

North Somerset Council

Report to the Executive

Date of Meeting: 7 February 2024

Subject of Report: Capital Strategy 2024-2028

Town or Parish: All

Officer/Member Presenting: Mike Bell, Leader of the Council

Key Decision: YES

Reason: Financial implications within the report are in excess of £500,000 and impact on all wards and communities within North Somerset.

Recommendations

The Executive is asked to:

1. Recommend to Council for approval the following;
 - a. The capital strategy for 2024 to 2028 as detailed throughout the report
 - b. An increase in the capital programme of £9.789m for a new range of investment proposals as detailed in section 3.5 and Appendix 3, subject to confirmation of grant funding allocations
2. Note the additional borrowing impact within the capital programme of £2.6m for the period 2024 to 2028 as detailed in section 3.4 and Appendix 4, which will increase the council's overall borrowing requirement to £114.6m over the period
3. Approve the amendments to the capital budget for 2023/24 as detailed in Appendix 2
4. Delegate the approval for the detailed highways programme to the Assistant Director for Neighbourhoods and Transport in consultation with the Executive Member for Transport and Highways

1. Summary of Report

The Capital Strategy is an annual document that outlines the council's approach to capital investment over the short, medium, and longer term and gives a high-level overview of how capital expenditure activity contributes to the provision of local public services within the area, together with the impact this will have on the council's asset base and financial position.

The report will provide an update to residents on how we will use our resources to support our children and young people, tackle the climate emergency and invest in our communities

and infrastructure, whilst aiming to strengthen the delivery of our basic services. Given that strategic capital investment can take a long time to plan and deliver, much of the planned spending within the investment programme will have already been approved however this report continues to provide transparency on those plans, along with the development of new spending plans that will be added into the programme for future years.

2. Policy

The Prudential Code for Capital Finance in Local Authorities was developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to support local authorities in taking decisions in capital investments.

Key objectives within this Code are to ensure that local authorities capital investment plans are affordable, prudent, and sustainable, and that associated treasury management decisions are taken in accordance with good professional practice and that local strategic planning, asset management planning and proper option appraisals are fully supported.

The Code requires Council to approve an annual capital strategy as part of its budget setting process. The purpose being to demonstrate that capital expenditure and investment decisions are in line with service objectives, and that the plans are affordable and sustainable, with the resulting revenue impacts fully integrated within the annual budget setting process.

3. Details

3.1. Executive summary – corporate plan and sustainable budget setting

North Somerset Council continues to have ambitious plans for investment in the region which will deliver sustainable projects with tangible benefits to our communities. Alongside delivery plans for increased infrastructure, housing, and economic regeneration we also need to maintain Council schools and other built assets to ensure these are fit for the future.

We are committed to ensuring that all projects within our capital programme align with our refreshed Corporate Plan and will continue to be Open, Fair and Green. Our target is to be a net-zero Council by 2030, to achieve this we need to ensure that carbon impacts of our investments are made clear and evaluated through options appraisal. Carbon impact will become a core element of our decision making so that we can achieve our climate change objectives.

However whilst we remain ambitious we also recognise that our investment plans must be affordable over the long term and given the budget pressures that we are currently facing in the current financial year and the budget gaps that remain within our medium term financial planning, it is likely that investment priorities for the council in the short-term will be extremely limited and focused upon those areas of strategic importance, and which have been allocated external funding or those which meet our core objectives, which will include any health and safety or statutory obligations and requirements.

The Strategy for next year will therefore reaffirm some of the key projects we will be working on and also introduce the new spending for the future, whilst a broader programme of projects will continue to be developed over time and added into the programme when supporting plans and business cases are finalised and further funding identified.

3.2. Commentary from the Chief Finance Officer

Capital expenditure is where the council spends money on assets that will be used for more than one year and the development of an annual Capital Strategy provides an opportunity to lay down the principles and considerations being used to develop our current and future capital investment plans, and also supports good governance in terms of decision-making because this provides a medium and longer-term look at both the risks associated with spending large sums of money, and also how these plans will be funded so that we can understand the impact this may have on the council's overall financial position.

However, in addition to developing an annual strategy the council has adopted an iterative approach to managing its investment plans which means that changes can be made throughout the year, in accordance with our governance processes. This allows the council to be flexible in our approach and take opportunities to increase spending when business cases are developed and sustainable resources identified, but also reconsider and reduce spending plans if circumstances should change.

Over the past 18 months the council has seen significant cost pressures materialise in most areas of planned spending, largely driven by sharp rises in inflation and this has also been seen within our capital investment plans. Detailed reviews have shown that the inflationary impacts within the capital programme are different for each project depending on how advanced the scheme is compared to the anticipated delivery programme, with lower levels of inflationary impact for those schemes near completion compared to higher levels of inflation for schemes that have recently been approved and which may be within the earlier commissioning stages.

Two examples of this are the projects funded by Homes England grant; the £33m new Winterstoke Hundred Academy secondary school, which has just opened its doors to students, suffered very little inflationary impact as it was in the later delivery stages when prices increased. Unfortunately, the Banwell Bypass scheme was further behind in terms of its planning and commissioning plans and has seen the budget increased by almost £24m, compared to the original allocation, which was expected to be £64m.

As a result of the significant inflationary pressures and risks on the existing capital budgets, the council has been actively reviewing the scope and scale of the capital programme and taking time to reassess spending plans to ensure that they remain affordable and sustainable within the context of the overall financial allocations and that key priority projects could continue to be delivered.

The outcome of this activity has resulted in several potential future projects being removed from the capital programme until such time as more resources can be identified or business cases developed which show that they can be delivered without council resources being needed, and £11.9m of resources re-directed into the Banwell Bypass project so that it could continue to be delivered. This does mean that the council no longer has any further funds which could be used to support additional spending in the future and continues to hold a strategic risk relating to the affordability of capital spending plans.

Detailed delivery plans for those projects which have remained within the capital programme have also been reviewed to better understand when spending will take place, so that resources can be aligned and matched against when they will be needed. The integration between revenue and capital financial planning helps the council to update its cash-flow modelling and make use of its resources more effectively elsewhere within its budget plans.

Given the risks faced within the existing capital programme together with a lack of available resources, the council's approach to capital spending in the short-term must be to limit new areas of spending unless they are supported by a business case and come with external funding or can be re-prioritised by removing something from the existing programme. This approach is supported by government guidance which requires the chief finance officer to ensure that the council's plans are affordable and sustainable over the medium term.

3.3. Overview of the current capital programme

Analysis of the council's current investment plans shows that these are already extensive – over recent years we have developed a capital programme which now totals £447m and covers the five-year period 2023 to 2028.

Developing an investment programme for the future does provide an opportunity to look back at current and previous projects and enhancements that the council has successfully delivered and which can be seen and used by residents in their local communities each day. Examples of projects that are near to completion or which have been recently completed include;

- Baytree special school in Brookfield Walk in Clevedon
- Winterstoke Hundred Academy Expansion in Locking Parklands, which opened to student in January 2024
- Provision of a new Doctors Surgery in Locking Parklands, which opened to residents in January 2024
- Improvements and refurbishment of the Carlton Centre in Weston, for use by Children's Services
- Access to over £1.5 million of disabled facilities grants, which has enabled more people to live independently in their own homes
- Progress to deliver 52 new Passivhaus homes near to The Uplands in Nailsea, which is just one example of the council's ambitions to tackle the climate emergency and reach net zero carbon emissions by 2030

A complete listing of the current capital programme is included in **Appendix 1** although this section provides a brief overview of the key headlines to understand key components.

There are approximately 180 different schemes and projects being delivered across the district although there are 6 live projects that account for approximately 69% of the total spending within the programme.

These are often described as 'major' schemes and spending on them during this period is likely to reach almost £303m; they include;

- £120m Metro West Rail project in Portishead
- £ 87m Banwell Bypass and secondary school
- £ 47m Bus Service Improvement Plan (BSIP)
- £ 23m A38 Major Road Network improvements
- £ 17m Winterstoke Road Bridge in Weston
- £ 9m Baytree Special School in Clevedon

Spending on 'other' schemes accounts for the remaining 31% of the programme which totals £139m and is made of c.170 projects and schemes.

This investment can be grouped into several key themes, for example;

- Schools and special educational needs, largely expanding provision to meet the needs of children within our communities,
- Investment in built assets, which includes offices, leisure facilities, libraries, housing,
- Highways, transport and infrastructure, which includes a combination of annual maintenance programmes as well as new active travel and parking projects,
- Place-making and development, which includes delivering the council’s Levelling Up and Shared Prosperity initiatives, supporting developments at Locking Parklands, Clevedon and Uplands in Nailsea
- Other schemes include investment to support delivery of council services, including investing in technology and systems or replacing waste collection vehicles.

When looking at the investment programme it is important to understand how the spending plans will be funded and where the money will be coming from, because the council must ensure that all decisions relating to capital are fully integrated into the annual revenue budget. Calculations have to be carried out to show that spending plans are affordable and sustainable into the future.

The majority of funding for the current capital programme is due to come from external grants and contributions (£319m), although a quarter of the programme (i.e. £112m) will be financed from borrowing. The repayment of this borrowing will need to be reflected within the council’s medium term financial plan (MTFP) and future revenue budget calculations to ensure that it can afford to fund the future repayments of both principal and interest.

3.4. Monitoring and changes to the current capital programme

3.4.1. Monitoring of the current capital programme

Appendix 1 provides details of all schemes currently included within the latest programme and the presentation shows the approved budgets currently allocated to each project, how much has been spent in-year and how the project will be financed when it has been delivered.

The monitoring, which was completed at the end of November, shows that the council has so far spent £33.951m and made further financial commitments of £17.495m, making total spending decisions of £51.725m for the year. The approved budgets allocated for 2023/24 are £104.968m, which means that the council has spent approximately 49% of profiled budget.

The table below shows where spending has occurred and where it is likely to be lower than expected by the end of the financial year. Further work will need to be carried out by project managers to reassess their spending plans so that they can provide more accurate forecasts as this is an essential part of good governance.

Summary of capital spending in 2023/24	Profiled budget for 2023/24	Spending commitments to date	% of budget spent to date
Childrens Services	23,437,832	20,143,607	85.9%
Adult Social Services	1,233,167	441,759	35.8%
Housing	3,995,602	3,010,520	75.3%
Corporate Services	2,970,580	1,714,612	57.7%
Place	73,330,667	26,414,388	36.0%
TOTAL SPENDING	104,967,848	51,724,886	49.3%

The budget monitoring table also includes a RAG rated assessment for each project which is aligned to the council's risk management framework; projects without an assessment at this stage are either yet to be started or are awaiting their assessment to be validated by the Capital Programme, Planning and Delivery Board (CPPDB). Exception reports are required to be submitted to the CPPD Board for items that have a Red status so that issues can be clearly understood and escalated within the organisation.

3.4.2. Changes made to the current capital programme

Appendix 2 lists out all of the changes which have been made to the programme during the current financial year, which require retrospective approval from the Executive.

Some of these changes have been through separate decision making processes due to their scale, for example the Banwell Bypass, or as a result of procurement and commissioning plans, whilst others of a smaller scale have been through the director or Section 151 governance decision making process in accordance with financial regulations. This summary provides a comprehensive list of all changes.

A further table at the bottom of the Appendix shows an aggregated position for all of the changes that have taken place during the year and it can be seen that the most significant change relates to updating the anticipated payment profile of the planned investment.

The budget for the current financial year has been reduced by £105m due to re-profiling activity, and this sum has been moved into later years. This means that whilst the council is now reporting spend to date of 49% for the year, this proportion would have actually been much lower without the changes and could be seen as a cause for concern in terms of the council being able to effectively plan its' finances.

The majority of re-profiling changes that have been made relate to some of the council's 'major' schemes which are often approved with an indicative spending profile, which is later updated when detailed delivery plans are being formulated. The council will continue to review the timing of capital spending plans and may make further changes in future reports to ensure that forecasts are robust and that slippage levels are reduced as much as possible. This would also apply to planned spending currently profiled for delivery in 2024/25.

Further information and updates on the council's in-year monitoring is provided below.

3.4.3. Update on the Major Road Network (MRN) project on the A38

The capital programme currently includes a budget of £23m for the A38 MRN project which broadly reflects the value of the original scheme, less the reduction of £2m of council funding that was approved earlier this year and which was subsequently reallocated to the Banwell bypass project.

The profile of the capital budget within the programme has been updated to reflect the indicative spending timescales and also separate out the design and feasibility and construction phases of the project. However, the £23m budget no longer reflects the anticipated total cost of the project which means that a further change to the capital programme will be required in the new year.

Work has been carried out with the Department for Transport and Somerset Council over recent months to reassess both the scope and cost of the project as well as the potential funding sources. The Department have sent a revised grant offer letter which the council is

reviewing, alongside the Section 106 agreements that could be included as a funding source in the future. The potential revised cost is likely to be around £33m, an increase of £10m, which will be funded through additional grant and increased S106 receipts although the exact values are not yet confirmed.

There are further complexities with the project because although North Somerset are the lead contact, the network improvements will be made to roads in both North Somerset and Somerset areas and no decisions have yet been made as to how the project will be delivered and who will incur the spend and draw the associated funding, all of which include some degree of risk. A more detailed report will be brought back to the Executive next year.

3.4.4. Update on the Bus Service Improvement Plan (BSIP)

The capital budgets allocated to all of the BSIP projects currently totals £47m and has been profiled over a three-year period although further work will be carried out over the coming months to review the spending profile as in-year costs are currently much lower than the phased budget. The majority of funding has been allocated to specific projects and these are being individually monitored as they go through each of the design and construction phases. Inflation has been flagged as a risk to the potential project costs although these are being regularly reviewed and the latest assessment shows that these can be contained within the overall programme.

3.4.5. Update on the Banwell Bypass project

The total budget now allocated to the bypass project is £90.624m and covers both design and construction stages, with £78.7m of this cost being funded by Homes England and £11.9m by the council. The external funding does come with a series of conditions and requirements that the council must comply with, one of which relates to the timing of planned spend. Whilst the council has recently re-profiled the budgets against expected construction milestones further monitoring will need to be undertaken to ensure that the council can meet these conditions to reduce the risk of a funding short-fall towards the end of the project as there are currently no further resources which could be released to fund such a situation.

3.4.6. Update on the Winterstoke Hundred Academy Expansion

Whilst the project is reaching its conclusion adjustments have recently been made to the budget and funding sources to ensure that it is fully aligned with the Homes England grant offer as earlier in the process funding of £1.4m was transferred between the school and bypass projects. This sum has now been correctly reallocated back to the bypass project although as spending has been incurred on delivery of the school alternative funding from the Locking Parklands Section 106 has been identified and applied to the project.

The project currently has an Amber rag status as some parts of the final accounts are outstanding which means that it is not possible to forecast the total cost of the scheme. A further report to the CPPD Board is expected shortly.

3.4.7. New Funding - Network North Resurfacing Fund 2023/24 and 2024/25

In November 2023 the council received notification from the Department for Transport of additional funding for the current financial year and next, together with details of the longer-term funding uplift that the council can expect in the future.

For the current financial year North Somerset will receive an additional £0.632m of funding from the Road Resurfacing Fund for local highways maintenance, particularly for the

resurfacing of carriageways, cycleways, and footways to prevent potholes and other road defects from occurring, as well as tackling other asset management priorities, such as keeping local bridges and other highway structures open and safe. The same amount of funding will be given in 2024/25. Budgets for both years have been included within the list of changes to the capital programme and officers are currently finalising plans of how this money will be spent by assessing the latest risk registers and work plans although early indications show that some of this funding could be used to mitigate the risks associated with gullies and drainage which cause flooding as well as damage to the road surface.

The capital programme also includes an allocation of £0.890m from funding announced in the 2023 Budget and a further £2.227m of funding from the Pothole Fund, both of which have been shown as additions to the programme and profiled to be spent in the 2024/25 financial year.

3.4.8. New Funding - Food waste recycling grant

The government has introduced changes through the Environment Act 2021 to simplify waste and recycling services across the country to make it easier for people to do the right thing, maximise use, minimise waste and drive up recycling rates.

Under the new legislation, waste collection authorities in England must arrange a weekly collection of food waste for recycling or composting from households and the government's preference is for food waste to be collected for treatment by anaerobic digestion (AD), which presents the best environmental outcome for the treatment of unavoidable food waste, due to the generation of bio-fuel and digestate.

The change will come into effect for households from 1 April 2026 and the government has provided capital funding to councils so that they can make any adjustments necessary to their service provision. The allocation for North Somerset Council is £53k which is to fund kitchen caddies and communal wheeled bins.

3.5. New investment to be included within the future capital programme

Appendix 3 provides a detailed schedule of the council's new investment proposals that will be added into the capital programme as part of the annual budget setting process, which will be in addition to all of the changes described above. Details of new funding allocations have been shared by the government at different times and this report provides an opportunity to aggregate them all into the council's investment planning framework.

3.5.1. New funding for schools – basic need grant

Each year the Department for Education provides funding to councils to help them fulfil their duty to make sure that there are enough school places for children in the local area. Allocations have recently been announced for the 2025/26 financial year to enable councils to create the places they need by September 2026. The allocation for North Somerset Council is £1.442m and has been added into the capital budget to support future spending plans. Further details will be provided in later reports.

3.5.2. New funding for children - child care expansion grant

In the Government's Spring Budget 2023, the Chancellor announced transformative reforms to childcare including the introduction of 30 hours of free childcare for children over the age of 9 months and also increase the support of wraparound care in primary schools.

Additional provision has been allocated to the council through the Dedicated Schools Grant for next year to fund the ongoing operational revenue costs of delivering these changes and this has been reflected within the MTFP and revenue budget report, considered elsewhere on the agenda for this meeting.

Further capital funding has also been provided to the council to help to ensure that there is sufficient provision within schools to accommodate the additional wraparound care that will be required.

The childcare expansion grant for North Somerset Council in 2024/25 is £0.350m and has been allocated based on the likely take up of the expanded childcare offer and the number of state funded mainstream primary schools in the authority that do not offer and existing wraparound provision. There are detailed grant conditions for this new funding source which will be considered alongside the development of spending plans.

3.5.3. New funding for highways – from Network North Funding

The Prime Minister's Network North announcement on 4 October 2023 included a commitment to an additional £8.3 billion of funding for local highway maintenance for the 10-year period 2023/24 to 2033/34, over and above sums that local authorities were expecting to receive. The £8.3 billion will be shared across the country, with £2.8 billion to be shared with councils who are not in the North or the Midlands.

The council has received an early indication advising of the total grant allocation for the 10-year period, but it has not yet received confirmation of how this will be profiled across financial years and so an assumption has been made within the capital budget that the new grant will be consistently applied from 2025/26 at £1.799m p.a.

The Network North strategy papers make clear that the funding will be additional to the local transport budgets that were announced in the last spending review and would therefore represent a significant additional investment in local highways maintenance and to ensure that the funding delivers a additionality and a transformational change, the Department for Transport will require council to publish plans for the additional work that is delivered and to regularly report on progress.

3.5.4. New funding for highways – funded by borrowing

The council is aware that it continues to face many challenges in terms of the condition of the highways network, including the highways, footways and cycleways as well as bridges, structures and gullies, and work has recently identified an extensive backlog of repairs that must be delivered to keep the network safe. Reviews have shown that some of the works being delivered in current financial year are costing more money, and that is partly due to inflationary increases and partly due to the base condition of the assets that need to be repaired.

In order to ensure that there is sufficient provision for the service to complete the most urgent works, the council is continuing its approach to provide additional funding in this area, which is on top of the annual government funding allocations. However as noted in

section 3.2 above, the council does not have unlimited resources to support capital spending and so has had to make some difficult choices in terms of what it can afford to spend and how the funding should be prioritised.

Spending and funding decisions therefore continue to be made on an annual basis and at this time the council has included **£1.6m** of additional resources within the revised capital programme, **for spending in 2024/25**.

As can be seen from the charts below this sum is within the range of council funding that has been allocated over the past decade, although is slightly lower than the sum allocated in the last financial year.



It should be noted that the funding allocation for 2024/25 also reflects the change of approach in terms of contract delivery arrangements, which will be operational from April 2024. The transfer of highways delivery works into the North Somerset Environment Company (NSEC) will mean that the council will have change how it accounts for the cost of administering the highways works programme, because this will effectively become an internal staffing cost, rather than a contract overhead.

The council will continue to fund £326k of programme management costs in the future, although these costs will now be contained within the annual revenue budget, rather than embedded within the capital spending totals. Additional provision has been included within the council's Medium Term Financial Plan (MTFP), reducing the sum needed within the capital programme.

The service are currently updating their medium and longer-term planning requirements which will consider and assess the condition and resilience of the current highways network to understand and inform the future maintenance programme, as well as advising whether changes or adaptations needs to be made, recognising that issues such as active travel, public transport and climate change requirements may change the need and usage over time.

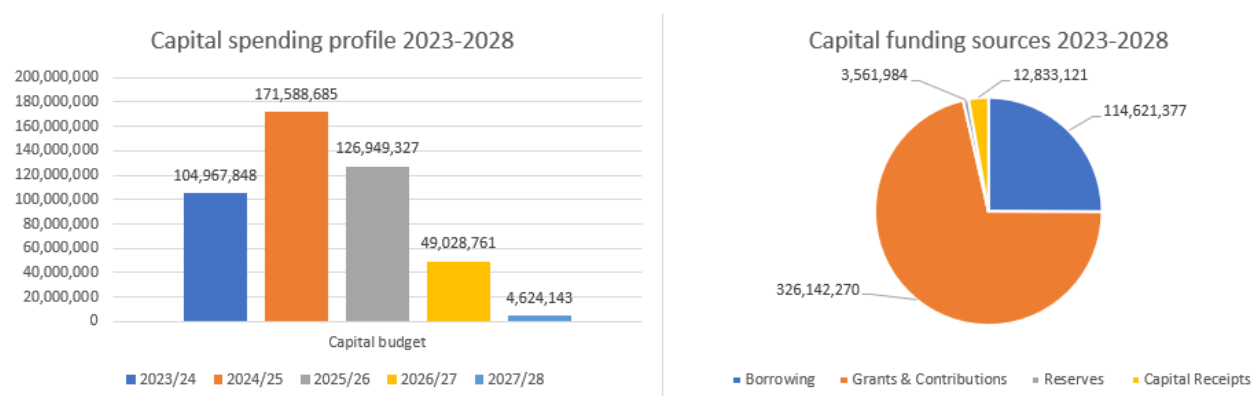
The outcome of this work will be shared with the Capital Programme Planning and Delivery Board (CPPDB) and will be used to inform discussions on resource allocations in the future. At this time the council has reflected the projected new government funding of £1.8m p.a. that will come into effect from 2025/26, although has not included any further provision until we have been able to review and update longer-term funding forecasts.

3.5.5. Increased funding for corporate asset management plans

Whilst the existing capital programme currently includes some provision to address the urgent health and safety works required to the council's main buildings an assessment shows that this is not likely to be sufficient to address the most significant issues identified within the survey reports held for each asset. The council continues to develop its longer-term strategic plans for assets held to assess whether assets should be held and maintained to support service delivery or whether it should form part of the divestment plans. Until such time as these are confirmed the council must ensure that it can discharge its statutory responsibilities in this area.

3.6. Summary of capital spending 2023 to 2029

Appendix 4 provides details of the revised investment programme for the period 2023 to 2028 which totals over £457m and shows the council's commitment and ambition in investing in the area to deliver real change within our local communities.



The programme seeks to provide a balance of investment by including repairs and improvements to essential facilities such as roads, schools, offices and leisure centres as well as more strategic investment designed to provide long-lasting change within the area, which will unlock further development and investment in the future. One example of this would be the Banwell bypass, which will not only provide an alternative solution to the daily traffic queues within the area, it will also improve the air quality and health for those who live and work nearby and deliver the infrastructure to support delivery of more homes and opportunities for potential business rate growth.

The chart shows that a large element of the programme will be funded by external partners following a range of successful bids to government departments, which does reduce the amount that needs to be borrowed and included within the annual revenue budget however, that sum is still significant and will impact on the amount of money that the council can spend to deliver services. The impact of the borrowing requirement has been included within the council's medium term financial plan and is deemed to be affordable.

3.7. Potential future changes

In addition to the specific items noted throughout the report will be included within the capital programme, the council is aware that other investment plans are likely to be forthcoming in the future. These will be subject to the usual governance process, which do vary depending on the size and scope of planned spending and funding sources. At the time of writing the following items are expected to be progressed during next year.

3.7.1. Potential changes to funding for highways network

As noted above the Strategy will reflect specific funding allocations for spending on the highways network although these could change when works are completed to assess both the condition and also external funding sources to evaluate whether this is sufficient to allow the council to provide a safe network in the future.

3.7.2. Metrowest Rail

Work to develop the Metrowest Rail scheme has been ongoing since 2019 and the timetable shows that the council will reach key milestones in the near future, specifically the final estimated cost of the scheme, which is expected in February and approval of the Full Business Case by the Department for Transport, which is expected in late May 2024. It is anticipated that these activities will result in a further report being shared with Council in the Summer. Information within the report will include an update on all aspects of the delivery plans including stakeholders and their responsibilities, costs, funding and timescales. This may lead to a change to the current spending profile for the project within the existing capital programme.

4. Consultation

The government, through its legislative framework, clearly expects that local authorities will be able to demonstrate that they have in place mechanisms to ensure that 'representatives of local people' are being appropriately informed, consulted or involved in services, policies or decisions that affect or interest them.

There are many aspects when planning for and delivering investments within communities that impact on our residents, customers, businesses and other stakeholders, and so we recognise that it is our responsibility to ensure that any changes we make to them through the capital budget, need to be considered and consulted upon. Failure to do so adequately could result in aspects of the budget being subject to legal challenge.

Publication of the council's draft budget plans along with details of the core assumptions supports the objective of the Executive to be as transparent as possible.

With that in mind, as part of the Corporate Plan and budget development process we undertook an extensive engagement and consultation programme with residents and stakeholders, including Town and Parish Councils and equalities groups. This programme aimed to gather views to inform the development of the Corporate Plan ambitions as well as how the council manages its finances and makes spending decisions at a strategic level.

Developing the capital programme for 2024/25 provides a mechanism to bring together a series of individual investment projects within an overarching programme, although individual projects will still be subject to further consultation, engagement and governance as they progress through commissioning and procurement stages, which means that local people and key stakeholders will be provided with opportunities to understand more details on these projects before they are fully implemented.

5. Financial Implications

Financial implications are contained throughout the Capital Strategy report and have been aligned with a series of other reports that are also on the agenda for this meeting, with the

main ones being; Medium Term Financial Plan (MTFP) and Treasury Management Strategy reports.

6. Legal Powers and Implications

The Local Government Act 1972 lays down the fundamental principle by providing that every local authority shall make arrangements for the proper administration of their financial affairs, although further details and requirements are contained within related legislation.

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2022 Edition (the CIPFA Code) which requires it to approve a Capital Strategy before the start of each financial year.

Under this guidance, the role of the (Full) Council is to:

- Set the budget and capital programme, including debt and investment interest, and the repayment of capital (also known as the Minimum Revenue Provision)
- Approve the Capital Strategy
- Approve the Treasury Management Strategy
- Approve a series of Prudential Indicators

Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, local authorities must not delegate the approval of an annual strategy to any committee or person.

The role of the Executive is to consider these strategies, and, if appropriate, recommend them for approval by full Council.

7. Climate Change and Environmental Implications

Climate and environmental related implications continue to be at the forefront of the council's thinking when considering the underlying Corporate Plan and service strategies as well as detailed capital investment plans.

The council has identified climate as one of its main investment priorities and has previously developed a combined approach which puts this at the centre of plans by seeking to invest in new projects which entirely meet the climate vision, aims and objectives as their core theme. However, in addition to this, the council has also sought to progress the concept of 'additionality' by ensuring that climate related issues are recognised, considered, and incorporated into planned investments in other areas of priority spending.

The council believes that it is important to fully consider climate issues within the design and scope of other spending proposals which means that it can begin to embed climate considerations and outcomes through a broader range of capital investments across the council. For example, when replacing a roof on a building, solar panels or other energy efficiency measures should be considered at the same time.

It is also important to be able to understand and monitor the impacts that our own capital investment programme will have in terms of contributing towards carbon reduction targets so that we can be sure to reach our net zero goals. Work has been started so that information on these aspects can be shared alongside other project updates.

8. Risk Management

In setting the capital budgets for the future the council must consider the known key financial risks that may affect its plans, and these will either be explicitly provided for within the base budget or be offset and held against the unallocated contingency budget or the council's general fund working balance.

Delivering an investment programme of this scale will expose the council to many forms of risk and these are documented and regularly assessed as part of the council's risk management framework. The strategic risk register, which is shared on the council's website, includes specific reference capital investment although the main risks are noted below;

- Lack of funding - to support changes within the existing capital programme and develop new spending proposals or fund urgent works
- Inflation and procurement risks – risk of increased spending on current projects
- Timing of expenditure for schemes that are funded by external grants and which have conditions attached to their funding
- Timing of expenditure for schemes that are funded by borrowing to ensure that the impact on the revenue budget is robust
- Uncertainties within projects that may be outside of our control, for example planning decisions, land transfers, external stakeholders, weather conditions etc
- Broader economic and world events, which may impact on the cost of materials or capacity within the marketplace, viability of suppliers etc

Delivering an investment programme of this scale will expose the council to many forms of risk and these are documented and regularly assessed as part of the council's risk management framework. The strategic risk register, which is shared on the council's website, includes specific reference capital investment although the main risks are noted below;

Whilst there are several inherent risks within the Capital Strategy, the top 2 risks are: -

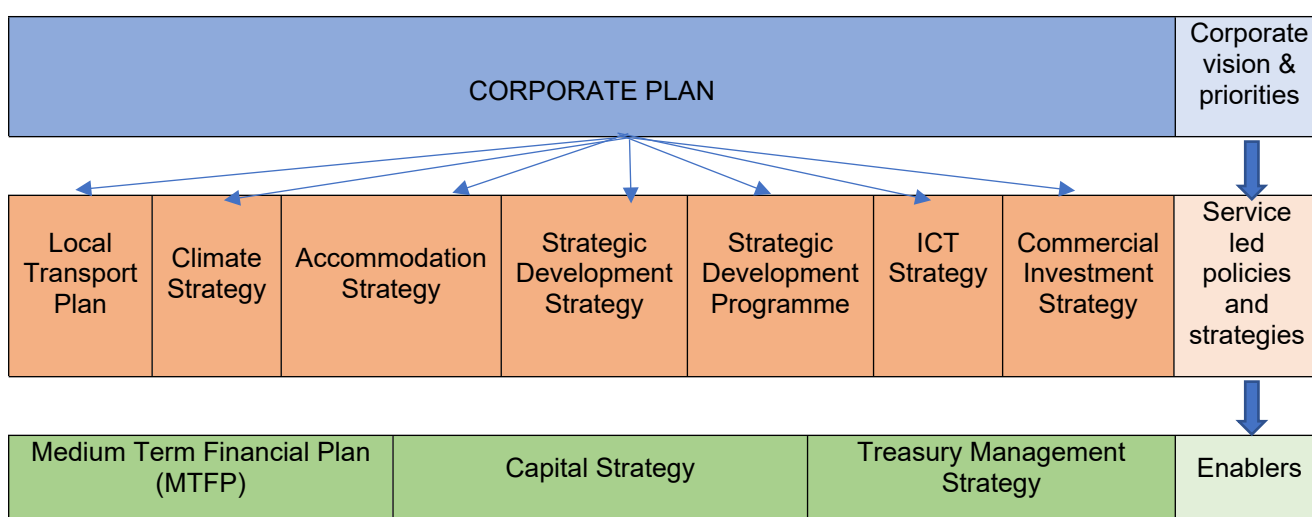
	Inherent risk score (likelihood)	Inherent risk score (impact)	Inherent risk score	Mitigations	Residual risk score (likelihood)	Residual risk score (impact)	Residual risk score
Capital delivery issues within the context of the current economic climate / rising inflation impacting on costs	5 (almost certain)	4 (severe impact on cost forecasts and funding pressures)	HIGH	Embed a culture of fully costed, evidence-based business plans prior to approval, supported by effective procurement processes	4 (likely given inflation uncertainties and timing delays between concept, approval and delivery)	4 (impact on cost pressures and funding pressures)	HIGH
Capital grants and funding streams not known / susceptible to change	5 (almost certain)	4 (important to know financial envelope before commitment made)	HIGH	Lobby government to request that funding allocations shared prior to the start of the financial year	3 (possible)	4 (important to know financial envelope before commitment made)	HIGH

9. Equality Implications

There are many aspects relating to the investment priorities within the council’s capital strategy, as well as the delivery of the individual capital projects within the overall programme, which impact on our residents, customers and other stakeholders and members of the public, and so we recognise that it is our responsibility to ensure that any investments we make through the capital budget, may need to be considered and consulted upon. There are no specific equality implications to note at this time although capital projects will be assessed at an individual level through the approvals processes.

10. Corporate Implications

The Corporate Plan and MTFP are vital tools to help align effort across the organisation and ensure that services are all are focused on delivery to agreed community and organisational priorities. With continuing financial pressures and demands for services, it is essential that the councils’ limited resources continue to be prioritised and allocated in line with the identified priorities and changes reflected within the budget where required and the Capital Strategy is an enabler to support this.



11. Options Considered

Council is required to formally approve a Capital Strategy for 2023/24 and this could be undertaken as a multi-year strategy or a stand-alone annual process. Given that the council already has an existing capital programme which covers a multi-year period an approach has been taken to review the programme and make any changes that may be required, and then to add in new projects into the programme. This ensures that spending is aligned to the latest priorities and funding levels and that governance supporting decision-making and monitoring continues to be consistently and transparently applied.

Author:

Melanie Watts, Head of Finance

E: melanie.watts@n-somerset.gov.uk

Lisa Smith, Principal Capital Accountant

E: lisa.smith@n-somerset.gov.uk

Amy Webb, Director of Corporate Services & Section 151 Officer

E: amy.webb@n-somerset.gov.uk

Amy Webb, Director of Corporate Services & Section 151 Officer

Appendices:

Appendix 1 Monitoring of the 2023/24 Capital Programme, including BSIP tracker

Appendix 2 Changes to the 2023/24 Capital Programme

Appendix 3 New items to be added into the Capital Programme

Appendix 4 Total new Capital Programme and funding

Background Papers:

Reports presented to the Executive:

- Capital & Treasury Management Strategy reports 2023/24 (February 2023),
- Budget monitoring report 2023/24 (September & October 2023)
- MTFP and Revenue Budget reports (September to December 2023)
- Banwell Bypass report, July 2023