Wiltshire Council

Council

25 February 2020

Subject:	**Capital Strategy 2020/2021**
Cabinet member:	**Councillor Simon Jacobs Cabinet Member for Finance and Procurement**
Key Decision:	**Key**

Executive Summary

This report presents the Capital Strategy for 2020/2021 as well as sets the Capital Programme for 2020/2021 with future years projected to 2029/2030.

The Capital Strategy, including the Flexible Capital Receipts Strategy is an annual requirement that must be authorised by Full Council. The report was endorsed by Cabinet at its meeting on 4 February 2020, the Cabinet report is included below

The purpose of the Capital Strategy is to clearly set out the priorities and framework within which Wiltshire Council determines its resourcing priorities for capital investment, decides the level of borrowing, the affordability of the borrowing and sets the level of the risk appetite.

Proposals

That Council:

a) Adopts the Capital Strategy 2020/2021

b) Approves the Capital Programme 2020/2021-2029/2030

c) Adopts the non-financial investment indicators (paragraph 84)

Reasons for Proposals

To enable the Council to agree a Capital Strategy for 2020/2021, approve the Capital Programme 2020/2021-2029/2030 and set non-financial investment indicators that comply with statutory guidance and reflect best practice.

Alistair Cunningham	**Terence Herbert**
Chief Executive Officer – Place	**Chief Executive Officer – People**

Wiltshire Council

Cabinet

4 February 2020

Subject:	**Capital Strategy 2020/2021**
Cabinet member:	**Councillor Simon Jacobs Cabinet member for Finance and Procurement**
Key Decision:	**Key**

PURPOSE OF REPORT

1. This report asks the Cabinet to consider and recommend that the Council approve the Capital Strategy for 2020/2021; the Capital Programme 2020/2021-2029/2030 and the associated non-financial investment indicators.

BACKGROUND

2. The Prudential code for Capital Finance in Local Authorities (2017) introduced a new requirement for Local Authorities to prepare an annual Capital Strategy to be authorised by Full Council.

3. The purpose of the Capital Strategy is to clearly set out the priorities and framework within which Wiltshire Council determines its resourcing priorities for capital investment, decides the level of borrowing, the affordability of the borrowing and sets the level of the risk appetite.

4. “The Capital Strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability.” (Para 21 Prudential code)

5. The Capital Strategy does not duplicate more detailed policies, procedures or plans; it is intended to sit above and reference these to allow those seeking more detail to know where to find it.

6. This strategy also encompasses the requirements of the new legislation regarding Non-Financial Assets which are held primarily or partially to generate a profit such as investment property portfolios. These requirements are clearly set out in the statutory guidance on Local Government Investments (3rd edition).

7. Capital Expenditure is defined within the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Accounting Code of Practice as;

"…Expenditure that results in the acquisition, construction, or the enhancement of non-current assets (tangible or intangible) in accordance with proper practices… All other expenditure must be accounted for as revenue expenditure unless specifically directed by the Secretary of State. "

CAPITAL EXPENDITURE

Capital Programme

8. The Capital Programme is approved by Full Council annually. The proposed Capital Programme 2020/2021-2029/2030 is attached in full as Appendix A and totals £898.330 million over this 10-year period. Appendix A is the combination of:

   - Appendix B – approved capital schemes (including any budgetary/funding amendments, re-profiling and extension into future years) which totals £746.310 million

   - Appendix C – capital programme pipeline schemes (these will require approval of an appropriate business case in order to access the funding and be moved to the approved capital programme before any expenditure can be incurred) which total £152.020 million

9. The Capital Programme sets out the capital projects that the Council plans to invest in over the next 10 years from 2020/2021 to 2029/2030; the amount of budget per project per year and the indicative sources of funding.

10. The Capital Programme has been reviewed and all figures validated, amended and reprofiled in consultation with Capital Project Leads where necessary.

11. The revenue impacts (e.g. external interest payable and Minimum Revenue Provision (MRP)) of the proposed capital programme 2020/2021-2029/2030 have been factored into the 2020/2021 revenue budget setting process and MTFS (inclusive of capital programme pipeline schemes).

12. The current Flexible Use of Capital Receipts Directive allows revenue costs of transformation of services to be capitalised up until 2021/2022. A review of services currently undergoing transformation has been carried out and the forecast associated costs have been added to the Capital Programme 2020/2021-2029/2030 to be funded from flexible capital receipts as part of the council's Flexible Capital Receipts Strategy. This allows for revenue savings to be realised or non-recurring revenue growth to be avoided.

13. The key objectives of Wiltshire Council's Capital Programme are to ensure;

- Capital assets are used to support the delivery of corporate priorities and council services (including the Housing Revenue Account (HRA)) in line with the Council's 4 key business plan priorities;
- Expenditure is aligned to the Council's Asset Management Plan and HRA Business Plan to ensure that buildings and infrastructure, such as schools, roads

and housing dwellings are fit for purpose and in a suitable condition to deliver services to the communities they serve;

- All investments are affordable, sustainable and financially prudent;
- Expenditure supports and enhances service delivery and/or generates revenue savings or income streams.

14. In setting the Capital Programme, the Council will strongly consider projects that can generate new or additional future on-going income revenues to replace reducing grant funding and enable services that are required by the community to be provided. Opportunities will also be explored to develop new ways of relieving future pressures.

15. The Council will look to maximise opportunities to secure external funds and work with partners, both private and other government agencies, to increase the overall level of investment within Wiltshire to support priorities and economic development.

16. Capital projects within the Capital Programme are aligned to the Council's key priorities as set out in the Wiltshire Council Business Plan 2017-2027. These key priorities are:

- **Growing the Economy (£508.559 million in the period 2020/2021-2029/2030)**

  We want to continue sustainable growth in our communities, and grow the skills of the local workforce so that we can continue to attract and retain high value businesses in Wiltshire. To do that we also recognise we need to have high quality schools, colleges and Higher Education provision, good transport networks and employment sites, as well as sufficient housing in clean, safe and attractive environments.

  Capital projects include Chippenham Station Hub; Regeneration of the Maltings and Central Car Park, Salisbury; Council House Build Programme; Refurbishment of the Council's Housing Stock; Highways Structural Maintenance; and LED Street Lighting.

- **Stronger Communities (£132.529 million in the period 2020/2021-2029/2030)**

  We want people in Wiltshire to be encouraged to take responsibility for their well-being, build positive relationships and to get involved, influence and take action on what's best for their own communities – we want residents to succeed to the best of their abilities and feel safe where they live and work.

  Capital projects include Health & Wellbeing Centres; Schools Basic Need; Special Schools and Schools Maintenance & Modernisation.

- **Protecting Those Who Are Most Vulnerable (£32.287 million in the period 2020/2021-2029/2030)**

  We want to build communities that enable all residents to have a good start in life, enjoying healthy and fulfilling lives through to a dignified end of life. We will provide people with the opportunities and skills to achieve this by investing in early intervention, prevention and promoting community inclusivity. Where care is needed, health and social care will be delivered seamlessly to the highest standards. For the most vulnerable we will work closely with health and the voluntary sector to provide appropriate, local, cost efficient and good quality care packages, support and facilities.

Capital projects include Disabled Facilities Grants and Adult Care Transitions.

- **An Innovative and Effective Council (£224.955 million in the period 2020/2021-2029/2030)**

  Looking ahead, we must continue to be innovative in how we work. Doing things differently means that some difficult decisions will need to be made in order that the rising demand for some services can be met. We will also focus on generating income by adopting a more commercial approach in what we do and seizing the opportunity to work with businesses for mutual benefits. By working closely with communities, businesses and public sector partners we can achieve so much more and together we can make Wiltshire an even better place in which to live, work and visit. We will continue to make Wiltshire a special place where communities are strong, more connected and able to cope with any challenges they face.

  Capital projects include those that are cross-cutting; aiming to transform services or facilitating a more commercial approach such as a Housing Company; Commercial Investment; Carbon Reduction; Operational Property Energy Efficiency and Generation; and a number of ICT related schemes such as ICT Get Well and ICT Applications, which includes the replacement of the Enterprise Resource Planning (ERP) System.

17. A copy of the Capital Programme 2020/2021-2029/2030 is attached as Appendix A. The following table provides a summary of the Capital Programme:

Business Plan Priority	**2020/ 2021**	**2021/ 2022**	**2022/ 2023**	**2023/ 2024**	**2024/ 2025**	**2025/ 2026**	**2026/ 2027**	**2027/ 2028**	**2028/ 2029**	**2029/ 2030**	**TOTAL**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Growing the Economy	135.461	57.583	62.854	63.108	30.580	31.070	31.543	31.618	32.114	32.628	**508.559**	**56.6**
Stronger Communities	44.708	18.984	17.413	15.112	13.062	4.750	4.700	4.650	4.600	4.550	**132.529**	**14.8**
Protecting the Vulnerable	3.922	4.365	3.000	3.000	3.000	3.000	3.000	3.000	3.000	3.000	**32.287**	**3.6**
An Innovative and Effective Council	77.443	48.895	43.328	36.973	3.741	2.915	2.915	2.915	2.915	2.915	**224.955**	**25.0**
TOTAL	**261.534**	**129.827**	**126.595**	**118.193**	**50.383**	**41.735**	**42.158**	**42.183**	**42.629**	**43.093**	**898.330**	**100.0**

18. The Capital Programme for 2020/2021 proposes a total value of £261.534 million of capital works. This maintains a long-term Capital Programme of £898.330 million for the period 2020/2021 to 2029/2030.

19. Major schemes (approved and pipeline) over the period 2020/2021-2029/2030), consisting of 59% of the overall Capital Programme are as follows:

	BUDGET						FUNDING					
Capital Scheme	**2020/ 2021**	**2021/ 2022**	**2022/ 2023**	**2023/ 2024**	**Future Years 2024/ 2025 to 2029/ 2030**	**TOTAL**	**Grants & Contributions**	**HRA**	**Capital Receipts**	**Borrowing**	**Borrowing**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Regeneration of the Maltings and Central Car Park, Salisbury	36.889	0.000	0.000	0.000	0.000	**36.889**	0.000	0.000	0.000	31.200	5.689	**36.889**
Council House Build Programme (Phase 3.1/3.2)	18.718	18.754	0.000	0.000	0.000	**37.472**	6.235	24.267	6.970	0.000	0.000	**37.472**
HRA – Refurbishment of Council Stock	11.017	11.344	11.336	11.788	76.633	**122.118**	0.000	122.118	0.000	0.000	0.000	**122.118**
Commercial – Housing Company	15.000	10.000	10.000	10.000	0.000	**45.000**	0.000	0.000	0.000	45.000	0.000	**45.000**
Commercial – Commercial Investment	12.500	12.500	12.500	12.500	0.000	**50.000**	0.000	0.000	0.000	50.000	0.000	**50.000**
Structural Maintenance	13.139	13.139	13.139	13.139	78.834	**131.390**	131.390	0.000	0.000	0.000	0.000	**131.390**
Housing Infrastructure Fund (HIF)	5.000	5.000	32.500	32.500	0.000	**75.000**	75.000	0.000	0.000	0.000	0.000	**75.000**
Special Schools	1.652	7.984	8.513	7.262	7.262	**32.673**	0.000	0.000	0.000	0.000	32.673	**32.673**
TOTAL	**113.915**	**78.721**	**87.988**	**87.189**	**130.568**	**530.542**	**212.625**	**146.385**	**6.970**	**126.200**	**38.362**	**530.542**

20. Further detail on these major schemes is as follows:

Regeneration of the Maltings and Central Car Park, Salisbury

This scheme relates to acquisition and further development of The Maltings and Central Car Park in Salisbury and was approved by Cabinet in October 2019. The regeneration of the Maltings and Central Car Park site is a long-standing policy objective of the Council. It is also a priority action for the Swindon and Wiltshire Local Enterprise Partnership (SWLEP). The total budget for this scheme over the period 2020/2021-2029/2030 is £36.889 million and will be funded by external borrowing which is to be funded by revenue savings generated by the service.

Council House Build Programme (Phase 3.1/3.2)

This scheme relates to further phases of the Council House Build Programme aligned to the remodelled Housing Revenue Account (HRA) business plan 2020-2050 and was approved by Cabinet in October 2019. The total budget for this scheme over the period 2020/2021-2029/2030 is £37.472 million and will be funded by a mixture of grants & contributions, HRA capital receipts or by the HRA, either directly or via external borrowing (funded by the HRA).

HRA - Refurbishment of Council Stock

This scheme is the cyclical repairs and maintenance on the council's housing stock e.g. bathrooms, kitchens, roofs boilers etc. The total budget for this scheme over the period 2020/2021-2029/2030 is £122.118 million in line with the HRA business plan.

Commercial - Housing Company

This scheme relates to the setting up of a local housing company (Stone Circle) within Wiltshire to meet a range of strategic housing needs facing the council that cannot easily be addressed by the Council's current approaches. Accommodation to meet the needs of specific vulnerable households in a timely manner from the existing housing stock in Wiltshire is not a priority for the Council's registered provider partners. The Council procures accommodation for homeless households that is costly and the quality and cost could be improved by private rented sector accommodation provided by a local housing company.

The Council has a successful programme of asset disposal. Over the next three years the Council estimates that it may be able to offer to the market sites capable of residential development which subject to planning permission could deliver over 500 units of accommodation. If the Council were to establish a local development company not only would it enable the strategic housing needs across the County to be better met it would also increase the potential return that could be generated from the developments.

A number of Local Authorities have established wholly owned local housing companies and development companies and there is a track record and body of professional advice to help establish such bodies.

The total budget for this scheme over the period 2020/2021-2029/2030 is £45.000 million and will be funded by external borrowing which is to be funded by revenue savings generated by the service.

The regeneration of the east wing site in Trowbridge will include residential development. To date demolition has been funded by one Public estate funding. It is intended to transfer the residential development opportunity to Stone Circle development company so as to safeguard the funding. Transfer of the opportunity will be subject to requirements of the Council's shareholders agreement with Stone Circle development company.

Commercial - Commercial Investment

This scheme relates to the investment estate within Wiltshire. This includes investment in our existing estate as well as new investment in order to maximise revenue generation. The total budget for this scheme over the period 2020/2021-2029/2030 is £50.000 million and will be funded by external borrowing which is to be funded by revenue savings generated by the service.

Structural Maintenance

This scheme includes the resurfacing of roads, reactive patching, surface dressing, drainage and pothole repairs. The total budget for this scheme over the period 2020/2021-2029/2030 is £131.390 million and is funded by external grants from Central Government.

Housing Infrastructure Fund (HIF)

This scheme relates to the delivery of significant infrastructure works, employment land and housing development in and around Chippenham. The total budget for this scheme over the period 2020/2021-2029/2030 is £75.000 million and is funded by external grants from Central Government following a successful application to Central Government's Housing Infrastructure Fund (HIF). Further details on this scheme are detailed in the Cabinet report of October 2019.

Special Schools

This scheme relates to the proposed provision in a new centre of excellence for pupils with special needs and disabilities. It will be developed at Rowdeford near Devizes to match the excellent facilities at Exeter House, Salisbury.

The purpose-built special school will address the demand needs for additional SEND places for Wiltshire while providing:

- Outstanding teaching from well-trained, well-paid, caring, specialist and dedicated staff
- Attractive buildings - safe, friendly, calm and engaging places with wide corridors and lots of natural light
- Strong links with mainstream schools, with a special outreach provision (or resource base) in at least one primary and one secondary school in each key locality
- New world class facilities and support: hydro-pools, sensory rooms, physio, open outdoor space, speech and language therapy, family care
- Strong and vibrant community links – with cafés, community gardens and public playing fields – with inclusive businesses and civic spaces and services that facilitate and advocate independent living for all
- Improved inclusion and outcomes for children with SEND at secondary age
- Effective links with specialist nurseries, offering children with special needs seamless attention from the time they are tots to their teenage years
- Good transport routes and means of transport between the sites, central to the home locations of children and young people with SEND

The total budget for this scheme over the period 2020/2021-2029/2030 is £32.673 million and is funded by external borrowing; the revenue costs associated with this external borrowing have been included in the Medium-Term Financial Strategy (MTFS).

Capital Programme - Pipeline

21. The Capital Programme is approved annually at the budget setting meeting by Full Council.

22. All amendments to the Capital Programme in year must be approved per Financial Regulations and the Scheme of Delegation and are reported to Cabinet as part of the budget monitoring reporting process.

23. Capital Pipeline Schemes (per Appendix C) have not yet been formally approved but have been included in the overall Capital Programme for financial transparency and prudency and for Council to agree the overall financial envelope.

24. Significant capital pipeline schemes in the period 2020/2021-2029/2030 include:

    - Housing Infrastructure Fund - £75.000 million (see further detail in paragraph 20)

    - Other Capital Schemes to be Confirmed - £29.934 million. This is currently unallocated capital funding to allow in-year flexibility to fund new schemes and/or pressures that arise post budget setting. This allocation has been included within the programme to ensure that the revenue costs of this capital financing (if required) are covered within the Medium Term Financial Strategy. The following schemes are expected to come forward and may draw down on this unallocated funding:

        - Drainage and Flood Alleviation programme
        - Costs associated with decanting and moving of services linked to implementation of the Depot Strategy
        - Household Recycling Centre Developments (Churchfields and Stanton St Quintin)
        - Major Roads Network
        - Leisure Transformation

25. All Capital Pipeline schemes must provide full business cases for consideration and approval including the following minimum information, in order to gain formal approval to access funding and be moved into the approved Capital Programme before any expenditure may be incurred:

- A description of the scheme;
- The estimated financial implications, both capital and revenue, to be signed off by Accountancy;
- The expected outputs, outcomes and contribution to the Councils Key Priorities per the Business Plan;
- Any urgency considerations (e.g. statutory requirements or health and safety issues).

26. Business Cases will only be considered in the following circumstances:

- To meet strategic business plan objectives
- To meet statutory obligations for e.g. new schools' places;
- To maximise use of existing assets in order to reduce revenue costs;
- To deliver long term sustainable savings;
- To meet Health and Safety requirements;
- 'Invest to save' proposals to pump prime the delivery of revenue savings;
- To create sustainable income streams – Business Rates and Council Tax;
- To earn income – Rents, Interest and Dividends;
- To address major infrastructure investment and deliver wider economic growth;
- Where new projects are funded by external sources.

27. In completing Capital Bid forms, realistic estimates of phasing of capital spend between years must be used. There should be robust evidenced estimates based on identifiable project milestones and timescales which will be subject to scrutiny. Bids must also indicate on the Capital Bid form how the project meets Council priorities.

28. During the autumn Directors and Members meet to discuss the proposals, prioritising them against the strategic aims of the Council and assessing their affordability against risks and future funds that may become available. These proposals along with the approved Capital Programme are then presented to Cabinet in February and referred to Full Council for approval; thereby setting the full capital programme for the next 10 years.

Capital Financing

29. The Capital Programme financing can be summarised as follows:

	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024 2025	2025/ 2026	2026/ 2027	2027/ 2028	2028/ 2029	2029/ 2030	TOTAL	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Grants & Contributions	55.302	32.839	57.570	57.520	24.970	24.920	24.870	24.820	24.770	24.720	**352.301**	**39.2**
HRA	29.842	25.990	11.534	11.788	11.760	12.250	12.723	12.798	13.294	13.808	**155.787**	**17.3**
Flexible Use of Capital Receipts	5.190	3.318	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**8.508**	**1.0**
Capital Receipts	8.612	2.180	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	**10.792**	**1.2**
Borrowing (Funded by service revenue savings)	66.048	29.774	29.950	25.900	0.000	0.000	0.000	0.000	0.000	0.000	**151.672**	**16.9**
Borrowing	96.540	35.726	27.541	22.985	13.653	4.565	4.565	4.565	4.565	4.565	**219.270**	**24.4**
TOTAL	**261.534**	**129.827**	**126.595**	**118.193**	**50.383**	**41.735**	**42.158**	**42.183**	**42.629**	**43.093**	**898.330**	**100.0**

30. The Council seeks to utilise a wide range of funding to support its Capital Programme, maximising external funding opportunities, such as grants and contributions, and limiting internal sources, such as revenue funding. Capital funding sources are described below.

31. **Grants & Contributions -** Grant funding is one of the largest sources of financing for the Capital Programme. The majority of grants are awarded by Central Government departments, but some are received from other external bodies. Grants can be specific to a scheme, have conditions attached (such as time and criteria restrictions), or are for general use. S106 deposits account for the majority of capital contribution funding; these deposits are ringfenced for particular projects as defined in the individual S106 agreements. Community Infrastructure Levy (CIL) can be used to fund capital expenditure in line with the council's CIL policy.

32. **HRA** – Capital expenditure for the Housing Revenue Account (HRA) is ringfenced from general fund capital expenditure and is financed by a combination of HRA borrowing and use of the major repairs reserve.

33. **Flexible Use of Capital Receipts** – Central Government issued a directive that allows Local Authorities further flexibility regarding the use of capital receipts from the sale of their own assets to help fund the revenue costs of transformation projects and release savings.

34. **Capital Receipts -** The income received over the value of £0.010 million from the disposal of Fixed Assets or the repayment of loans for capital purposes is defined as a capital receipt. They can normally[1] only be used to fund capital expenditure or repay debt. Some capital receipts have additional restrictions on their use. The Council seeks to obtain the highest possible receipt achievable from each disposal after considering wider community or service benefits and ring-fences receipts generated from the disposal of HRA assets to fund HRA projects.

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[1] The Secretary of state can issue directives to allow exceptions to this rule such as the "Flexible use of Resources directive".

35. **Borrowing (funded by service revenue saving) –** There are a small number of schemes in the Capital Programme that are funded by borrowing where the anticipated revenue saving arising from the capital investment will be utilised to fund the costs of borrowing. These schemes, and the associated amount of borrowing to be funded from savings and income generated are (currently no schemes have been identified as being funded in this manner post 2023/2024):

Capital Schemes	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	TOTAL
	£m	£m	£m	£m	£m
Regeneration of the Maltings and Central Car Park, Salisbury	31.200	0.000	0.000	0.000	**31.200**
LED Street Lighting	6.148	3.074	0.000	0.000	**9.222**
Commercial – Housing Company	15.000	10.000	10.000	10.000	**45.000**
Commercial – Commercial Investment	12.500	12.500	12.500	12.250	**50.000**
Commercial – Local Development Company	0.990	4.200	7.450	3.400	**16.040**
Commercial - Loans	0.210	0.000	0.000	0.000	**0.210**
TOTAL	**66.048**	**29.774**	**29.950**	**25.900**	**151.672**

36. **Borrowing -** The Council can determine the level of its borrowing for capital financing purposes, based upon its own views regarding; the affordability, prudence and sustainability of that borrowing, in line with the CIPFA Prudential Code for Capital Finance. Borrowing levels for the Capital Programme are therefore constrained by this assessment and by the availability of the revenue budget to meet the cost of this borrowing which is built into the Council's Medium-Term Financial Strategy (MTFS).

37. **Revenue Funding** - The Council can use revenue resources to fund capital projects on a direct basis. However, given the pressures on the revenue budget of the Council, there are currently no plans to finance any of the current capital programme by revenue funding and it is unlikely that the Council will choose to undertake this method of funding in the future if other sources are available.

Flexible Capital Receipts Strategy

38. Qualifying expenditure is that which is:

- designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners; and

- is properly incurred by the Authorities for the financial years that begin on 1 April 2016, 1 April 2017, 1 April 2018, 1 April 2019, 1 April 2020 and 1 April 2021 (a condition of this direction that expenditure can only be funded from capital receipts which have been received in the years to which this direction applies)

39. As there is no guarantee that this directive will be extended past 2021/2022, the draft capital programme 2020/2021-2029/2030 assumes that the directive ends in 2021/2022, therefore all schemes funded by the flexible use of capital receipts must be completed or be funded from revenue by/from 2022/2023 onwards.

40. All surplus capital receipts have been earmarked to fund potential transformational projects as follows:

Capital Schemes	2020/2021			2021/2022		
	Approved	Pipeline	Total	Approved	Pipeline	Total
	£m	£m	£m	£m	£m	£m
Service Devolution & Asset Transfer	0.243	0.000	**0.243**	0.000	0.000	**0.000**
Transformation Schemes in Children's Services	0.675	0.000	**0.675**	0.000	0.000	**0.000**
Adult Care Transitions	0.054	0.000	**0.054**	0.000	0.000	**0.000**
Organisational Development & People Change	0.000	1.000	**1.000**	0.000	1.000	**1.000**
Business Intelligence	0.000	1.000	**1.000**	0.000	0.000	**0.000**
Fostering Excellence	0.000	0.868	**0.868**	0.000	1.365	**1.365**
Other Transformational Schemes (to be confirmed – including Adults Transformation)	0.000	1.350	**1.350**	0.000	0.953	**0.953**
TOTAL	**0.972**	**4.218**	**5.190**	**0.000**	**3.318**	**3.318**

41. Delivery plans for each pipeline transformational scheme will need to be agreed by the council's Corporate Leadership Team. These plans will need to include details on the expected levels of revenue savings that the scheme will generate and/or details in relation to the transformation of service delivery to reduce costs and/or

transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners

42. The Flexible Use of Capital Receipts directive requires that a progress update is reported as part of this strategy. The following table sets out the actual and estimated spend for approved schemes:

Capital Schemes	2018/2019 (Actual)	2019/2020 (Estimate)	2020/2021 (Estimate)
	£m	£m	£m
Service Devolution & Asset Transfer	0.022	0.463	0.243
Digitisation	0.133	0.000	0.000
Transformation Schemes in Children's Services	0.000	1.995	0.675
IT Applications (Adult Care Liquid Logic)	0.313	0.937	0.000
Adult Care Transitions	0.000	0.086	0.054
Adults Transformation Phase 2	0.731	0.870	0.000
Total	**1.199**	**4.351**	**0.972**

43. Further details on these schemes is as follows:

Service Devolution & Asset Transfer

This scheme relates to the transformation of delivery of various services from Wiltshire Council to local town and parish councils. A recurring revenue saving target of £0.400 million was approved as part of 2019/2020 budget setting. £0.110 million of this target is expected to be delivered in 2019/2020 per 2019/2020 budget monitoring reporting, with the remainder being delivered in 2020/2021.

Digitisation

This scheme related to funding of an interim Director to lead on the council's Digitisation Programme. A recurring revenue saving target of £0.300 million was approved as part of 2019/2020 budget setting. Work is ongoing to enable the delivery of this savings target.

Transformation Schemes in Children's Services

This scheme relates to a number of schemes that are transformational schemes intended to reduce costs on pressured budgets rather than to deliver recurring revenue savings.

IT Applications (Adult Care Liquid Logic)

This scheme relates to the implementation of the new Adult Care Liquid Logic system to improve the accuracy of records and improve efficiencies in respect of current processes rather than to deliver recurring revenue savings. Adult Care Liquid Logic is a sub-scheme of the IT Applications scheme.

Adult Care Transitions

This scheme relates to the transition of care in respect of children with special educational needs into adult care learning disability services with the aim of ensuring that placements are fit for purpose and cost effective rather than to deliver recurring revenue savings.

Adults Transformation Phase 2

This scheme relates to the transformation of adult social care services to meet the vision; be fit for service user purpose and to deliver the performance improvement and cost reduction required over the period 2019-2023. In House Reablement has delivered £3.776 million of resulting savings in 2019/2020.

Capitalisation

44. The Council has a set of Accounting Policies that are approved annually by the Audit Committee that set out the Council's approach to capitalisation and are based upon guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and take account of local circumstances.

45. The approved Accounting Policies are published within the Statement of Accounts and include policies on all the key accounting matters that affect the figures and disclosures in the statements.

46. Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Asset Management Plan

47. The council's Asset Management Plan sets out the strategic approach to managing the council's land and property assets and brings together the relevant asset management policy frameworks. These frameworks support the overall approach of managing assets by portfolio and include areas such as disposals and acquisitions, as well as active management of the council's operational, commercial, and rural stock.

48. Wiltshire Council has a strategic and commercial approach to managing assets, this will be clearly set out in the Asset Management Plan. The council shares resources with other public services and uses technology, buildings and other assets flexibly to maximise value and reduce costs.

49. We develop community campuses and hubs in towns across Wiltshire to enable public services to co-locate and improve customer service. This development programme also helps us reduce the numbers of buildings we own and their associated repair and maintenance costs.

50. As buildings are freed up we create opportunities for commercial lettings of spare space or development opportunities for jobs and homes. Any capital receipts are re-invested in improving facilities elsewhere, or used for enabling strategic land purchases for development, employment, investment or transformation.

Restrictions on Borrowing

51. In October 2018, Central Government announced a policy change of abolition of the HRA debt cap effective from 29 October 2018.

DEBT AND BORROWING AND TREASURY MANAGEMENT

Debt & Borrowing

52. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, known as the Capital Financing Requirement (CFR), has not been fully funded) with loan debt as cash supporting the Council's reserves, balances and cash flow have been used as a temporary measure (internal borrowing). This strategy is prudent, as investment returns are low and counterparty risk is still an issue that needs to be considered. This also drives the Council's assessment of investment in relation to the liquidity of investments.

53. The following table shows the Council's projection of external debt and internal borrowing over the next 3 years:

	2020/2021	**2021/2022**	**2022/2023**
	£m	**£m**	**£m**
CFR – General Fund	581.433	622.590	655.556
CFR – HRA	126.558	141.399	141.784
Gross Borrowing – Gen Fund	440.866	504.366	561.587
Gross Borrowing – HRA	120.694	135.535	135.920
CFR not funded by gross borrowing – General Fund	**140.567**	**118.224**	**93.969**
CFR not funded by gross borrowing – HRA	**5.864**	**5.864**	**5.864**

54. Against this background and the risks within the economic forecast, caution will be adopted with the 2020/2021 treasury operations. The Director of Finance &

Procurement will, through delegation and reporting, monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a) if it was considered that there was a significant risk of a sharp fall in long and short-term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

b) if it was considered that there was a significant risk of a much sharper rise in long and short-term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Minimum Revenue Provision (MRP) Policy

55. The minimum revenue provision (MRP) is the amount set aside for the repayment of the debt as a result of borrowings made to finance capital expenditure.

56. The Council sets its MRP Policy annually as part of the Treasury Management Strategy; however summarised version is set out below.

57. MRP charges should reflect the economic benefit the Council gets from using the asset to deliver services over its useful life. This ensures the Council Tax payers are being charged each year in line with asset usage and prevents current taxpayers meeting the cost of future usage or future Council Tax payers being burdened with “debt” and the costs of that debt, relating to assets that are no longer in use.

58. The Treasury Management Strategy 2020/2021 recommends that Council approve the following MRP Policy:

59. The proposed MRP policy for 2020/2021 is as follows:

a. In respect of the Council’s supported borrowing: MRP will be provided for in accordance with existing practice outlined in the former regulations but on a 2% straight-line basis, i.e. provision for the full repayment of debt over 50 years.

b. MRP for capital expenditure incurred wholly or partly by unsupported (prudential) borrowing or credit arrangements: equal Instalments to be determined by reference to the expected life of the asset. Asset life is deemed to begin once the asset becomes operational. MRP will commence from the financial year following the one in which the asset becomes operational.

c. MRP in respect of unsupported (prudential) borrowing: equal Instalments taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

d. The Council retains the right to make additional voluntary payments to reduce debt if deemed prudent.

e. Where the Council issues capital loans to third parties (including to its own commercial companies), the expectation is that the funds lent will be re-paid in full at a future date. Therefore, no MRP will set aside in respect of these loans. MRP will however need to be applied as appropriate if it is determined at any point that any such loan will not be re-paid in full. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Treasury Management Indicators

60. The following Treasury Management Indicators are set within the Treasury Management Strategy 2020/2021 which is approved by Full Council annually. Further details are included in the Treasury Management Strategy 2020/2021.

Operational Boundary

61. The operational boundary is the limit beyond which external debt is not normally expected to exceed.

62. The operational boundary is a key management tool for monitoring the Authority's expected level of borrowing. It is essential to ensure that borrowing remains within the limits set and to take appropriate action where any likely breach is anticipated. Monitoring will take place through the year and will be reported to Cabinet.

63. The operational boundary limits as set out in the Treasury Management Strategy 2020/2021 are as follows:

Operational Boundary	**2020/2021**	**2021/2022**	**2022/2023**
	£m	**£m**	**£m**
General Fund	605.014	648.173	679.137
HRA	126.558	141.399	141.784
Other Long-Term Liabilities	0.200	0.200	0.200
TOTAL	**731.772**	**789.772**	**821.121**

Authorised Limit for External Debt

64. The authorised limit is the statutory limit determined under section 3 (1) of the Local Government Act 2003, and represents a limit beyond which external debt is prohibited. It reflects the level of debt which, while not desired, could be afforded in the short term, but is not sustainable in the long term.

65. The authorised limit is the operational boundary, including an allowance for unplanned and irregular cash movements. This allowance is difficult to predict,

Cabinet previously approved an amended allowance of 2.5% in the Treasury Management Strategy 2012/2013 at its meeting on 15 February 2012 which has been utilised annually ever since.

66. The authorised limits set out in the Treasury Management Strategy 2020/2021 are as follows:

Authorised Limit	2020/2021	2021/2022	2022/2023
	£m	£m	£m
General Fund	620.139	664.377	696.115
HRA	126.558	141.399	141.784
Other Long-Term Liabilities	0.200	0.200	0.200
TOTAL	**746.897**	**805.976**	**838.099**

Decisions/Risk

67. The Treasury Management Strategy 2020/2021 (see separate report) requests approval for the following:

- The Director of Finance and Procurement has delegated authority to vary the amount of borrowing and other long term liabilities within the Treasury Indicators for the Authorised Limit and the Operational Boundary
- The Director of Finance and Procurement has authority to agree the restructuring of existing long-term loans where savings are achievable or to enhance the long term portfolio
- Short term cash surpluses and deficits continue to be managed through temporary loans, deposits and money market funds
- Any surplus cash balances not required to cover borrowing are placed in the most appropriate specified or non-specified investments, particularly where this is more cost effective than short term deposits and the Director of Finance and Procurement has the authority to select such funds

68. Prudential indicators are monitored throughout the year, particularly against the two borrowing limits (operational boundary and authorised limit. Cabinet are kept informed of any issues that arise, including any potential or actual breaches of these indicators through the Treasury Management bi annual reporting process.

Scrutiny

69. The Capital Strategy is considered by the council's Financial Planning Task Group. Regular reports on the monitoring of expenditure against the approved capital programme are taken to Cabinet throughout the year.

70. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly.

71. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

a) Treasury Management Strategy Statement, including prudential and treasury indicators, which covers the following,

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

b) Mid-year Treasury Management Report, which will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c) Annual Treasury Report, which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

COMMERCIAL ACTIVITY

Non- Financial Investments

72. The Prudential Code issued by CIPFA requires that a council should not borrow more than, or in advance of need purely to profit from the investment of the extra sums borrowed. This Statutory Guidance requires that where borrowing in advance is enacted by a council that the rationale for the decision is clearly set out to ensure that external auditors, tax payers and interested parties are able to hold the council to account for the reasons for the borrowing. This will be included in the decision-making process.

73. Non-financial investments are those that are primarily held to generate a profit. Where the council holds a non-financial investment, due consideration will be given to the asset being able to retain sufficient value to provide security of investment using the fair value model in accordance with international Accounting Standard 40: Investment Property.

74. Assets that generate revenue income solely through fees and charges for discretionary services levied under section 93 of the Local Government Act 2003 will not be classified as non-financial investments for the purposes of this strategy.

75. Where there are several different objectives, when a decision is being taken to acquire an asset and the asset is not solely held for yield, then the asset will be categorised in accordance with the type of contribution made by that asset as follows:

- Yield/Profit
- Regeneration
- Economic benefit/business rates growth
- Responding to local market failure
- Treasury management

76. Assets classified as contributing to regeneration or local economic benefit will demonstrate that the investment forms part of a project within the Local Plan.

77. In advance of entering into any such investment the council will explicitly assess the risk of any loss which will make clear:

    - The assessment of the market within which it is competing
    - The nature of that competition and the future expected evolution of the market
    - Any barriers to entry and exit of the market and any ongoing investment requirements
    - The use of external advisors, explicitly:
        - Treasury Management advisors
        - Property Investment advisors – Red Book valuation & Ancillary valuations, Income & Lease risk assessment
        - Further specialist advisors – Market and Competitor assessments, Full Structural Buildings Survey, Vendor assessment & rationale for disposal
        - Specialist advisors to support s151 assessment of the potential investment
    - The management arrangements for the use of external advisors
    - The credit ratings issued by the credit rating agencies where this is relevant, the frequency which these are monitored and what action is to be taken should these ratings change
    - The further sources of information used to assess and monitor the risk

78. The Council will look to invest in good quality commercial properties, to add to the current investment portfolio and to seek higher yields, which can provide secure and sustainable returns in accordance with the Statutory Guidance on Local Government Investments. The Council will adopt a balanced portfolio approach to investment, management and turnover of properties in order to ensure risk is balanced across its investments. This will take into account the type of properties acquired and their location in particular.

79. As an asset class, investment property provides a better total return in terms of both rental income and capital appreciation than cash investments, whilst also maintaining a high level of security. Whilst property values can be subject to short term fluctuations, values are typically stable or rising over the medium to long term. However, it is noted that property is a longer-term investment with monies tied up in the property assets not normally accessible in the short term.

80. It should be noted that the definition of investment includes loans made by the council to any wholly-owned companies in the future or associates, to a joint venture or a third party.

81. The criteria to be applied to the purchase of any properties for investment purposes under this strategy are clearly defined and agreed. The main criteria agreed are:

    Type – Properties will be acquired at prices supported by independent valuations, with the objective of developing and retaining a balanced investment portfolio;

    Return - Investment properties acquired generate an initial net yield of a minimum of 2%. The net yield to be calculated taking into account all costs associated with acquisition;

    Occupancy - Properties being acquired should be occupied by tenants with suitable financial covenant strength and on a lease (or equivalent) agreement with no less than three years term unexpired;

    Maintenance - Properties will be maintained during the period of ownership to a standard that will maximise rental income streams and sale value at disposal; and

    Location - Acquisitions are not limited to being located within the Wiltshire Council area where they are acquired, with the purpose of generating income which can be reinvested into public services. It is anticipated that in Council area purchases will form the main, initial focus of the Strategy.

82. Income generated from investment income currently represents less than 1% of the Council's gross income which supports the delivery of core services. Whilst it is intended that increased investment in this area will provide a valuable source of income, the overall investment programme will support less than 2% of the Council's gross annual expenditure.

83. The Statutory Guidance on Local Government Investments requires that a range of indicators is presented to allow members and other interested parties to understand the total exposure from borrowing and investment decisions. These will cover both the current position and the expected position assuming all planned investments for the following year are completed. The indicators do not take account of Treasury Management investments which are managed under the Treasury Management Strategy unless these are expected to be held for more than 12 months.

84. The indicators are set out in the table below:

Indicators	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
1.Gross debt (in relation to commercial investments) to Net Service Expenditure limit Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.	9%	15%	23%	29%	28%
2.Commercial Income to Net Service Expenditure Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.	1.0%	1.0%	1.0%	1.0%	1.0%
3.Investment Cover ratio limit The total net income from property investments, compared to the interest expense.	0	3.2	2.5	1.6	1.3
4.Loan to asset value ratio The amount of debt compared to the total investment property asset value	0.6	0.7	0.8	0.8	0.8

5.Target income returns (after MRP & Interest) Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.	2.0%	2.0%	2.0%	2.0%	2.0%
6.Income Return on other Property Fund Investments As a measure against other investments and against other council's property portfolios.	3.8%	3.8%	3.8%	3.8%	3.8%
7.Gross Income **Net Income** The income received from the investment portfolio at a gross level and net level (less interest, MRP and operational costs) over time.	11.5% 11.5%	6.2% 4.9%	4.1% 2.4%	3.2% 1.2%	3.2% 0.6%
8.Operating costs % of Income The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands	10%	10%	10%	10%	10%

9.Vacancy levels and Tenant exposures for non-financial investments Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is productive as possible.	5%	5%	5%	5%	5%

85. For non-financial assets, the council is required to consider security by reference to the value of the asset relative to purchase price and to set out plans to recoup the investment where realising the asset would not recoup the sums invested. In the period immediately after purchase, it is expected that the costs directly attributable to the purchase of the asset will be greater than the realisable value of the asset. In this situation, the strategy will disclose the period expected for it to take for the increase in asset values to provide security for the sums invested and the assumptions underpinning that expectation.

86. The liquidity of the non-financial investment portfolio will be considered over the repayment period of any debt taken out to acquire the assets. Further to this, to manage the risk of delivery of value over the lifetime of the assets, consideration of the trade-offs between accepting capital loss and refinancing debt incurring additional debt servicing costs where relevant.

OTHER LONG-TERM LIABILITIES

87. All long-term liabilities (amounts the Council owes or anticipates owing others due for payment in excess for 1 year) are reported on the Council's Balance Sheet and associated notes as part of the Statement Accounts which are subject to scrutiny by the Audit Committee and audit by appointed external auditors.

88. The Council's long-term liabilities predominantly consist of long term borrowing and the pension fund liability.

89. The Council's long term borrowing position is reported to Members twice a year as part of the Treasury Management Strategy reporting process.

90. The pension fund liability is updated annually as part of the Statement of Accounts per the annual report the Council receives from its pension actuary Hymans Robertson.

KNOWLEDGE AND SKILLS

91. The Capital Strategy has been developed by Officers of the Council, who have relevant knowledge and technical skills. In addition, external advice and management is employed by the Council procuring and appointing suitably qualified advisors and managers to support the development, operation and design of the programmes.

Treasury Management Consultants

92. The Council uses Link Asset Services as its external treasury management advisors.

93. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

94. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented, and subjected to regular review.

Other Consultants

95. In addition to Treasury Management Consultants, the Council will use external consultancy services where there is a requirement to do so. Further details on use of consultants for commercial investments are detailed in paragraph 77.

Training

96. In order to ensure that members and Statutory Officers have appropriate capacity and skills regarding their involvement in the investment decision making the following steps are required:

    - Training given to Members in all aspects of the Statutory Guidance, the assessment of individual investments and risk.

    - Technical training given to Statutory officers and those officers negotiating commercial deals in the technical fields of investment evaluation and requirements of the statutory guidance and prudential code.

    - Briefings to members of the relevant committees in advance of any investment decision making prior to a decision being brought forward to the committee covering all aspects of the assessment as well as the strategic fit.

97. The Corporate Governance arrangements around decisions on non-financial investments will follow the rigour of our normal committee arrangements. The relevant Cabinet Members will be fully briefed in terms of the full details of the assessment including external advisor reports. Scrutiny will review all such individual decisions in advance of a Cabinet decision.

Overview and Scrutiny Engagement

98. The Financial Planning Task Group will consider this report on 23 January 2020, with any comments reported at the Cabinet meeting.

Safeguarding Implications

99. None have been identified as arising directly from this report.

Public Health Implications

100. None have been identified as arising directly from this report.

Procurement Implications

101. None have been identified as arising directly from this report. Any procurement resulting from allocating this capital through an outsourced solution will follow the Part 10 Procurement and Contract Rules.

Equalities Impact of the Proposal

102. None have been identified as arising directly from this report.

Environmental and Climate Change Considerations

103. The capital expenditure budgets approved by Cabinet in 2019/2020 in relation to Carbon Reduction and Operational Energy Efficiency and Generation are included within the Capital Programme set out in Appendix A.

Risk Assessment

104. A full risk assessment of the revenue budget, reserves which covers the affordability of the capital programme proposals is included in the revenue budget setting report.

Financial Implications

105. These have been examined and are implicit throughout the report.

106. The revenue implications (Minimum Revenue Provision and External Interest) of funding the capital programme have been estimated and have been included in the council's 2020/2021 revenue budget setting report as well as in the Medium-Term Financial Strategy and are summarised as follows:

	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
	£m	£m	£m	£m	£m
Revenue Cost of Capital Financing	23.148	30.427	33.989	34.958	37.281

Workforce Implications

107. Staff who are working on capital programmes will be funded from the capital programme for the duration of the programme of work and therefore will be funded temporarily. This means that there may be implications for those staff in terms of job security and continuity of employment at the end of the programme of work. However, the council has in place robust policies and procedures to support this.

Legal Implications

108. None have been identified as arising directly from this report.

Proposals

109. Cabinet is requested to recommend that Full Council:

a) Adopts the Capital Strategy 2020/2021

b) Approves the Capital Programme 2020/2021-2029/2030

c) Adopts the non-financial investment indicators (paragraph 84)

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Background Papers

The following unpublished documents have been relied on in the preparation of this Report:

Treasury Management Strategy 2020/2021

Appendices

Appendix A – Capital Programme 2020/2021-2029/2030 (including Capital Programme Pipeline)
Appendix B – Capital Programme 2020/2021-2029/2030
Appendix C – Capital Programme Pipeline 2020/2021-2029/2030