

Subject:	Capital Strategy 2021/22 - 2024/25 and Capital Programme 2021/22	Status:	For Publication
Report to:	Full Council	Date:	24 th February 2021
Report of:	Chief Finance Officer	Portfolio Holder:	Resources
Key Decision:	<input checked="" type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required: No	Attached:	No
Biodiversity Impact Assessment	Required: No	Attached:	No
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1. RECOMMENDATIONS

- 1.1. **The Overview & Scrutiny Committee considers the council's Capital Strategy 2021/22 - 2024/25.**
- 1.2. **The Overview & Scrutiny Committee considers the council's capital programme for 2021/22 and associated capital expenditure of £6.21m.**

2. PURPOSE OF REPORT

To propose a capital expenditure programme for 2021/22 and the medium term, including new capital projects approved during 2020/21 subject to further due diligence and legal contracts. The report also explores a Capital Strategy for five years.

3. BACKGROUND

- 3.1 Capital expenditure refers to larger projects, typically over £10k in value, and those where the benefit will last for more than one year, such as vehicles and buildings.
- 3.2 The council has a five-year capital spending programme. The programme includes capital expenditure scheduled for the council's operational assets. The council ensures all capital expenditure is directly linked to the council's priorities, affordable and delivered through key corporate projects. Any spend on the council's operational assets is scheduled in line with the council's Major Asset Plan. Expenditure in respect of grants or financial assistance is included if the nature of expenditure, when incurred by the council, is classed as capital expenditure.
- 3.3 The capital programme is updated continually for agreed changes and reported to Cabinet on a quarterly basis and to Council as part of any financial forecast updates. A prudent approach is taken when preparing the programme to ensure that financing resources are only estimated for when there is relative certainty that they will be received.
- 3.4 In accordance with CIPFA's Prudential Code the council's Chief Finance Officer is required to have full regard for affordability, sustainability and prudence when making recommendations about the council's future capital programme. Such consideration includes the level of long-term revenue commitments. The Council considers the affordability of capital investment and the impact on revenue forecasts when formulating its capital

spending plans.

4. AN AFFORDABLE CAPITAL PROGRAMME 2021/22

4.1 In order to meet the council's strategic plans and operational requirements the council have drawn up an affordable capital programme for five years.

4.2 The full detail capital programme is attached at Appendix A and totals £26.69m. The planned spend over the life of the programme is continuously reviewed and any scheme profiling changes are reflected in quarterly monitoring reports. The table, below, sets out the latest capital programme summary. This has been updated for agreed changes up to the end of December 2020:

Table 1

Capital Expenditure	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total Expenditure £'000
Operations & Communities	994	1,344	862	486	607	4,293
Corporate Services & Buildings	837	100	100	100	100	1,237
Housing	2,866	1,600	1,500	1,500	1,500	8,966
Regeneration	5,260	2,915	1,771	1,250	-	11,196
Climate change	-	250	250	250	250	1,000
Estimated Expenditure	9,957	6,209	4,483	3,586	2,457	26,692

4.3 The council carries out stock condition surveys to establish a rolling programme of improvement and refurbishment of its operational properties. The programme takes account of the need for efficiency and environmental impact issues. The council's properties include office accommodation, the depot and venues such as the markets and open space facilities.

4.4 The council has an investment property portfolio managed to generate income to support the revenue budget and maximise opportunities for regeneration. Plot 5 Futures Park has been added in 2020/21 and Plot 1 is currently under construction.

4.5 The council has three major on-going capital projects, including; Phase 2 to the Whitaker Park Museum (which was approved by members in 2018), the Bacup Historic England Project and Plot 1 at Futures Park.

4.6 The council have developed a comprehensive replacement plan for the operational vehicle fleet over the life of the MTFs. Whilst there has been delays in the procurement of some vehicles in 2020/21, due to the Covid pandemic. Several replacement vehicles are scheduled to be purchased in 2021/22.

4.7 There are a number of smaller projects on-going including the development of Henrietta Street to improve access and incorporate a new waste transfer facility.

4.8 In 2020/21 there have been two additions to the programme as a result of emergency works - Victoria Way river wall and Waterside Mill.

4.9 The council has added the Empty Homes Scheme project to the capital programme, which is included in the table above under housing.

4.10 The Haslingden 2040 National Lottery Heritage Fund application will be submitted in February. If approved work is planned to start in July 2021.

- 4.11 From 2021/22 it is proposed to include a new scheme designed to support carbon reduction projects. The value of the scheme will be £1m over the life of the current programme. Each project will require a business case and will be assessed on its own merit. Whilst the current programme assumes the council will borrow to fund this scheme, wherever possible the council will also aim to secure external funding to support individual projects.

5. FINANCING THE CAPITAL PROGRAMME

5.1 Capital resources come from three sources:

- Capital receipts from sales of land or other assets
- Capital grants or contributions from outside agencies, organisations or community groups or from property developers through s106 agreements
- Revenue Contributions (RCCO) from either the council's own budgets, or from property developers through s106 agreements.

The council has estimated the following financing sources will be available to fund the capital investment programme:

Table 2



6. FUTURE PLANS

6.1 The council has an ambitious agenda for improving Rossendale. Projects requiring capital funding must be financial sustainable. Other potential future schemes could include:

- An 'Outdoor Rossendale' project which is one of the key priorities of our newly adopted Visitor Economy Strategy.
- Improvement projects recommended within the Play Strategy.
- Rossendale Valley Growth Corridor aimed at opening up new employment sites along the A56/M66 corridor.
- Regeneration scheme for a future Cockerill Square in Haslingden.
- Future proposals for the redevelopment of Bacup town centre.

6.3 Each of these proposals is either at feasibility stage or earlier. Each will be considered for approval by members in 2021/22. If the above projects are approved by Members they will require capital funding. If this is funded using the council's own resources or prudential borrowing it will impact on the councils revenue budget and the capital programme would need to be reviewed and adjusted.

7. RISK

All the issues raised and the recommendations in this report involve risk as set out below.

7.1 The council needs to ensure that it is able to generate adequate sources of capital funding to support its capital commitments over the medium term and that it does not over stretch itself in terms of borrowing exposure. This risk is mitigated by the on-going monitoring of the capital programme and the agreement of any additions to the programme only following member approval, which will include considerations of the implications for the council's capital and revenue position.

7.2 In the current economic climate there is some uncertainty surrounding the council's ability to generate resources from the disposal of its surplus assets. Regular reporting will continue to be made to members to explain any additional resources achieved and account for their allocation to the programme as and when they become available.

7.3 The potential for unforeseen events or liability. For example, emergency works such as those to culverts, properties and other council assets.

5. FINANCE

The financial implications are contained within the body of the report.

6. LEGAL

None.

7. POLICY AND EQUALITIES IMPLICATIONS

The capital programme forms part of the council's 2021/22 MTFS proposals and has been included as part of the MTFS equality considerations and consultation process.

8. CONCLUSIONS

8.1 The proposed capital programme for 2021/22 and up to 2024/25 represents an affordable plan, as indicated by the prudential borrowing performance indicators the Capital Strategy (Appendix B).

8.2 The deficit between capital resources and requirements over the future years looks set to continue. With severe pressures on the council's revenue resources throughout the Medium Term Financial Strategy it is likely that the council will need to take out further external borrowing, as reflected in the capital programme financing estimates. This will lead to interest costs which will need to be included within the business case for each investment.

Background Papers	
Document	Place of Inspection
Revenue Budget 2021/22 and the MTFS update being reported to this committee and Cabinet in Feb 2021	Financial Services working papers

Appendix A

Schemes in Progress	Est. Total Cost of Scheme	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total 2020/21 - 2024/25 £'000
Schemes							
Vehicles / Equipment	3,426	333	1,344	656	486	607	3,426
Wheeled & Litter Bins	17	17	-	-	-	-	17
Playgrounds	15	15	-	-	-	-	15
Cemeteries	50	50	-	-	-	-	50
Pathways	60	60	-	-	-	-	60
CPO / Enforced Sales	21	21	-	-	-	-	21
Empty Homes Scheme		650	600	500	500	500	2,750
Ski Rossendale	113	113					113
General Building Renovations & Maintenance	629	229	100	100	100	100	629
Whitworth pool - Boilers	110	14	-	-	-	-	14
Victoria Way River Wall	350	350	-	-	-	-	350
Waterside Mill Emergency Works	100	100	-	-	-	-	100
Rock View Whitworth - culvert head rebuild	31	31	-	-	-	-	31
Purchase of 12 Market Street, Bacup	63	63	-	-	-	-	63
Spinning Point - Building Phase1	1,224	1,224					1,224
		3,270	2,044	1,256	1,086	1,207	8,863
Schemes funded wholly/partly by External Finance or Government Grants	Est. Total Cost of Scheme	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total 2020/21 - 2024/25 £'000
Waste Transfer Station Henrietta St	175	175	-	-	-	-	175
Loveclough Park	29	29	-	-	-	-	29
Mullards	42	42	-	-	-	-	42
Staghills	121	121	-	-	-	-	121
Whitworth wild play	88	88	-	-	-	-	88
Rising Bridge play area	64	64	-	-	-	-	64
Sports Playing Fields	157	-	-	157	-	-	157
Haslingden Sports Centre playing fields	49	-	-	49	-	-	49
DFG'S - Mandatory Grants	2,195	2,195	1,000	1,000	1,000	1,000	6,195
Plot 1 Futures Park	1,466	511	955	-	-	-	1,466
Plot 5 Futures Park	3,966	1,240	-	-	-	-	1,240
Futures Park Infrastructure	500	158	342	-	-	-	500
Whittaker Park Museum Refurb	1,855	1,525	250	80	-	-	1,855
Spinning Point - Phase2	500	500	-	-	-	-	500
Bacup Historic England	2,315	39	868	891	517	-	2,315
		6,687	3,415	2,177	1,517	1,000	14,796
Total of Schemes in Progress		9,957	5,459	3,433	2,603	2,207	23,659

Earmarked Schemes or Schemes awaiting external funder approval	Est. Total Cost of Scheme	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total 2020/21 - 2024/25 £'000
Haslingden 2040 NLHF	2,033	-	500	800	733	-	2,033
Carbon Reduction Fund	1,000	-	250	250	250	250	1,000
Total		-	750	1,050	983	250	3,033
Grand Total		9,957	6,209	4,483	3,586	2,457	26,692

MTFS Forecast 2021/22

Rossendale Borough Council Capital Financing Statement

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total Estimate 2019/20 - 2023/24 £000
Estimated Expenditure						
Schemes in Progress	9,957	5,459	3,433	2,603	2,207	23,659
New Schemes	0	750	1,050	983	250	3,033
Total Estimated Capital Payments	9,957	6,209	4,483	3,586	2,457	26,692
Estimated Resources						
Direct Revenue Finance	84	0	0	0	0	84
Disabled Facilities Grant	2,195	1,000	1,000	1,000	1,000	6,195
Other External Finance (see below)	2,870	1,587	1,262	955	0	6,674
Prudential Borrowing	0	2,368	2,148	1,564	1,457	7,537
Earmarked Reserves	186	45	73	67	0	371
Capital Receipts	4,622	1,210	0	0	0	5,832
Total Resources	9,957	6,209	4,483	3,586	2,457	26,692

ANALYSIS OF OTHER EXTERNAL FINANCE

	Funder	Estimate 2020/21 £'000	Estimate 2021/22 £'000	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000
Waste Transfer Station Henrietta St	Lancashie County Council	70	-	-	-	-
Loveclough Park	Various	29	-	-	-	-
Mullards	Various	16	-	-	-	-
Staghills	Various	16	-	-	-	-
Whitworth wild play	Section 106	101	-	-	-	-
Rising Bridge play area	Various	64	-	-	-	-
Plot 1 Futures Park	Lancashire Enterprise Partnership	250	469	-	-	-
Plot 5 Futures Park	Lancashire Enterprise Partnership	781	-	-	-	-
Whittaker Park Museum Refurb	NLHF	1,373	225	72	-	-
Spinning Point - Phase2	Lancashie County Council	150	-	-	-	-
Bacup Historic England	Historic England	20	438	463	289	-
Haslingden 2040 NLHF	NLHF	-	455	727	666	-
Total External Funding :		2,870	1,587	1262	955	0

The 2021/22 Capital Strategy

The Capital Strategy, including Prudential Indicators & Limits

Capital Strategy Report 2021/22

1. Introduction

The capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The development of the Corporate Capital Strategy is an iterative process insofar as it will be updated as new issues arise, for example, during the development and updating of the Council's Corporate Priorities or as new issues that have an impact on the Council emerge. At the present time, the Strategy is updated on an annual basis.

A sound capital programme must be driven by the Corporate Priorities and capital decisions must balance the long-term gains with the initial capital costs and the ongoing revenue implications in terms of running costs and potential income generation opportunities. The Prudential Code recognises that in making its capital investment decisions the council must have explicit regard to option appraisal, asset management planning, strategic planning for the council and achievability of the capital programme.

2. Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.

In 2021/22, the Council is planning capital expenditure of £6.209m summarised in Table 1.

Table 1 - Prudential Indicator: Estimates of Capital Expenditure

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total Expenditure £'000
Estimated Expenditure	9,957	6,209	4,483	3,586	2,457	26,692

Governance: A strategic review of the Capital Programme including a review of the Council's investment assets and operational assets is carried out annually. The reviews take into consideration works identified from stock condition surveys and investments/capital expenditure resulting from the Council's Corporate Priorities. Bids are formulated based on the outcome of reviews and recommend projects for inclusion in the Council's capital programme. Bids are reviewed by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Cabinet Members and

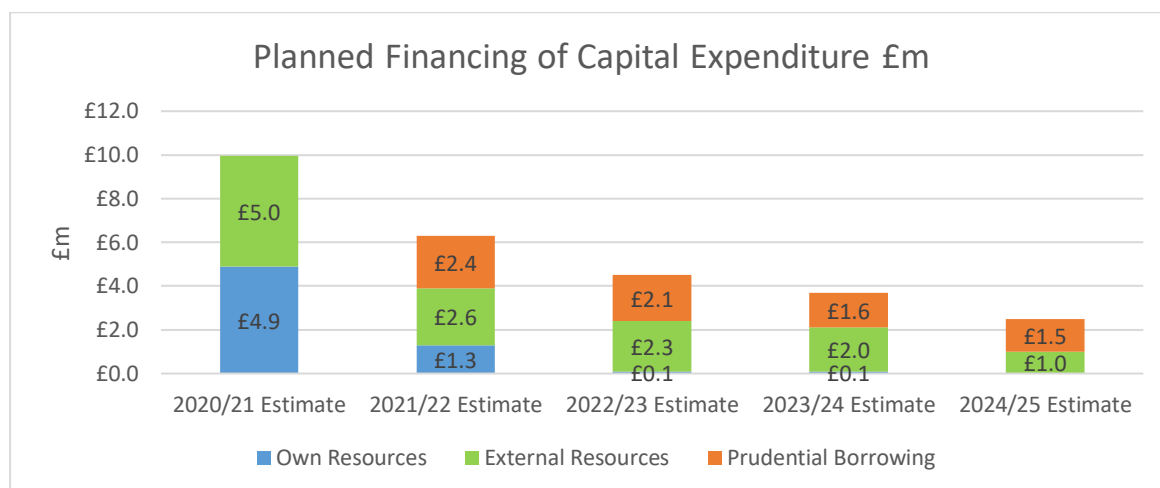
Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	2

Corporate Management Team appraise all bids based on a comparison of service priorities against financing costs. The final capital programme is then presented along with the Cabinet budget proposals in January and to Council in February each year.

- For full details of the Council’s capital programme

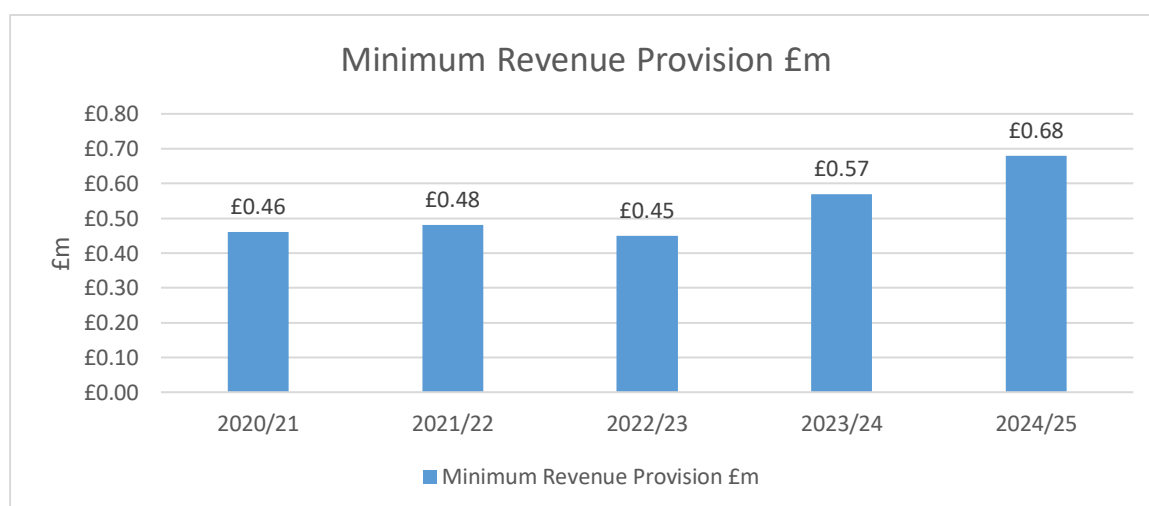
All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council’s own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing). The planned financing of the expenditure in Table 1 is as follows:

Table 2: Capital financing



Prudential Borrowing is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Planned MRP repayments are as follows.

Table 3: Replacement of Debt Finance



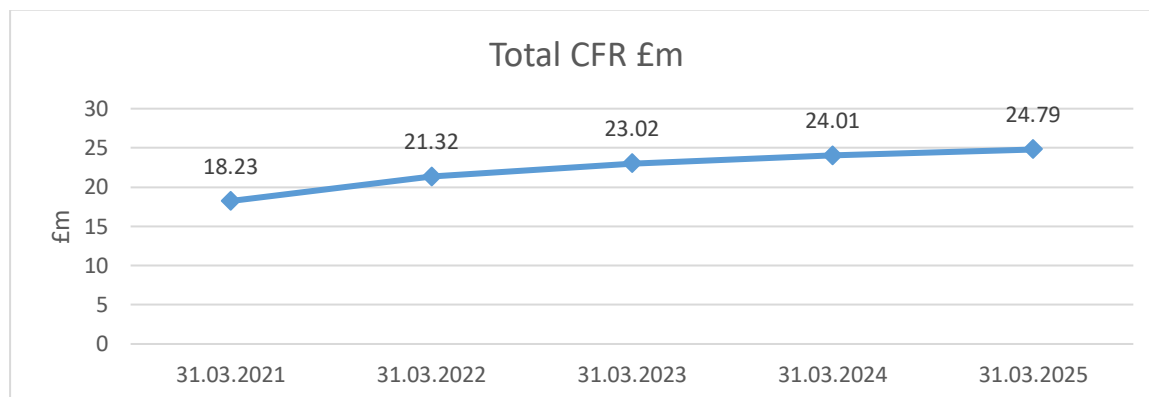
- The Council’s Minimum Revenue Provision statement is available in the Treasury Strategy

The Council’s cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP

Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	3

and capital receipts. The CFR is expected to increase by £3.1m during 2021/22. Based on the above figures for expenditure and financing, the Council’s estimated CFR is as follows:

Table 4 - Prudential Indicator: Estimates of Capital Financing Requirement



Asset management: To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy. Also wherever possible the Council investigates opportunities to dispose of property assets for development, and explores other opportunities to maximise the return on the investment property portfolio income or increase financial receipts. As well as future investments, Members must also consider the costs of holding onto some assets compared with their contribution towards the Corporate Priorities. Holding costs include revenue running costs and general maintenance, but often capital maintenance costs are overlooked and these can mount up over time if not addressed. The last comprehensive stock condition survey was undertaken in 2013 and since then the Council has only had the resources to deal with the highest priority capital maintenance works in a rolling programme of around £100k per annum. That said, the Facilities Management Team is confident that all the Council’s assets are being adequately maintained. Enable the Council to understand the scope of its property and land assets portfolio i.e. location, suitability, condition and value.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council’s ability to raise capital receipts from land sales is dependent upon the current property market and its appetite to dispose of non-operational assets. The opening value of capital receipts from sale of assets is forecast to be £831k.

Housing capital receipts in the future are only expected from the sale of CPO properties and these are dependent upon, and directly related to, any CPO costs.

Regular reporting will continue to be made to Members to explain any additional resources achieved and account for their allocation to the programme as and when they become available. The Council estimates it will receive £3.2m of capital receipts in the coming financial years as follows:

Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	4

Table 5: Capital Receipts

	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	Total Estimate £m
Asset Sales	2.72	0.48	0.00	0.00	0.00	3.20

Further details of planned asset disposals are included within the capital programme.

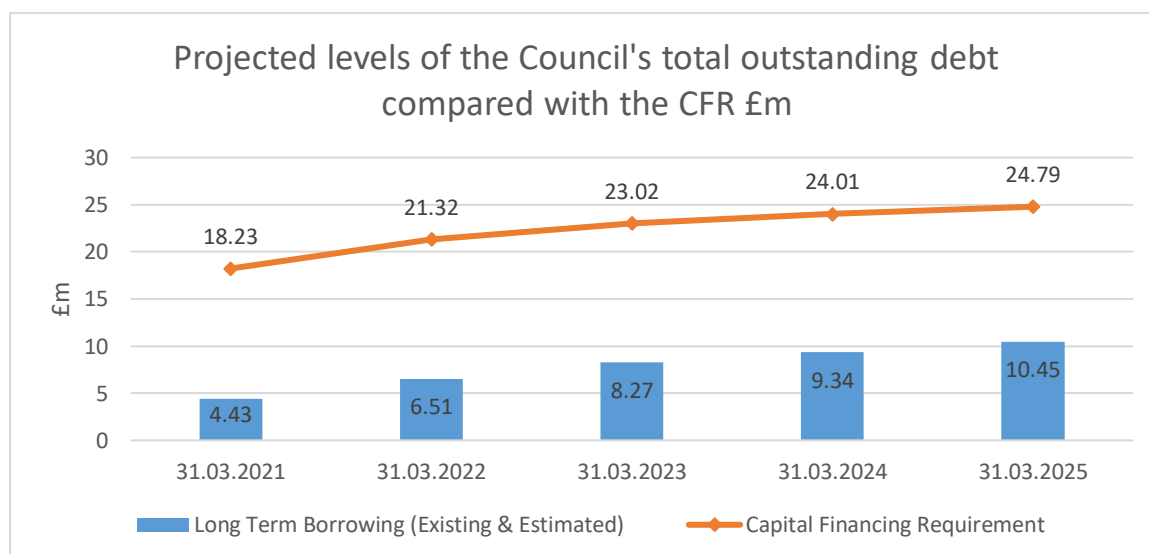
3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Borrowing strategy: The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future.

Projected levels of the Council’s total outstanding debt are shown below, compared with the capital financing requirement.

Table 6: Prudential Indicator Gross Debt and the Capital Financing Requirement

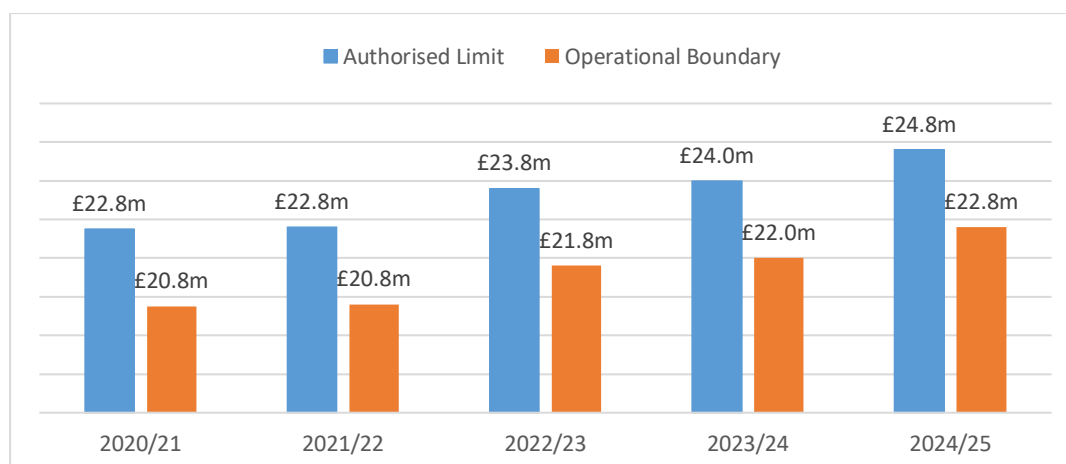


Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	5

Table 7 - Prudential Indicators: Authorised limit and Operational Boundary for External Debt

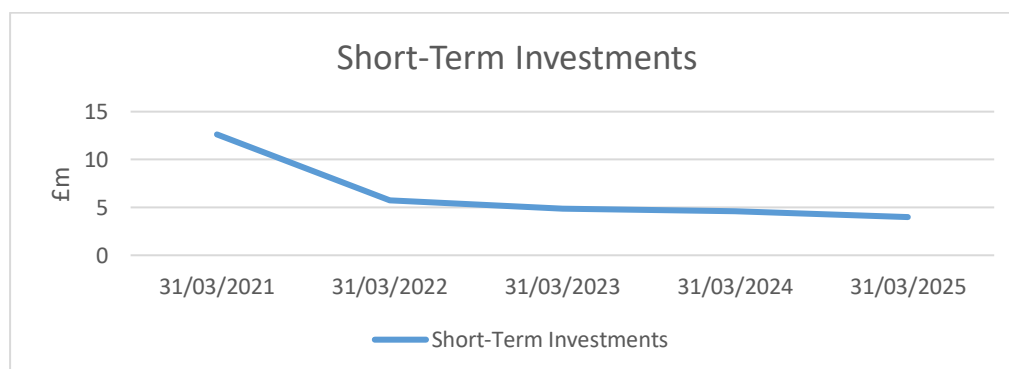


Further details on borrowing are in the Treasury Management Strategy

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council’s policy on treasury investments is to prioritise security and liquidity over yield. That is to focus on minimising risk rather than maximising returns. Cash is invested securely, for example with the government or selected high-quality banks, to minimise the risk of loss. The Council does not make investments for period over 365 days.

Table 8: Treasury Management Investments (cash balances)



The estimated level of cash balances held at 31/03/21 is higher than normal due to the amount of Government funds held for Covid business grants.

Further details on treasury investments are in the Treasury Management Strategy.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer who must act in line with the treasury management strategy approved by Council. Treasury Management Activity is included within the quarterly

Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	6

monitoring reports which are presented to the Cabinet. The Audit and Accounts Committee is responsible for scrutinising treasury management decisions.

4. Investments for Service Purposes

These investments, including loans, are made for their contribution toward service delivery objectives. For example, the Council has provided loans to Rossendale Trust for equipment purchase and to the Whitaker to enable the delivery of the current capital works. These loans are made to benefit the local community. In light of the public service objective, the Council is willing to take more risk in making service investments than it is with treasury investments, however it still aims for such investments to contribute to its corporate priorities.

Governance: Decisions on service investments are made by either Cabinet or the Council, in line with the Council's constitution. Most loans are capital expenditure and purchases will therefore be approved as part of the capital programme.

5. Commercial Activities

With central government financial support for local public services declining, the Council invests in commercial property mainly for the aim of regeneration of the Borough whilst seeking to achieve financial gain in order to produce a balanced overall financial budget and to minimise the charges to Council Tax payers. At 31/03/20 the Council's investment properties were valued at £550k providing a net return after all costs of 4.55%.

With regeneration and financial return being the main objective, the Council accepts higher risk on commercial investment than with treasury investments. The principal risk exposures include increased vacancies and potential fall in capital values. These risks are managed by the Property Services team monitoring and actively seeking to lease vacant premises and effective monitoring of performance of investment portfolio. A programme of works was developed which to-date has included the development of Futures Park Plots 1 & 5, carrying out rent reviews and identifying surplus areas of land and property assets to maximise the rental returns and achieve future capital receipts.

Governance: Decisions relating to capital expenditure for all purposes, including for the acquisition of property assets, are made in accordance with the Financial Regulations of the Council, this requiring the approval of Full Council/Cabinet as appropriate. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

6. Liabilities

In addition to the debt in Table 6 above, the Council is committed to making future payments to cover its pension fund deficit (valued at £1.5m at 31st March 2020). It has also set aside £1.9m (as at 31st March 2020) in a Business Rates Appeal Provision to cover risks arising from the costs of Business

Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	7

Rates appeals as a consequence of the transference of such risks under the localisation of business rates arrangements introduced in 2013.

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Governance: Decisions on incurring new discretionary liabilities are taken in consultation with the Section 151 Officer.

Revenue Budget Implications Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Financing Costs	55	154	188	194	214	201
Proportion of net revenue stream	0.67%	1.85%	2.27%	2.36%	2.56%	2.32%

Further details on the revenue implications of capital expenditure are included within the Capital Programme.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years may extend for up to 50 years into the future. The Head of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable.

7. Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Head of Finance is a qualified accountant with over 20 years' of Local Government experience. The Council pays for accountancy staff to study towards relevant professional accountancy qualifications and the staff involved in treasury management attend treasury seminars and workshops provided by CIPFA and other external service providers. Training is provided to Councillors as part of the financial management training delivered by the Section 151 Officer and more detailed treasury management training to Councillors on the Audit & Accounts Committee by treasury management advisors Link Asset Management Limited. Where appropriate the Council appoints external advisors and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Responsible Section/Team	Finance	Version/Status	2021/22 v1
Responsible Author	Finance Manager	Report submitted to	Full Council
Date Amended now	Feb 2021	Meeting date	24 Feb 2021
Due for Review	Feb 2022	Page	8