Debt-Aware Governance for Local Authority Capital Programmes: A Public Policy Innovation Framework [1]

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Abstract

Purpose: This paper examines the integration of debt management into project governance for UK local authority capital programmes. Borrowing is positioned not solely as a finance or treasury function, but as a project, programme, and portfolio governance risk with significant implications for affordability, sustainability, and public value.

Design/methodology/approach: The paper adopts a qualitative desk review methodology, drawing on UK government policy documents, CIPFA guidance, public-sector project delivery standards, audit reports and project management literature to develop a conceptual framework.
Findings: The review identifies five key themes: capital projects function as public policy delivery mechanisms; borrowing generates long-term governance obligations; debt risk is frequently separated from project risk; inadequate benefits realisation can result in policy failure; and stage-gate governance enhances debt control.

Originality/value: This paper introduces a Debt-Aware Project Governance Framework that integrates strategic policy alignment, debt affordability, delivery risk, revenue and benefits impact, governance assurance, and portfolio-level debt exposure. The framework provides a practical governance innovation for local authorities aiming to strengthen borrowing decisions, improve project assurance, enhance accountability, and ensure that debt-funded capital programmes deliver sustainable public value. It contributes to international public policy innovation and project management practice.

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1. Introduction

1.1 Background

Local authorities in the United Kingdom use capital programmes to deliver major public policy objectives, including housing, regeneration, transport, schools, digital transformation, service improvement and environmental infrastructure. Capital investment is therefore not only a financial or technical activity; it is a practical mechanism through which councils convert policy priorities into visible outcomes for communities. The UK Government recognises that local authority capital investment is essential for economic regeneration, housing, school improvements and service transformation, while also requiring value for money and protection of taxpayers' money (Ministry of Housing, Communities and Local Government, 2021).

This role is particularly significant as public-sector projects and programmes are central to delivering economic growth, infrastructure, improved services, and sustainable outcomes. The Government Project Delivery Function Strategy 2025 affirms that projects and programmes are fundamental to improving infrastructure and services, supporting economic growth, and delivering benefits for citizens across the United Kingdom (Government Project Delivery Function, 2023). Consequently, local authority capital programmes should be regarded as public policy delivery vehicles rather than solely as construction or asset investment activities.

Many local authority capital projects are funded partly through borrowing. Since the introduction of the Prudential Framework in 2004, councils have had greater freedom to determine their own capital strategies and borrowing requirements, subject to statutory codes and professional guidance. The framework is based on local decision-making and accountability, but it depends on local authorities acting in line with the principles of prudence, affordability and sustainability (Ministry of Housing, Communities and Local Government, 2021). CIPFA similarly states that the Prudential Code is intended to ensure that local authority capital investment plans are affordable, prudent and sustainable, while supporting strategic planning, asset management and option appraisal (CIPFA, 2026).

1.2 Problem Statement

Although borrowing can enable long-term investment, it also creates long-term financial obligations. Debt-funded projects can affect future revenue budgets because borrowing costs, including interest and principal repayments, must ultimately be met from council resources. CIPFA emphasises that local authorities cannot borrow for revenue costs and that excessive borrowing can create unsustainable pressure on revenue budgets (CIPFA, 2024). This makes debt management a matter of financial sustainability, public accountability and project governance.

A key issue is that debt is frequently addressed primarily as a finance or treasury management concern, rather than as a project, programme, and portfolio governance risk. Project boards often prioritise cost, schedule, procurement, stakeholder engagement, and delivery risks, while borrowing exposure is considered separately through finance reports, treasury strategies, or capital programme updates. This separation can weaken the connection between project delivery decisions and their long-term financial consequences.

This issue is significant in the current financial environment. The National Audit Office reported in 2025 that local government funding has not kept pace with population growth, service demand, complexity of need or the rising cost of delivering services to those most in need (National Audit Office, 2025). The Public Accounts Committee also described local government finance as being in a "perilous state", noting that financial pressures have reduced councils' capacity for prevention and wider service improvement (House of Commons Committee of Public Accounts, 2025). In this context, borrowing decisions must be more clearly connected to project risk, affordability, benefits realisation, and public value.

When debt-funded projects encounter cost escalation, delays, weak business cases, unrealistic income assumptions, or inadequate benefits realisation, the consequences extend beyond project underperformance. The authority may continue to bear the debt burden even if the anticipated public value is not realised. Accordingly, this paper contends that debt should be addressed as a visible and active project governance issue throughout the project lifecycle.

1.3 Aim of the Paper

The aim of this paper is to examine how debt management can be embedded into project governance for UK local authority capital programmes.

This paper seeks to reposition debt management from a primarily treasury or finance function to a core component of project, programme, and portfolio governance. It asserts that borrowing decisions should be directly linked to project risk management, stage-gate assurance, business case approval, benefits realisation, and portfolio-level affordability.

Additionally, the paper contributes to the public policy and innovation discourse by proposing a Debt-Aware Project Governance Framework. This represents a governance innovation, distinct from technological innovation, that integrates financial sustainability, project assurance, public value, and benefits realisation into a unified, practical approach to managing debt-funded capital projects.

1.4 Research Objectives

The paper is guided by four objectives:

1. To examine how debt exposure influences the governance of UK local authority capital programmes.

2. To identify the project governance weaknesses that contribute to debt-related risks in local authority capital programmes.
3. To explore the relationship between public policy implementation, project governance and financial sustainability in debt-funded capital projects.
4. To develop a Debt-Aware Project Governance Framework for debt-funded public-sector capital projects.

1.5 Research Questions

The paper addresses the following research questions:

1. How does debt exposure affect the governance of UK local authority capital programmes?
2. What weaknesses in project governance contribute to debt-related public sector risk?
3. How can debt management be integrated into project risk, assurance and benefits realisation?
4. What governance framework can support more sustainable debt-funded public projects?

These questions support the central argument that debt is not external to project management. In debt-funded public-sector capital programmes, borrowing is part of the project's risk environment, governance structure and public value case.

2. Literature Review

2.1 Projects as Mechanisms for Public Policy Delivery

Public policy is rarely implemented through legislation alone. Governments typically rely on programmes and projects to translate policy intentions into tangible outcomes. Consequently, the effectiveness of project delivery is closely connected to policy implementation and ultimately to policy success or failure.

Gasik (2022) argues that projects serve as one of the principal mechanisms through which governments implement public policies. Public projects provide the operational means through which strategic policy objectives are transformed into infrastructure, services, regulatory interventions, and societal outcomes. Projects, therefore, act as a bridge between policy formulation and policy implementation. This perspective challenges traditional views that regard projects primarily as technical or managerial undertakings and instead positions them as instruments of governance and public administration.

Similarly, McConnell (2010) argues that policy success should be assessed not solely by policy design but also by implementation effectiveness and the achievement of intended outcomes. Policies may be conceptually sound yet fail because implementation mechanisms are ineffective. Within local government, capital projects are frequently the primary vehicles through which policy objectives such as housing delivery, regeneration, transport improvement, climate resilience, and digital transformation are realised.

The growing literature on public projects supports this position. Morris (2013) contends that projects should be understood within their broader strategic and institutional context rather than as isolated delivery exercises. Likewise, Flyvbjerg (2009) highlights how governance failures in large public projects can undermine intended policy objectives, particularly where risks, benefits and accountability are poorly managed.

From this perspective, local authority capital programmes should not be viewed merely as collections of construction or infrastructure projects. They represent policy implementation mechanisms whose success depends upon governance arrangements capable of delivering intended public outcomes. This understanding provides an important foundation for examining how borrowing decisions influence not only project performance but also policy effectiveness.

2.2 Project Governance and Public Sector Accountability

Project governance refers to the structures, processes and accountabilities through which projects are directed, controlled and assured. Effective governance ensures that projects remain aligned with strategic objectives, manage risks appropriately, and deliver expected benefits.

Müller (2009) defines project governance as the framework through which project objectives are established and achieved while balancing stakeholder interests and organisational priorities. Governance therefore extends beyond operational project management and includes oversight, assurance, accountability and decision-making processes.

Too and Weaver (2014) further argue that project governance must support strategic alignment by ensuring that projects continue to contribute to organisational and societal goals throughout their lifecycle. In public-sector environments, governance is particularly important because projects involve the use of public resources and are subject to heightened expectations regarding transparency, accountability and value for money.

Weaver (2007) emphasises that governance structures should provide independent challenge and assurance at key decision points. Such arrangements help decision-makers determine whether projects remain viable, affordable and capable of delivering expected outcomes. Effective governance therefore requires more than monitoring project schedules and budgets; it also involves assessing strategic relevance, benefits confidence and organisational risk exposure.
Within local government, governance responsibilities are further complicated by borrowing-funded investment. Decisions regarding capital projects create long-term financial commitments that may affect future service delivery and organisational sustainability. Consequently,

governance arrangements must consider not only project performance but also affordability, financial resilience and the wider implications of borrowing decisions.

This broader governance perspective supports the argument that debt exposure should be treated as a governance issue rather than solely as a treasury management concern.

2.3 Benefits Realisation and Public Value

Contemporary project management literature increasingly recognises that successful project delivery cannot be measured solely by time, cost and scope. Success also depends upon whether projects produce meaningful and sustainable benefits.

Ward and Daniel (2012) define benefits realisation as the process of organising and managing projects to ensure intended outcomes are achieved. They argue that benefits should remain central throughout the project lifecycle rather than being treated as post-project considerations.

Similarly, Jenner (2012) emphasises that benefits management provides a critical link between organisational strategy and project delivery. Projects are justified because they are expected to create value; therefore, governance arrangements should include mechanisms for tracking, measuring and reviewing benefits throughout implementation and beyond project completion.

Bradley (2010) contends that many projects fail not because they are poorly delivered but because expected benefits are not realised. This distinction is particularly important in public-sector organisations where investments are funded through taxpayers' money and borrowing commitments can extend over several decades.

The concept of public value further strengthens this argument. Moore (1995) proposes that public organisations should focus on creating value for citizens rather than simply delivering activities or outputs. Public value encompasses economic, social, environmental and democratic outcomes that contribute to societal wellbeing. Benington and Moore (2011) extend this concept by arguing that public managers must continuously demonstrate that public resources are being used in ways that generate legitimate and sustainable value.

For debt-funded local authority projects, benefits realisation and public value are particularly significant. Borrowing creates long-term financial obligations that can only be justified where projects generate meaningful public outcomes. Where expected benefits fail to materialise, authorities may continue to carry debt while communities receive limited value from the investment.

This suggests that benefits management should be viewed not only as a project management discipline but also as a mechanism to ensure that borrowing remains justified throughout the project lifecycle.

2.4 Stage-Gate Governance and Assurance

Stage-gate governance has become one of the most widely recognised approaches for controlling project investment risk. The concept originated with Cooper's (1990) Stage-Gate model, which proposed a structured sequence of review points through which projects must pass before receiving approval to proceed to the next phase.

The fundamental principle of stage-gate governance is that major investment decisions should be subject to periodic challenge, scrutiny and reassessment. At each gate, decision-makers evaluate whether a project remains strategically justified, affordable, deliverable and capable of generating the anticipated benefits.

The concept has subsequently been adopted across numerous public and private-sector project management methodologies. Within the United Kingdom public sector, stage-gate principles are evident in the Office of Government Commerce (OGC) Gateway Review Process (OGC, 2007), which provides independent assurance at critical points in project and programme lifecycles. Similar approaches can also be observed within the principles underpinning PRINCE2, HM Treasury's Five Case Model and wider government assurance frameworks.

The literature suggests that stage-gate processes improve governance by reducing the risk of commitment escalation, encouraging evidence-based decision-making and providing opportunities to reassess emerging risks. Weaver (2007) argues that independent assurance reviews can strengthen accountability and improve strategic oversight of major projects.

Despite the extensive literature on stage-gate governance, relatively little attention has been paid to the specific relationship between stage-gates and borrowing exposure. Existing approaches typically focus on project cost, schedule, procurement performance and benefits realisation. The integration of debt affordability, borrowing sustainability and portfolio-level debt exposure into stage-gate decision-making remains underdeveloped.

It is within this gap that the present study is positioned. Rather than proposing a new stage-gate methodology, the paper extends existing governance approaches by incorporating debt affordability, debt exposure and financial sustainability assessments into traditional stage-gate review processes.

2.5 Literature Gap and Contribution

The literature demonstrates that projects play a central role in public policy implementation, that governance is essential for ensuring accountability and strategic alignment, that benefits realisation is critical for achieving public value, and that stage-gate assurance provides an effective mechanism for investment oversight. However, these bodies of literature have largely developed in parallel.

Public policy scholars have examined how projects contribute to policy implementation, while project management scholars have focused on governance, benefits realisation and assurance. Financial governance literature, meanwhile, has concentrated on affordability, prudence and sustainability within public finance systems.

Limited attention has been given to integrating these perspectives into a single governance framework that explicitly recognises debt as a project, programme and portfolio risk. This is particularly evident in local authority capital programmes, where borrowing decisions, policy objectives, project delivery, benefits realisation, and public value are closely interconnected.
The contribution of this study is therefore to address this gap by proposing a Debt-Aware Project Governance Framework that integrates public policy implementation, project governance, debt affordability, benefits realisation and portfolio oversight into a unified approach to governing debt-funded local authority capital investment.

3. Policy Review

3.1 Public Policy and Local Authority Capital Finance

Local authority capital finance in the UK operates within a policy framework that seeks to balance local autonomy, public investment, affordability and accountability. Capital expenditure enables councils to invest in long-term assets and infrastructure, including housing, transport, schools, regeneration, digital systems and service transformation. Recent official statistics show that local authority capital expenditure in England provisionally totalled £29.7 billion in 2024–25, with housing and highways/transport accounting for the largest share of spending. Prudential borrowing accounted for £10.0 billion, or approximately one-third of total capital financing in that year (Ministry of Housing, Communities and Local Government, 2025).

The UK Government recognises that local authority capital investment is essential for delivering economic regeneration, housing, school improvements and service transformation. However, it also acknowledges that the capital finance system must protect value for money, safeguard taxpayers' money and prevent excessive risk within the local government finance system (Ministry of Housing, Communities and Local Government, 2021). This creates a policy tension between enabling local investment and ensuring that borrowing remains financially sustainable.

The Prudential Framework, introduced in 2004, provides the main basis for local authority borrowing. It gives councils freedom to determine their own capital strategies and borrowing requirements, but this freedom depends on robust local governance and compliance with the principles of prudence, affordability and sustainability (Ministry of Housing, Communities and Local Government, 2021). CIPFA's Prudential Code reinforces this position by stating that local authority capital investment plans should be affordable, prudent and sustainable, and should support strategic planning, asset management and proper option appraisal (CIPFA, 2026).

This financial governance context is increasingly important because local government is operating under significant fiscal pressure. The National Audit Office reported that local government funding has not kept pace with population growth, service demand, complexity of need or the cost of delivering services to those most in need (National Audit Office, 2025). The Public Accounts Committee similarly described local government finance as being in a "perilous state", noting that rising demand for statutory services has reduced the capacity of councils to invest in prevention and discretionary services (House of Commons Committee of Public Accounts, 2025). In this context, capital borrowing decisions must be understood not only as financial decisions but also as public policy decisions with long-term service and accountability implications.

3.2 Project, Programme and Portfolio Governance

Project, programme and portfolio governance provides the structure through which public-sector investment is selected, approved, monitored and evaluated. In the public sector, governance must ensure that projects remain aligned with policy objectives, deliver value for money, manage risk and realise intended benefits. The Government Project Delivery Function Strategy 2025 states that projects and programmes are fundamental to delivering economic growth, infrastructure, improved services and sustainable outcomes for citizens (Government Project Delivery Function, 2023).

The Government Functional Standard for Project Delivery, GovS 002, sets expectations for the direction and management of portfolios, programmes and projects across government. It covers governance, roles, portfolio management, programme and project management, planning, control, assurance, finance, risk management and benefits management (Government Project Delivery and Cabinet Office, 2025). Although primarily designed for central government and arm's-length bodies, it provides a useful reference point for local public-sector organisations because local authority capital programmes also involve complex policy, financial and delivery risks. Business case approval is a central part of project governance. HM Treasury's Green Book provides guidance on appraising policies, programmes and projects by assessing costs, benefits and risks, and it uses the five-case model as the recommended framework for developing public-sector business cases (HM Treasury, 2026). The 2025 Green Book Review further emphasised the importance of place-based investment, transformational change, non-monetisable benefits and improved appraisal of public value (HM Treasury, 2025). This is directly relevant to local authority capital programmes, many of which seek to deliver place-based outcomes such as regeneration, housing, transport connectivity and service improvement.

Effective governance also requires stage-gate reviews, risk management, assurance and benefits realisation. These mechanisms allow decision-makers to test whether projects remain affordable, deliverable, and aligned with policy objectives before making further commitments. The Infrastructure and Projects Authority's Annual Report 2023–24 highlights the continuing importance of transparency, delivery confidence and professional capability in major public projects (Infrastructure and Projects Authority, 2025). For debt-funded local authority projects, these governance disciplines should include explicit consideration of borrowing exposure, affordability, and confidence in benefits.

3.3 Debt as a Project and Programme Risk

A central argument of this paper is that debt should be treated as a project, programme and portfolio risk, rather than only as a finance or treasury issue. Traditional project risk management often focuses on delivery risks such as cost overruns, delays, procurement failures, contractor performance issues, stakeholder opposition, and scope changes. However, in debt-funded capital programmes, these risks can translate directly into financial exposure.

For example, cost overruns may increase borrowing requirements, delays may defer expected income or savings, and weak demand forecasts may undermine the assumptions used to justify repayment. CIPFA emphasises that local authorities must recognise the relationship between capital and revenue because borrowing costs, including interest and principal repayments, must be funded from revenue budgets. Excessive borrowing can therefore create unsustainable pressure on council finances (CIPFA, 2024).

The National Audit Office's review of local authority commercial property investment illustrates the risks of borrowing-funded investment. It found that commercial property acquisition could support income generation and regeneration, but that the scale of investment, concentration among some authorities and use of borrowing created financial sustainability and value-for-money risks (National Audit Office, 2020). This evidence supports the view that debt exposure should be integrated into project and portfolio risk management, particularly where projects depend on future income, asset performance or market conditions.

Debt risk may also arise from weak business cases, unrealistic income forecasts, interest rate changes, political pressure, procurement problems, and poor benefits realisation. These risks are not separate from project delivery; they are shaped by project decisions and the quality of governance. Therefore, debt-funded projects should include debt-related indicators in risk registers, programme dashboards, stage-gate reviews and portfolio reports.

3.4 Public Policy Innovation

The innovation proposed in this paper is a form of governance innovation. It does not depend on new technology. Rather, it involves a new way of integrating financial risk management, project governance, public value, benefits realisation and portfolio-level decision-making.

A debt-aware governance approach would treat borrowing exposure as an active project risk throughout the project lifecycle. This aligns with the Government Project Delivery Function Strategy's emphasis on investing wisely, delivering efficiently and achieving sustainable outcomes and benefits for citizens (Government Project Delivery Function, 2023). It also aligns with GovS 002, which positions finance, governance, assurance, risk management and benefits management as integral parts of effective project delivery (Government Project Delivery and Cabinet Office, 2025).

The need for this innovation is strengthened by the current local government financial environment. The NAO has reported systemic weaknesses in the financial sustainability of local government, while the Public Accounts Committee has highlighted severe pressures on council finances (National Audit Office, 2025; House of Commons Committee of Public Accounts, 2025). In such a context, capital borrowing decisions must be more clearly linked to project deliverability, affordability, benefits confidence, and long-term public value.

The proposed debt-aware approach therefore contributes to both public policy and project management. It supports more responsible borrowing, stronger project assurance, clearer accountability and better alignment between capital investment and public outcomes.

4. Methodology

4.1 Research Design

This paper adopts a documentary review research approach. The study reviews existing sources rather than collecting primary data through interviews, surveys or observation. This approach is appropriate because the subject of debt-aware project governance in UK local authority capital programmes is strongly grounded in public policy documents, professional guidance, audit reports, project delivery standards and academic literature.

The study examines secondary sources including UK Government policy documents on local authority capital finance, CIPFA guidance on prudential borrowing and treasury management, public-sector project delivery strategies, National Audit Office reports, Public Accounts Committee reports, HM Treasury appraisal guidance and relevant project management literature. The purpose is not simply to summarise these documents, but to interpret how they collectively frame the relationship between borrowing, project governance, public value, financial sustainability, assurance and benefits realisation.

A qualitative approach is suitable because the paper seeks to develop a conceptual understanding of debt as a governance risk across projects, programmes and portfolios. Qualitative research is useful where the aim is to interpret relationships, meanings and patterns within complex policy and organisational settings (Creswell and Creswell, 2018). Documentary review is also appropriate because policy documents and professional standards provide evidence of institutional expectations, governance principles and recognised good practice. Bowen (2009) describes document analysis as a systematic procedure for reviewing and evaluating documents in order to generate understanding and empirical knowledge.

4.2 Justification for Methodology

A desk review is suitable for this study for four main reasons. First, the topic is policy-based. Local authority borrowing is shaped by legislation, government policy, statutory guidance and professional codes. The Prudential Framework gives local authorities the freedom to determine capital strategies and borrowing requirements, but it depends on the principles of prudence, affordability and sustainability (Ministry of Housing, Communities and Local Government, 2021). Second, much of the relevant evidence is publicly available. Government publications, CIPFA guidance, NAO reports, parliamentary committee reports, and project delivery standards provide a strong documentary evidence base. CIPFA's advisory note on local authority borrowing reinforces the importance of good practice in external borrowing and highlights the need for borrowing to remain affordable, proportionate, prudent and sustainable (CIPFA, 2024).

Third, a desk review allows comparison across public policy, finance and project management sources. This is important because the paper is interdisciplinary. It connects capital finance, treasury management, project governance, risk management, public value and benefits realisation. A desk review allows the paper to identify where these fields align and where integration is currently weak.

Fourth, the method supports the development of conceptual frameworks. The aim of the paper is to propose a Debt-Aware Project Governance Framework, and literature-based reviews are suitable for identifying themes, relationships and gaps across existing knowledge (Snyder, 2019). Therefore, the desk review provides a defensible basis for developing a practical framework for local authority capital programmes.

4.3 Data Sources

The study draws on seven categories of secondary sources.

First, it reviews UK Government policy documents on local authority capital finance, including material on the Prudential Framework, capital finance reform and local authority capital expenditure. These sources explain the policy rationale for local capital investment and the principles of affordability, prudence and sustainability.

Second, it reviews CIPFA guidance on prudential borrowing, treasury management and good financial governance. CIPFA is central to local government financial management in the UK, and its guidance provides professional expectations for responsible borrowing and sustainable capital planning.

Third, the study examines public-sector project delivery strategies and standards, including the Government Project Delivery Function Strategy and GovS 002: Project Delivery. These documents provide expectations for governance, risk management, assurance, finance, benefits management and portfolio control in public-sector projects.

Fourth, the study considers audit and parliamentary scrutiny reports, particularly those from the National Audit Office and the Public Accounts Committee. These sources provide independent evidence on financial sustainability, value for money and risks in local government.

Fifth, it reviews HM Treasury appraisal and business case guidance, particularly the Green Book and related guidance. These sources are relevant because debt-funded projects should be assessed in terms of costs, benefits, risks, affordability, and public value.

Sixth, the study draws on academic and professional project management literature, including project governance, portfolio management, risk management, benefits realisation, and public value.

Seventh, where relevant, the study considers selected local authority capital strategies, treasury management strategies and investment reports to understand how borrowing and capital risks are presented in practice.

4.4 Search Strategy

A structured literature and document search was undertaken to identify relevant academic, professional and policy sources relating to public policy implementation, project governance, debt management and local authority capital finance. The review adopted an interdisciplinary approach because the research topic sits at the intersection of public policy, project management and public financial governance.

Academic literature was identified through searches of Scopus, Web of Science and Google Scholar. Public policy, government and professional practice documents were identified through searches of UK Government repositories, HM Treasury publications, CIPFA guidance, National Audit Office reports, Parliamentary Committee publications and project management professional bodies.

The search was conducted using combinations of the following keywords:

- project governance;
- public policy implementation;
- public projects;
- project benefits realisation;
- benefits management;
- public value;
- project assurance;
- stage-gate governance;
- gateway reviews;
- local authority borrowing;
- capital finance governance;
- prudential borrowing;
- financial sustainability;
- portfolio governance;
- Local government capital programmes.

The review primarily focused on sources published between 2000 and 2026 to capture contemporary thinking in public policy, project governance, and public-sector financial management. However, earlier seminal works were included where they were regarded as foundational to the field, such as Cooper's (1990) work on Stage-Gate governance and Moore's (1995) work on public value.

4.5 Inclusion and Selection Criteria

Documents were purposively selected based on their relevance to the research objectives and questions. A source was included where it met one or more of the following criteria:

- addressed public policy implementation through projects or programmes;
- examined project, programme or portfolio governance;
- discussed benefits realisation, public value or project assurance;
- considered debt management, public borrowing or financial sustainability;
- related to UK local authority capital finance, treasury management or the Prudential Framework;
- provided evidence on governance, accountability or public-sector decision-making;
- was published by a recognised academic, governmental or professional body.

Priority was given to:

- peer-reviewed academic publications;
- highly cited scholarly works;
- recognised texts within project management and public policy literature;
- UK Government policy documents;
- HM Treasury guidance;
- CIPFA publications;
- National Audit Office reports;
- Parliamentary Committee reports;
- Professional project management standards and guidance.

Documents were excluded where they:

- lacked relevance to the research questions;
- focused primarily on private-sector financial management without wider governance implications;
- were promotional or commercial publications;
- Duplicated findings are available in more authoritative sources.

The final source selection sought to balance academic literature with policy and practice-based evidence. This approach was considered appropriate because the study examines a practical governance problem situated within a highly regulated public-sector environment. Combining academic scholarship with government, audit, and professional guidance enabled the review to identify both theoretical perspectives and contemporary governance expectations regarding debt-funded capital programmes.

4.6 Limitations

The study has limitations. First, it relies on secondary data. Although official reports, policy documents and professional guidance are authoritative, they do not reveal all aspects of local authority decision-making. Internal business cases, risk registers, project board discussions and commercially sensitive information may not be publicly available.

Second, the study does not include primary interviews with project managers, finance officers, elected members, auditors or treasury specialists. As a result, it cannot directly test how practitioners currently understand or manage debt-related project risk.

Third, local authority practice varies across the UK. Councils differ in size, financial capacity, political priorities, asset base, borrowing levels and project delivery capability. Therefore, the findings should be interpreted as a conceptual contribution rather than a universal description of practice.

Fourth, the proposed Debt-Aware Project Governance Framework has not yet been empirically tested. Future research could apply the framework to case studies of local authority capital projects or test it through interviews with project and finance professionals.

Despite these limitations, the desk review methodology is appropriate for this paper. It provides a structured basis for analysing current policy and professional guidance, identifying gaps between debt management and project governance, and developing a practical framework for debt-aware capital programme delivery.

5. Findings

The documentary review identified five interconnected findings across the academic literature, government policy documents, professional guidance and audit reports. Rather than presenting entirely new concepts, the review confirms several established themes in the public policy and project governance literature while identifying an important gap in the integration of debt management into project governance arrangements.

5.1 Capital Projects as Public Policy Delivery Mechanisms

A consistent theme within the literature is that projects serve as mechanisms through which governments implement public policy objectives. Gasik (2022) argues that projects provide the operational means by which policy intentions are translated into tangible outcomes and public services. Similarly, McConnell (2010) suggests that policy success is closely linked to implementation effectiveness, meaning that the projects and programmes used to deliver policy are critical determinants of whether intended outcomes are achieved.

This understanding is reflected within contemporary UK public-sector practice. The Government Project Delivery Function Strategy identifies projects and programmes as central instruments for delivering economic growth, infrastructure improvement, public services and wider public benefits. Likewise, the Ministry of Housing, Communities and Local Government (2021) recognises local authority capital investment as a means of delivering housing, regeneration, school improvements and service transformation.

Taken together, these sources indicate that local authority capital projects perform a broader role than simply delivering assets or infrastructure. They function as mechanisms through which councils implement public policy objectives and create public value.

Consistent with the existing literature (Gasik, 2022), the review therefore confirms that local authority capital projects function as public policy delivery mechanisms. However, the review further identifies that debt governance remains insufficiently integrated into this policy-delivery function, despite borrowing often being fundamental to project delivery.

5.2 Borrowing Creates Long-Term Governance Obligations

The literature on local authority finance consistently emphasises that borrowing decisions create financial commitments extending well beyond project completion. CIPFA (2024) notes that borrowing costs, including interest and principal repayments, must ultimately be financed from future revenue. Similarly, the Prudential Framework requires local authority borrowing to remain affordable, prudent and sustainable over the long term (MHCLG, 2021).

Recent evidence from the National Audit Office (2025) and the Public Accounts Committee (2025) highlights increasing financial pressures across local government. Rising service demand, constrained funding and growing expenditure commitments have reduced financial flexibility and increased the importance of robust capital investment decision-making.

The literature therefore suggests that borrowing should not be regarded as a one-off financing decision made at project approval. Instead, borrowing creates continuing obligations that influence future revenue budgets, financial resilience, service sustainability and organisational decision-making.

The review indicates that borrowing creates long-term governance obligations that extend throughout the project lifecycle and often beyond it. Consequently, debt should be considered not merely as a treasury management issue but as an ongoing governance responsibility requiring continuous oversight and scrutiny.

5.3 Debt Risk Is Frequently Managed Separately from Project Risk

The review identified a distinction between the governance frameworks used to manage project delivery and those used to manage borrowing. CIPFA guidance places considerable emphasis on borrowing affordability, treasury management and financial sustainability, whereas project governance standards such as GovS 002 focus on project assurance, risk management, governance, delivery and benefits realisation.

Although both disciplines seek to protect organisational value and manage uncertainty, they are often administered through separate organisational structures. Finance teams typically monitor borrowing levels, debt affordability and treasury indicators, while project boards focus on scope, schedule, procurement, delivery and stakeholder risks.

The literature suggests that this separation may create governance blind spots. Risks commonly managed within projects—such as cost escalation, procurement delays, planning issues, contractor performance problems and under-delivered benefits—can directly affect borrowing requirements and financial sustainability. Similarly, borrowing assumptions often depend upon future project performance, income generation or benefit delivery.

The National Audit Office's examination of local authority commercial property investment illustrates this challenge, demonstrating how borrowing-funded initiatives can generate financial sustainability risks where governance and oversight arrangements are insufficiently integrated. The review therefore finds that debt risk and project risk are frequently managed through parallel governance arrangements rather than through a unified governance framework. This separation can weaken organisational understanding of how project performance influences debt exposure and financial sustainability.

5.4 Weak Benefits Realisation Can Convert Borrowing into Policy Failure

The literature consistently identifies benefits realisation as a critical determinant of project success. HM Treasury's Green Book requires public investment decisions to be justified by expected benefits, costs, and risks. Likewise, Ward and Daniel (2012) argue that projects should be evaluated according to whether intended benefits are realised rather than solely whether outputs are delivered.

Within the public policy literature, McConnell (2010) highlights the distinction between implementation activity and policy success. Policies may be implemented through projects and programmes, yet still fail if intended outcomes are not achieved. Similarly, Moore (1995) argues that public investment should ultimately be assessed according to the public value it creates.

For local authority capital programmes, expected benefits may include housing provision, regeneration, service improvement, environmental outcomes, efficiency savings or income generation. These benefits often form part of the justification for borrowing. Where anticipated benefits fail to materialise, the rationale underpinning the borrowing decision may be weakened. This issue is particularly significant because debt obligations typically remain irrespective of project outcomes. A council may therefore continue servicing debt associated with a project that delivered fewer benefits than originally anticipated.

The review suggests that weak benefits realisation can transform a debt-funded project from a policy intervention into a policy failure. Consequently, benefits management should be regarded as a critical component of debt governance, rather than as a separate post-implementation activity.

5.5 Existing Stage-Gate Governance Could Be Strengthened Through Debt Integration

Stage-gate governance is well established within both project management and public-sector assurance literature. Cooper (1990) introduced the Stage-Gate model as a structured process through which projects are periodically reviewed before further investment commitments are made. Similar principles underpin the UK Government's Gateway Review Process and related assurance frameworks (OGC, 2007).

The literature associates stage-gate approaches with stronger governance, improved accountability, enhanced risk management and better-informed investment decisions. GovS 002 similarly emphasises governance, assurance, risk management, finance and benefits management as core elements of effective project delivery.

However, the review identified relatively limited attention to borrowing exposure within existing stage-gate decision-making processes. Gateway reviews typically assess strategic alignment, deliverability, procurement arrangements, project risks and expected benefits. Explicit assessment of debt affordability, borrowing sustainability and cumulative portfolio debt exposure receives comparatively less attention.

Given the scale of borrowing associated with many local authority capital programmes, this omission may limit decision-makers' ability to fully understand the long-term financial implications of continuing investment.

The review therefore confirms the value of stage-gate governance but identifies an opportunity to strengthen existing assurance approaches by systematically including debt affordability, borrowing exposure, benefits confidence, and portfolio-level financial sustainability assessments at each gateway decision point.

5.6 Summary of Findings

The reviewed literature consistently links projects to public policy implementation, borrowing to long-term financial accountability, benefits realisation to public value creation and stage-gate governance to project assurance and oversight. Analysis of these sources suggests five interconnected findings.

First, local authority capital projects function as public policy delivery mechanisms. Second, borrowing creates long-term governance obligations that extend beyond project approval. Third, debt-related risks are frequently managed separately from project risks. Fourth, weak benefits realisation can undermine both project success and policy outcomes while leaving debt obligations intact. Fifth, established stage-gate governance arrangements could be strengthened through more explicit consideration of debt affordability, borrowing exposure and financial sustainability.

Collectively, these findings identify a gap at the intersection of public policy, project governance and financial management. While each discipline recognises important elements of accountability and value creation, the integration of debt governance into project governance remains underdeveloped. This gap provides the basis for the Debt-Aware Project Governance Framework presented in the following section.

6. Discussion

This section interprets the findings from the desk review and links them to the wider themes of public policy, project governance and innovation. The central argument is that debt-funded local authority capital projects should not be governed only through finance and treasury processes. Instead, debt should be treated as a core project, programme and portfolio governance issue because borrowing affects affordability, risk exposure, benefits realisation, public value and long-term service sustainability.

6,1 Reframing Debt as a Project Governance Issue

The desk review suggests that debt should be made more visible within the governance structures used to manage local authority capital programmes. Borrowing is often approved and monitored through finance, treasury and capital strategy processes. However, the risks affecting debt affordability are often generated within the project environment itself. Cost escalation, delays, procurement failures, weak demand assumptions, and poor benefits realisation can all affect the borrowing requirement and the authority's ability to justify the debt over time.

This means that debt should be included in project risk registers. A debt-funded project risk register should include risks relating to time, cost, scope, and procurement, as well as borrowing exposure, interest-rate sensitivity, income dependency, repayment affordability, and benefits confidence. This would help project boards understand the financial consequences of delivery risks.

Debt should also be visible in programme dashboards. Programme boards need regular information on approved borrowing, forecast borrowing, cost variance, debt-servicing implications, income assumptions, and benefits confidence. This would enable finance and delivery risks to be considered together rather than in separate reporting systems.

At the portfolio board level, cumulative debt exposure should be monitored across the whole capital programme. This is important because debt risk is not only project-specific; it can accumulate across multiple projects. Local authority statistics show that prudential borrowing amounted to £10.0 billion, or around one-third of capital financing in England in 2024–25, underscoring the importance of portfolio-level oversight of borrowing exposure (Ministry of Housing, Communities and Local Government, 2025).

Debt should also be embedded in business cases. HM Treasury's Green Book requires public bodies to assess the costs, benefits and risks of policies, programmes and projects, recommending the five-case model for business case development (HM Treasury, 2026). For debt-funded projects, this means that the financial case should include realistic affordability testing, sensitivity analysis and clear links between borrowing and expected benefits.

Finally, debt should be reviewed through benefits realisation plans and assurance reviews. If the benefits that justified borrowing are delayed, reduced or not achieved, the project's debt rationale is weakened. GovS 002 identifies finance, governance, risk management, assurance and benefits management as core parts of effective project delivery, supporting the argument that debt should be integrated into project governance rather than treated separately (Government Project Delivery and Cabinet Office, 2025).

6.2 Public Policy Implications

The public policy implications of poor debt governance are significant. Local authority capital projects are used to deliver public outcomes such as housing, regeneration, transport improvement, environmental infrastructure and service transformation. If these projects are poorly governed, the consequences may extend beyond project failure and affect wider public value.

First, poor debt governance can affect service delivery. Borrowing creates future repayment obligations, and these costs must be met from council resources. CIPFA warns that excessive borrowing can create unsustainable pressure on revenue budgets because authorities must repay both interest and principal from future income (CIPFA, 2024). In a context where local government finances are already under strain, additional debt pressure can reduce flexibility to fund services.

Second, weak debt governance may create pressure on council tax and the budget. If a project costs more than expected, generates less income than forecast or fails to deliver savings, the authority may need to absorb the financial impact through its wider budget. The National Audit Office reported in 2025 that local government funding has not kept pace with service demand, complexity of need or delivery costs, making weak borrowing decisions especially risky (National Audit Office, 2025).

Third, poor debt governance can damage public trust. Local residents expect councils to manage public money responsibly. Where debt-funded projects underperform, overspend or fail to deliver promised outcomes, confidence in local decision-making may be weakened. This is particularly important because the Prudential Framework depends on local accountability, robust governance, and adherence to the principles of affordability, prudence, and sustainability (Ministry of Housing, Communities and Local Government, 2021).

Fourth, debt governance affects future investment capacity. If councils commit too much borrowing to projects with weak benefits or high delivery risk, they may reduce their ability to invest in future priorities. The Public Accounts Committee has described local government finance as being in a "perilous state", highlighting the importance of stronger financial decision-making and long-term sustainability (House of Commons Committee of Public Accounts, 2025). Finally, debt governance raises issues of intergenerational fairness and value for money. Borrowing can be justified where future residents benefit from long-term assets or improved services. However, where projects fail to deliver expected benefits, future taxpayers may inherit the cost without receiving the intended public value. Debt-aware governance is therefore important for ensuring that capital investment is fair, transparent and sustainable.

6.3 Innovation Contribution

The innovation contribution of this paper is the proposed integration of financial risk management, project governance, public value, benefits realisation and portfolio-level decision-making. This is a form of governance innovation rather than technological innovation.

The proposed approach is innovative because it reframes debt as part of the project environment. In traditional practice, borrowing may be treated mainly as a finance issue, while project teams focus on delivery. A debt-aware governance model brings these areas together by ensuring that debt affordability, project risk, and confidence in benefits are reviewed throughout the project lifecycle.

This approach aligns with current public-sector project delivery thinking. The Government Project Delivery Function Strategy 2025 emphasises the importance of investing wisely, delivering efficiently and achieving sustainable benefits for citizens (Government Project Delivery Function, 2023). It also aligns with GovS 002, which promotes coherent governance, risk management, assurance, finance and benefits management across portfolios, programmes and projects (Government Project Delivery and Cabinet Office, 2025).

The innovation also supports public value. HM Treasury's 2025 Green Book Review emphasised the importance of place-based investment, transformational change and better appraisal of wider public benefits (HM Treasury, 2025). A debt-aware approach supports this by asking whether borrowing is not only affordable but also justified by the public outcomes it is expected to deliver. In practical terms, the innovation lies in connecting five areas that are often managed separately:

- financial risk management, through affordability testing and sensitivity analysis;
- project governance, through risk registers, stage-gates and assurance reviews;
- public value, through alignment with policy priorities and community outcomes;
- benefits realisation, through active tracking of savings, income and service improvements;
- Portfolio-level decision-making, through oversight of cumulative borrowing exposure.

This integrated approach can help local authorities make better decisions about which projects to approve, continue, pause, re-scope or cancel. It also strengthens the role of project managers by showing that debt is not external to project management. In debt-funded public-sector projects, debt is part of the project's governance structure, risk environment and benefits case.

This discussion has argued that debt should be visible in project risk registers, programme dashboards, portfolio boards, business cases, benefits realisation plans and assurance reviews. Poor debt governance can affect service delivery, council tax pressure, public trust, future investment capacity, intergenerational fairness and value for money. The paper's innovation contribution is the integration of financial risk management, project governance, public value, benefits realisation and portfolio-level decision-making into a single debt-aware governance approach.

This provides the foundation for the next section, which presents the proposed Debt-Aware Project Governance Framework.

7. Proposed Framework: Debt-Aware Project Governance Framework

This section presents the paper's main original contribution: a Debt-Aware Project Governance Framework for UK local authority capital programmes. The framework is designed to integrate debt management, project governance, public value, financial sustainability, assurance, and benefits realisation into a single practical approach. It responds to the central finding of this paper: that debt-funded capital projects should not be governed solely by finance and treasury processes, but by a wider project, programme and portfolio governance system.

The framework builds on existing principles in local authority capital finance and public-sector project delivery. The Prudential Framework expects local authority capital investment to remain prudent, affordable and sustainable, while public-sector project delivery standards emphasise governance, assurance, risk management, finance and benefits management (Ministry of Housing, Communities and Local Government, 2021; Government Project Delivery and Cabinet Office, 2025). The proposed framework does not replace existing guidance. Instead, it connects financial governance and project governance more explicitly, making debt exposure visible throughout the project lifecycle.

7.1 Purpose of the Framework

The purpose of the Debt-Aware Project Governance Framework is to help local authorities assess whether debt-funded projects remain:

- affordable;
- prudent;
- sustainable;
- deliverable;
- aligned with public policy priorities;

- Capable of delivering public value.

Borrowing is not simply a financing mechanism. It creates long-term obligations that may affect future revenue budgets, service sustainability and financial flexibility. CIPFA emphasises that local authorities must recognise the relationship between capital and revenue, as borrowing costs, including interest and principal repayments, must be funded from revenue (CIPFA, 2024). Therefore, when a local authority approves a debt-funded project, it also creates a continuing governance responsibility.

The framework is intended to support project managers, finance officers, treasury teams, senior responsible owners, programme boards, portfolio boards and elected members. It encourages these groups to ask six core questions throughout the project lifecycle:

1. Is the project still strategically necessary?
2. Is the borrowing still affordable?
3. Are delivery risks being actively managed?
4. Are expected benefits still realistic?
5. Are governance and assurance arrangements strong enough?
6. How does the project affect the authority’s wider borrowing position?

These questions connect the financial principles of the Prudential Framework with project management disciplines such as business case approval, risk management, benefits realisation and stage-gate assurance.

7.2 Framework Components

The framework is structured around six dimensions.

7.2.1 Strategic Policy Alignment

The first dimension asks whether the project supports a clear and current public policy objective. Local authority capital projects should be linked to identifiable priorities such as housing, regeneration, transport, climate response, service transformation or digital improvement. The UK Government recognises that local authority capital investment supports economic regeneration, housing, school improvements and service transformation (Ministry of Housing, Communities and Local Government, 2021).

A debt-funded project should therefore demonstrate:

- the policy problem it addresses;
- the evidence of local need;
- its alignment with council strategy and capital plans;
- the public value it is expected to create;

- Why is borrowing justified as the financing route?

This dimension helps ensure that borrowing is used to support genuine public policy outcomes rather than projects with weak strategic justification.

7.2.2 Debt Affordability

The second dimension asks whether the authority can afford the borrowing under realistic scenarios. Debt affordability should not be assessed only under optimistic assumptions. It should be tested against changes in interest rates, inflation, construction costs, delivery timescales, income forecasts and revenue budget pressures.

CIPFA states that local authority capital expenditure and investment plans should be affordable and proportionate, and that external borrowing should remain within prudent and sustainable levels (CIPFA, 2024). This means that debt affordability should consider:

- total borrowing requirement;
- timing and profile of borrowing;
- interest and repayment costs;
- impact on revenue budgets;
- sensitivity to cost escalation;
- sensitivity to delayed income or savings;
- Interaction with other capital commitments.

Affordability should be reassessed as the project develops, especially where costs rise or expected benefits weaken.

7.2.3 Project Delivery Risk

The third dimension asks whether project delivery risks are properly understood and managed. Debt-funded projects face typical delivery risks, including delays, procurement failures, scope changes, inflation, planning issues, contractor performance issues, and stakeholder opposition. However, these risks also have financial consequences, as they may increase borrowing, delay benefits, or weaken the value-for-money case.

GovS 002 identifies governance, finance, risk and issue management, procurement, planning, assurance and benefits management as important project delivery disciplines (Government Project Delivery and Cabinet Office, 2025). A debt-aware approach therefore requires project risk registers to show the financial impact of delivery risks. For example, a delay should be assessed not only as a time risk, but also as a potential debt-servicing, income-delay and benefits-realisation risk.

7.2.4 Revenue and Benefits Impact

The fourth dimension asks whether the project will deliver the expected savings, income, service improvements or wider public value. This is central to debt-aware governance because benefits justify borrowing. If benefits are not realised, the authority may retain the debt burden without achieving the intended policy outcome.

HM Treasury's Green Book requires public bodies to assess the costs, benefits and risks of policies, programmes and projects, and supports the five-case model for business case development (HM Treasury, 2026). For local authorities, relevant benefits may include improved housing supply, regeneration, reduced carbon emissions, better access to services, income generation, efficiency savings, or social value.

Each debt-funded project should therefore have:

- a clear benefits realisation plan;
- named benefits owners;
- baseline measures;
- target outcomes;
- benefit delivery dates;
- Escalation points where benefits weaken.

This ensures that borrowing remains connected to measurable public value.

7.2.5 Governance and Assurance

The fifth dimension asks whether governance, scrutiny and assurance arrangements are strong enough. Debt-funded projects should have clear decision rights, finance input, project ownership, elected member scrutiny and escalation routes.

The Prudential Framework relies on robust local decision-making and governance, while GovS 002 sets expectations for the direction and management of portfolios, programmes and projects (Ministry of Housing, Communities and Local Government, 2021; Government Project Delivery and Cabinet Office, 2025). Governance arrangements should therefore include:

- a named senior responsible owner;
- finance and treasury representation;
- stage-gate reviews;
- independent assurance where appropriate;
- clear reporting to programme and portfolio boards;
- Escalation triggers for cost, debt and benefits variance.

This dimension ensures that debt-related risks are not hidden within technical finance reports but are visible in project decision-making.

7,2.6 Portfolio-Level Debt Exposure

The sixth dimension asks how the project affects the authority's wider borrowing position. Debt risk is cumulative. A single project may appear affordable, but several projects together may create significant exposure.

Recent statistics show that prudential borrowing accounted for £10.0 billion, or 33%, of local authority capital financing in England in 2024–25, with £9.5 billion forecast for 2025–26 (Ministry of Housing, Communities and Local Government, 2025). This underlines the need for portfolio-level oversight.

Portfolio boards should monitor:

- total approved borrowing;
- forecast borrowing;
- debt servicing costs;
- exposure by project type;
- income-dependent schemes;
- borrowing headroom;
- cumulative impact on the medium-term financial strategy.

This helps authorities prioritise, sequence, pause, or re-scope projects when affordability or confidence in benefits weakens.

7.3 Suggested Stage-Gate Model

The five-stage gate model proposed in this paper builds upon established stage-gate and gateway review approaches widely used in project management and public-sector assurance. The concept of staged investment decision-making originated with Cooper's (1990) Stage-Gate model and has subsequently been incorporated into public-sector governance through mechanisms such as the OGC Gateway Review Process (OGC, 2007). The purpose of the model presented here is not to replace these established approaches but to extend them by embedding debt affordability, borrowing exposure, financial sustainability and benefits confidence within gateway decision-making. To operationalise the framework, this paper proposes a five-stage debt-aware gate model.

Gate 1: Policy Need and Strategic Case

This gate tests whether the project addresses a genuine policy need. The authority should confirm the problem being addressed, evidence of need, strategic alignment, expected public value and whether a capital project is the right response. Borrowing should not be approved at this stage; the purpose is to decide whether the project is worth developing.

Gate 2: Outline Business Case and Borrowing Assumptions

This gate tests the outline business case. The authority should review indicative costs, possible borrowing requirements, funding sources, expected benefits, revenue implications and early risks. Sensitivity analysis should begin at this stage to test whether the project remains credible under less favourable assumptions.

Gate 3: Full Business Case and Debt Affordability Test

This is the main approval gate. The full business case should confirm costs, procurement approach, borrowing requirement, repayment implications, risks, benefits and governance arrangements. Approval should depend on a clear debt affordability test, including base-case, downside and stress-case scenarios. HM Treasury's Green Book supports structured appraisal of costs, benefits and risks, making this gate essential for public investment decisions (HM Treasury, 2026).

Gate 4: Delivery Monitoring and Debt Risk Review

This gate operates during delivery. The project board should monitor cost changes, borrowing movements, procurement risks, delivery milestones, confidence in benefits, and revenue implications. If the project moves beyond the agreed cost, debt, or benefits tolerances, it should be escalated for review, reapproval, re-scoping, or potential pause.

Gate 5: Post-Implementation Benefits and Debt Impact Review

This final gate assesses whether the project delivered its intended benefits and whether the debt impact remains justified. The review should compare the final cost, final borrowing, debt-servicing implications, revenue impact, and actual benefits against the approved business case. This supports learning and strengthens governance of the future capital programme.

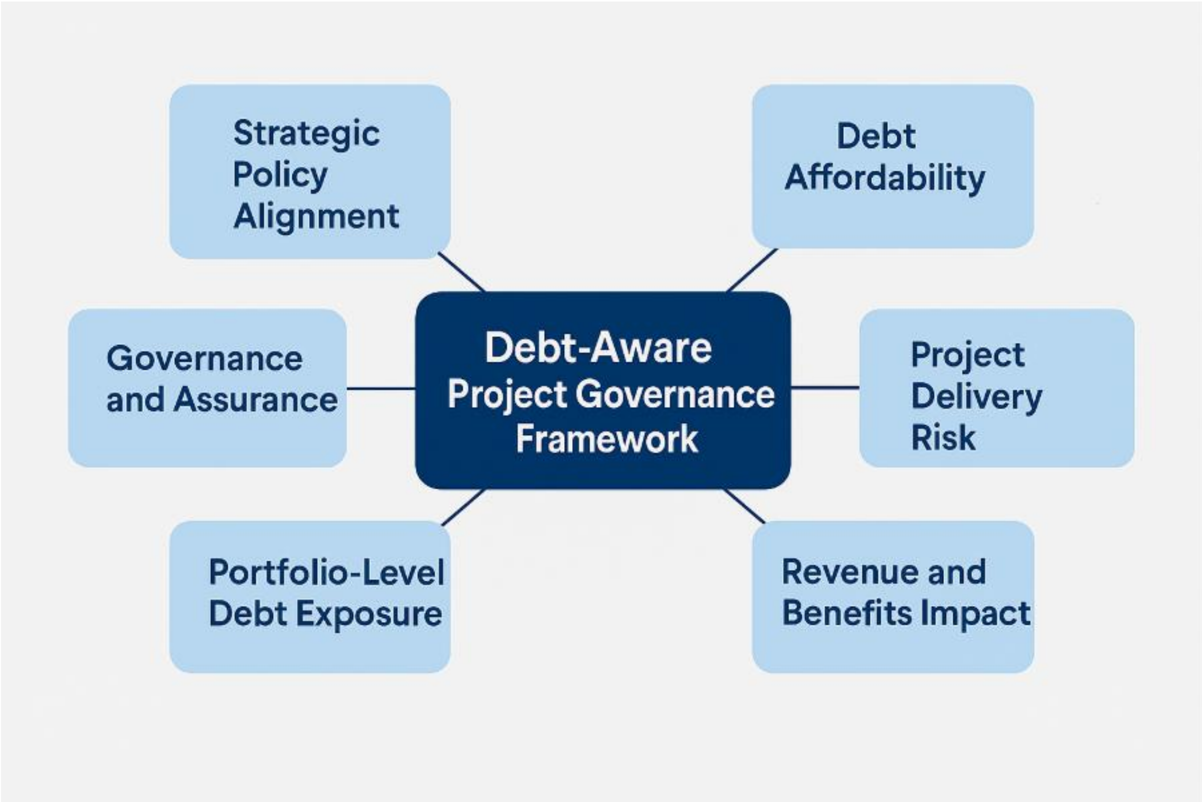

Figure 7.1 The Debt-Aware Project Governance Framework

7.2.8 Summary

The Debt-Aware Project Governance Framework integrates six dimensions: strategic policy alignment, debt affordability, project delivery risk, revenue and benefits impact, governance and assurance, and portfolio-level debt exposure. The five-stage gate model translates these dimensions into a practical process for project approval, delivery and review.

Its central contribution is to make debt visible throughout the project lifecycle. This helps local authorities move from treating borrowing mainly as a finance issue to governing it as part of project risk, benefits realisation, public value and long-term financial sustainability.

8. Implications for Project Management Practice

This paper contributes to project management practice by arguing that debt should be treated as part of the project environment, rather than as an external finance issue. In debt-funded local authority capital programmes, borrowing shapes the project's affordability, governance, risk exposure, benefits case and long-term public value. Therefore, project managers, programme boards and portfolio leaders need to understand how debt interacts with project delivery.

8.1 Debt as a Project Risk

Traditional project risk management often focuses on time, cost, scope, quality, procurement, stakeholders and delivery uncertainty. However, this paper argues that in public-sector capital programmes, debt exposure is also a project risk. Cost overruns, delays, procurement failure and benefits under-delivery can increase borrowing requirements or weaken the justification for borrowing.

This means project risk registers should include debt-related risks, such as changes in borrowing requirements, interest-rate sensitivity, repayment affordability, income dependency and benefits confidence. CIPFA highlights that local authority borrowing must remain affordable, prudent and sustainable, and that borrowing costs ultimately affect revenue budgets (CIPFA, 2024). Therefore, project managers should understand how delivery decisions can create long-term financial consequences.

8.2 Stronger Financial Literacy for Project Managers

Project managers working on local authority capital programmes need stronger financial literacy. This does not mean that project managers must become finance specialists. However, project managers should understand the basic financial logic of debt-funded projects, including:

- capital and revenue distinctions;
- borrowing assumptions;
- cost escalation;
- contingency;
- interest-rate sensitivity;
- Repayment implications;
- income dependency;
- financial tolerances;
- benefits-linked affordability.

This is important because project managers often make or influence decisions that affect affordability. Scope changes, delays, procurement issues and weak contract management may increase borrowing requirements or delay expected savings and income. The Government Functional Standard for Project Delivery identifies finance, governance, risk management, assurance, and benefits management as key components of effective project delivery (Government Project Delivery and Cabinet Office, 2025).

8.3 Earlier Involvement of Finance and Treasury Teams

The paper also suggests that finance and treasury teams should be involved earlier in project design, option appraisal, risk assessment and benefits planning. In some organisations, finance

input becomes most visible at the business case or budget approval stage. By then, key assumptions may already be embedded.
Earlier involvement would allow finance and treasury teams to help project teams:

- test affordability assumptions;
- challenge optimistic cost or income forecasts;
- assess whole-life costs;
- evaluate borrowing options;
- review sensitivity analysis;
- understand revenue implications;
- Connect benefits to borrowing justification.

This would support more integrated project governance. It would also help ensure that financial sustainability is considered from the beginning of the project lifecycle, not only at approval points.

8.4 Benefits Realisation as a Debt-Control Mechanism

Benefits realisation is especially important in debt-funded projects because benefits justify borrowing. If a project is approved because it is expected to generate savings, income, regeneration, service improvement or public value, those benefits must be actively managed.
Project managers should ensure that debt-funded projects have:

- clear benefit definitions;
- named benefit owners;
- baseline measures;
- measurable targets;
- benefit delivery timescales;
- monitoring arrangements;
- Post-implementation review.

HM Treasury's Green Book requires public bodies to assess costs, benefits and risks when appraising policies, programmes and projects (HM Treasury, 2026). This supports the argument that benefits management should not be treated as an administrative exercise. It should be part of debt-aware governance because weak benefits realisation can leave an authority with the borrowing obligation but without the expected public value.

8.5 Stronger Portfolio Management

The paper also reinforces the importance of portfolio management. Debt risk is cumulative. A single project may appear affordable, but the combined effect of several debt-funded projects may create significant exposure. This is particularly relevant because prudential borrowing accounted for £10.0 billion, or 33%, of local authority capital financing in England in 2024–25 (Ministry of Housing, Communities and Local Government, 2025).

Portfolio managers should therefore monitor:

- total borrowing exposure;
- annual debt servicing costs;
- projects dependent on future income;
- benefits confidence across the portfolio;
- risk concentration;
- affordability thresholds;
- impact on the medium-term financial strategy;
- Sequencing and prioritisation of capital projects.

This supports a shift from project-by-project approval towards portfolio-level decision-making. It allows councils to prioritise projects that are strategically important, financially sustainable and capable of delivering public value.

8.6 Contribution to Project Management Knowledge

The main contribution to project management practice is the argument that debt should be integrated into project governance, risk management and benefits realisation. In debt-funded public-sector projects, borrowing is not simply a funding decision made outside the project. It is part of the project's risk profile, governance structure and value-for-money case.

This has three implications. First, project managers should make debt visible in project documentation. Second, programme and portfolio boards should monitor debt exposure alongside delivery performance. Third, benefits realisation should be linked directly to the borrowing justification.
By adopting this approach, project management practice can better support responsible public investment, stronger accountability and more sustainable local authority capital programme delivery.

8. Conclusion

This paper has argued that debt-funded local authority capital projects should be governed not only as financial investments but also as public policy delivery programmes with long-term affordability, sustainability, and public value implications. Local authorities use capital programmes to deliver important outcomes such as housing, regeneration, transport improvement, digital transformation, service modernisation and environmental infrastructure. Where these programmes are funded through borrowing, councils create long-term obligations that can affect revenue budgets, service sustainability and future investment capacity.

Debt-aware governance matters because borrowing is not separate from project delivery. Cost overruns, delays, procurement problems, weak business cases, unrealistic income forecasts and poor benefits realisation can all affect the affordability and value-for-money case for a project. A project may be physically completed but still fail to deliver the public value that justified the borrowing. In such cases, the authority may retain the debt burden while communities receive fewer benefits than expected.

The review supports this argument by showing that local authority capital finance, project governance and public policy delivery are closely connected. Local government finance guidance emphasises affordability, prudence and sustainability. Public-sector project delivery guidance emphasises governance, assurance, risk management, finance and benefits realisation. Audit and parliamentary evidence also show that local government is operating in a challenging financial environment, making strong governance of borrowing-funded projects increasingly important.
The main contribution of this paper is the proposed Debt-Aware Project Governance Framework. The framework integrates six dimensions:

- strategic policy alignment;
- debt affordability;
- project delivery risk;
- revenue and benefits impact;
- governance and assurance;
- Portfolio-level debt exposure.

The paper also proposes a five-stage gate model covering policy need, outline business case, full business case, delivery monitoring and post-implementation review. This model helps local authorities test whether debt-funded projects remain affordable, prudent, sustainable, deliverable and capable of generating public value throughout the project lifecycle.
The framework is innovative because it connects financial risk management with project governance. It does not require local authorities to replace existing guidance. Instead, it builds on established principles in local authority capital finance, HM Treasury business case appraisal and public-sector project delivery standards. Its practical value lies in making debt visible in project risk registers, programme dashboards, portfolio boards, business cases, benefits plans, assurance reviews and elected member reports.

For project management practice, the paper shows that debt is not external to the project. In debt-funded public-sector projects, borrowing forms part of the project's risk environment, governance structure and benefits case. Project managers therefore need sufficient financial literacy to understand how delivery decisions affect affordability, borrowing exposure and long-term public value. Similarly, finance and treasury teams should be involved earlier in project design, option appraisal, risk assessment and benefits planning.

In conclusion, debt-aware project governance can support more responsible borrowing, stronger assurance, better benefits realisation and improved public accountability. In a period of financial pressure and increasing demand for local services, local authorities need governance approaches that connect capital investment decisions to long-term affordability and public value. Treating debt as a project governance issue offers a practical contribution to sustainable capital programme delivery and to innovation in public policy practice.

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