The total scheme budget is £2.55m including expenditure of £1.165m included in the revised capital budget for 201819. The scheme is subject to an external funding (ERDF) bid of £1.5m. The balance of expenditure (£1.05m) will be met from borrowing.	1,165
Strategic Acquisitions	A capital budget of £950k was established in 2016-17 for the acquisition and redevelopment of commercial properties to support business start-ups and the small business sector. This budget was increased by £347k in 2017-18. £551k was utilised in 2017-18 for the purchase at Otley Road, Keswick. The remaining budget comprises £353k profiled to be spent in 2018-19 and £393k in 2019-20.	353
Kirkgate Centre Contribution	The budget of £100k, originally approved in 2017/18, will enable the Council to make a capital contribution to support the financing of a project to renovate and extend the facilities at the Kirkgate Arts and Heritage Centre, Cockermouth. The Council's contribution is subject the outcome of a bid made to the Heritage Lottery Fund by the charitable body responsible for running the centre. This expenditure will be met from borrowing. Expenditure is currently profiled to be spent in 2018-19, £25k and 2019-20, £75k.	25
	Total for portfolio	**2,296**
	Total revised capital budget 2018-19	**£9,590**

Appendix C

Proposed three year capital programme 2019-20 to 2021-22

Scheme	Description	Budget £000
Housing Health & Wellbeing		
Mandatory Disabled Facilities Grant (DFG)	This scheme involves mandatory and discretionary grant support to individuals to meet the cost of housing adaptations that enable people to stay living in their own home for longer. The Authority has a statutory duty to provide adaptations to the homes of disabled people who qualify for a mandatory DFG. Expenditure on DFGs is fully funded from an annual grant paid to upper-tier authorities as part of the Better Care Funding allocations and cascaded to district councils responsible for providing DFGs.	3,125
DFG Discretionary Grants		0
Healthy Homes (Empty Homes)	The budget of £100k will be used to provide grant support to enable 10 empty homes to be brought back into use. Expenditure on this scheme is unfinanced and will be met from borrowing.	100
Conversion of Otley Road	Conversion of Otley Road, Keswick into residential accommodation. Expenditure on the scheme will be funded from capital receipts.	130
Maryport Container Village	Development of Container Village to support the regeneration of Maryport. Expenditure on the scheme will be funded from capital receipts.	150
	Total for portfolio	**3,505**
Corporate Resources		
Helena Thompson Museum Development	The scheme addresses DDA compliance issues, such as surfacing within the court yard entrance and other capital enhancement works to the Museum. The total budget for this scheme is £18,000 including £80k allocated to 2018-19. The scheme is financed from capital receipts.	100
Riverbank Works - Millfield Workington	The scheme involves installation of rock armour to protect against further erosion and safeguard the adjacent access road. Expenditure on this scheme is unfinanced and will be met from borrowing.	30
	Total for portfolio	**130**
Environmental Quality		
Brow-Top Enhancement Schemes	Proposed budget allocation to enhance the quality of the public realm in the vicinity of Brow Top, Workington, transform the Central Way underpass and develop vacant land immediately to the west of the Leisure Centre to create a dedicated events and activity area. Expenditure on the scheme is expected to involve expenditure of £150k in 2018/19 and 2019/20.	150
Keswick Car Park - Enhancement	As part of the 2018/19 revised capital budget a budget of £70k was approved to support a scheme to reconfigure Lakeside Car Park and create 34 additional parking bays is currently being developed. A final decision to progress the scheme is subject to a business case being approved by the Commercial Board and Asset Management Group. The scheme is expected to cost in the region of £70k. However, this will not be confirmed until a more detailed assessment of the required works is completed. If approved, works are expected to be phased over 2018-19 and 2019-20 and is expected to generate additional revenue income from 2019-20 onwards.	35
Biodiversity and Green Infrastructure programmes	The Council is currently involved as a key partner with a two strategic external funding bids focussed on green infrastructure and biodiversity 1. “Let’s Get Cumbria Buzzing” – West Cumbria’s Pollinator project. 2. ERDF application under Priority 6: Protecting and Restoring	95

Scheme	Description	Budget £000
	Biodiversity…including Green Infrastructure. Overall there are between 10-15 sites in the Council's ownership that would benefit directly from successful applications. These include Maryport Millennium Green, Northside Allotments and Siddick Pond, Harrington harbour (south), Bankfield, Moorclose Green. This Capital Growth bid of £95k is to enable us to contribute to the match funding "packages" for both initiatives (but more targeted towards the HLF "Let's Get Cumbria Buzzing" bid) to supplement the otherwise small contributions that could be made available from current Environmental Initiative budgets. If the HLF application is successful, the advantage is that the fund can be used as the match funding for the ERDF application. Expenditure on this scheme is unfinanced and will be met from borrowing.	
Reinstatement of Public Right of Way (Maryport)	The scheme relates to the restoration of the Public Right of Way currently closed due to a landslip following Storm Desmond in 2015. A non-recurring bid revenue of £20k to fund a feasibility study in 2019-20 and the final programme of works is subject to the outcome of this study. It is envisaged that both Cumbria County Council and Maryport Town Council will contribute to the capital works and that other external funding could also be secured. In the absence of any firm funding commitment from other parties expenditure on this scheme has been treated as unfinanced and met from borrowing.	100
	Total for portfolio	**380**
Tourism & Culture		
Solway Coast Pathway	Allocation for the creation of a multi-user coastal pathway linking Silloth-on-Solway, the West Cumbria Cycle network and the Hadrian's cycle route. The scheme will be funded by a grant of £1m from the Coastal Communities Fund (CCF) and £250k from the RDPE Tourism Infrastructure Fund (subject to successful outcome of funding bid); £160k budget allocated in 2018-19 with balance in 2019-20	1,090
	Total for portfolio	**1,090**
OD &Transformation		
IT Equipment	With an increasing reliance on data and cloud based services it is imperative that staff have the appropriate equipment to be able to access information and systems quickly and efficiently. A recurring capital budget of £40k per annum is required to upgrade and replace desktop computers, laptops and tablets on a rolling program. The rolling programme will replace 25% of equipment annually to ensure staff are working on equipment compatible with the latest software. Expenditure on this scheme will be met from borrowing.	120
Flood resilience	An annual budget of £100k (in 2018/19 and 2019/20) is intended to support a range of small and medium sized projects in the borough that can demonstrate a clear link to reducing the risk of flooding in the future. These will be community based schemes supported by local flood action groups and medium sized schemes in partnership with the EA and other partners. Expenditure on this scheme will be met from borrowing.	100
	Total for portfolio	**220**
Economic Growth		
Strategic Acquisitions	A capital budget of £950k was established in 2016-17 for the acquisition and redevelopment of commercial properties to support business start-ups and the small business sector. This budget was increased by £347k in 2017-18. £551k was utilised in 2017-18 for the purchase at Otley Road, Keswick. The remaining budget comprises £353k profiled to be spent in 2018-19 and £393k in 2019-20.	393

Capital Strategy 2019-2020

Scheme	Description	Budget £000
Kirkgate Centre Contribution	A budget of £100k was approved in 2017-18 to enable the Council to make a capital contribution to support the financing of a project to renovate and extend the facilities at the Kirkgate Arts and Heritage Centre, Cockermouth. The Council's contribution is subject the outcome of a bid made to the Heritage Lottery Fund by the charitable body responsible for running the centre. This expenditure will be met from borrowing. Expenditure is currently profiled to be spent in 2018-19, £25k and 2019-20, £75k.	75
Reedlands Road Development	Invest to save project involving the development of additional industrial units on land, owned by Allerdale Borough Council, at Reedlands Road, Workington. These units will allow the Authority to secure additional revenue income whilst supporting business in the area. The total scheme budget is £2.55m including expenditure of £1.165m included in the revised capital budget for 2018-19. The scheme is subject to an external funding (ERDF) bid of £1.5m. The balance of expenditure (£1.05m) will be met from borrowing.	1,385
Community Stadium[1]	Construction of an 8,000-capacity stadium to replace Derwent Park and Borough Park stadia as the home for Workington Town RLFC and Workington AFC. The development also incorporates extensive office accommodation and a full-size synthetic pitch for community use. Final costs have yet to be confirmed and the budget of £25m remains indicative, based on similar stadium developments. Pending completion of work to evaluate the various funding options set out in the outline business case the capital budget was prepared on the assumption that the development would be funded from PWLB borrowing totaling £23.375m, with the balance expected to be met from third party contributions. The amount funded from borrowing incorporates the previously approved Strategic priorities and regeneration budget of £6m (£5m in 2018-19 and £1m 2019-20).	25,000
	Total for portfolio	**26,853**
	Total capital budget for three years 2019-20 to 2021-22	**£32,178**

[1] Following publication of the Councils 2019/20 budget, the Council's Executive agreed at its meeting in March 2019, to follow an investor-developer route for the procurement of the new stadium. This decision was based on a detailed business case that set out the options for financing of the new stadium. The investor-developer route will include the Council agreeing to guarantee the head lease between the stadium operating company and the investor developer.

Appendix D

External borrowing projections