Wiltshire Council

Cabinet

5 February 2019

Subject:	**Capital Strategy 2019/2020**
Cabinet member:	**Councillor Philip Whitehead – Cabinet Member for Finance, Procurement, ICT and Operational Assets**
Key Decision:	**Key**

Executive Summary

This report presents the Capital Strategy for 2019/2020 as well as sets the Capital Programme for 2019/2020 with future years projected to 2023/2024.

The Capital Strategy is a new annual requirement that must be authorised by Full Council.

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

Cabinet is requested to recommend that Full Council:

a) Adopts the Capital Strategy 2019/2020

b) Approves the Capital Programme 2019/2020-2023/2024

c) Adopts the non-financial investment indicators (paragraph 46)

Reasons for Proposals

To enable the Council to agree a Capital Strategy for 2019/2020, approve the Capital Programme 2019/2020-2023/2024 and set non-financial investment indicators that comply with statutory guidance and reflect best practice.

Alistair Cunningham
Corporate Director Growth, Investment & Place

Wiltshire Council

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Purpose of Report

1. This report asks the Cabinet to consider and recommend that the Council approve the Capital Strategy for 2019/2020; the Capital Programme 2019/2020-2023/2024 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 2019/2020-2023/2024 is attached as Appendix A.

9. The Capital Programme sets out the capital projects that the Council plans to invest in over the next 5 years from 2019/2020 to 2023/2024; 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. interest payable and minimum revenue provision) of the proposed capital programme 2019/2020-2023/2024 have been factored into the 2019/2020 revenue budget setting process and MTFS.

12. Schemes in the Capital Programme have been re-aligned into areas of Corporate Director responsibility and business plan priority.

13. 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 those costs that are capitalisable have been added to the 2018/2019 Capital Programme (current year) and 2019/2020-2023/2024. This allows for revenue savings to be realised or non-recurring revenue growth to be avoided.

14. 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.

15. 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.

16. 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.

17. 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**

  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; Highways Structural Maintenance, LED Street Lighting and Refurbishment of the Council's Housing Stock.

- **Stronger Communities**

  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**

  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 Adults Social Care Transformation.

- **An Innovative and Effective Council**

  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 – these may not always be universally popular – but they will be necessary so 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, ICT Schemes, SAP Enhancement and Microsoft Navigator.

18. A copy of the Capital Programme 2019/2020-2023/2024 is attached as Appendix A. The following table provides a summary of the Capital Programme:

Business Plan Priority	**2019/ 2020**	**2020/ 2021**	**2021/ 2022**	**2022/ 2023**	**2023/ 2024**	**TOTAL**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Growing the Economy	74.629	46.308	29.052	28.651	28.600	**207.240**	**43.7**
Stronger Communities	51.556	16.410	13.783	4.700	6.700	**93.149**	**19.6**
Protecting the Vulnerable	3.600	3.000	3.000	3.000	3.000	**15.600**	**3.3**
An Innovative and Effective Council	43.150	30.063	27.062	25.178	32.908	**158.361**	**33.4**
TOTAL	**172.935**	**95.781**	**72.897**	**61.529**	**71.208**	**474.350**	**100.0**

19. The Capital Programme for 2019/2020 proposes a total value of £172.935 million of capital works. This maintains a long-term Capital Programme in the region of £474.350 million for the period 2019/2020 to 2023/2024.

20. Major schemes over the period 2019/2020-2023/2024), consisting of 63% of the overall Capital Programme are as follows:

Capital Scheme	**2019/ 2020**	**2020/ 2021**	**2021/ 2022**	**2022/ 2023**	**2023/ 2024**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
HRA Refurbishment of Council Stock	9.383	9.634	9.959	9.634	9.779	**48.389**
Structural Maintenance	21.139	13.139	13.139	13.139	13.139	**73.695**
Housing Company	10.000	10.000	10.000	10.000	10.000	**50.000**
Commercial Development Investment	10.000	10.000	10.000	10.000	10.000	**50.000**
ICT Schemes	13.256	2.326	2.527	2.178	8.908	**29.195**
Basic Need	24.230	0.873	0.400	0.400	0.400	**26.303**
Special Schools	0.100	10.000	8.900	0.000	0.000	**19.000**
TOTAL	**88.107**	**55.971**	**54.925**	**45.351**	**52.227**	**296.581**

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

HRA Refurbishment of Housing 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 2019/2020-2023/2024 is £48.389 million in line with the HRA business plan.

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 2019/2020-2023/2024 is £73.695 million and is primarily funded by external grants from Central Government but also has an element that is topped up by Wiltshire Council through external borrowing.

Housing Company

This scheme relates to the setting up of a local housing development company 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.

Further details on this scheme are published in the cabinet report: Establishing a Local Housing company and local development company, 15 January 2019.

The total budget for this scheme over the period 2019/2020-2023/2024 is £50.000 million and will be funded by external borrowing which is to be funded by revenue savings generated by the service.

Commercial Development 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 2019/2020-2023/2024 is £50.000 million and will be funded by external borrowing which is to be funded by revenue savings generated by the service.

ICT Schemes

This scheme relates to investment in the ICT infrastructure, upgrading of key applications, replacement and refresh of devices, cyber security, network access control, cloud migration and the implementation of Microsoft recommendations from the digital programme. The total budget for this scheme over the period

2019/2020-2023/2024 is £29.195 million and will be funded by a mixture of external borrowing and capital receipts.

Basic Need

This scheme relates to the provision of additional pupil places in our schools to meet the ends of local communities through school accommodation expansion. The total budget for this scheme over the period 2019/2020-2023/2024 is £26.303 million and is funded by external grants from Central Government.

Special Schools

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

A purpose-built special school will address the need for an additional 220 SEND places for Wiltshire while providing:

- Great teaching from well-trained, caring specialist dedicated staff
- The right facilities and support; hydro-pools, sensory rooms, physio, open outdoor space, speech and language therapy and family care
- Strong community links with cafes, community gardens and public playing fields
- Closer links between SEND schools, and greater support for all mainstream schools
- Links with specialist nurseries offering children with special needs seamless attention from very small to teenage years
- Good road routes to both sites which are central to the home locations o children and young people with SEND with space to expand

There is a statutory consultation into the future vision for special schools in Wiltshire that closes on 1 March 2019. The final decision on the vision for SEND will be made at Wiltshire Council’s cabinet meeting in March after completion of the consultation.

Capital Financing

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

	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	TOTAL	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Grants & Contributions	71.628	33.693	25.403	25.220	25.220	**181.164**	**38.2**
Capital Receipts	9.567	3.500	0.000	0.000	0.000	**13.067**	**2.8**
Borrowing	49.933	18.454	16.262	5.478	14.208	**104.335**	**22.0**
Borrowing (Funded by service revenue savings)	29.000	26.295	21.000	21.000	22.000	**119.295**	**25.1**
HRA	12.807	13.839	10.232	9.831	9.780	**56.489**	**11.9**
TOTAL	**172.935**	**95.781**	**72.897**	**61.529**	**69.208**	**474.350**	**100.0**

23. 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.

24. **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.

25. **Capital Receipts -** The income received over the value of £10,000 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.

26. **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

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

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).

27. **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 are:

Capital Schemes	**2019/ 2020**	**2020/ 2021**	**2021/ 2022**	**2022/ 2023**	**2023/ 2024**	**TOTAL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
LED Street Lighting	7.000	5.295	0.000	0.000	0.000	**12.295**
Chippenham HIF	2.000	0.000	0.000	0.000	0.000	**2.000**
Commercial - Housing Company	10.000	10.000	10.000	10.000	10.000	**50.000**
Commercial Development Investment	10.000	10.000	10.000	10.000	10.000	**50.000**
Commercial - Local Development Company	0.000	1.000	1.000	1.000	2.000	**5.000**
TOTAL	**29.000**	**26.295**	**21.000**	**21.000**	**22.000**	**119.295**

28. **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.

29. **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.

Pipeline

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

31. All additions to the Capital Programme in year must be approved by the Director Finance & Procurement (s151 Officer) and are reported to Cabinet as part of the budget monitoring reporting process.

32. All proposed schemes requiring capital investment must provide business cases including the following minimum information:

- 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).

33. New capital bids will only be considered in the following circumstances:

- 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.

34. 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.

35. 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 5 years.

Capitalisation

36. 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.

37. 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.

38. 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. The Council does not have a fixed de-minimis level for the recognition of capital expenditure, but recognises expenditure as capital where appropriate.

Flexible Use of Capital Receipts

39. In December 2017, the Secretary of State announced. alongside the provisional local government finance settlement, the continuation of the capital receipts flexibility programme for a further 3 years up to and including 2021/2022, to give local authorities the continued freedom to use capital receipts from the sale of their own assets (excluding right to buy receipts) to help fund the revenue costs of transformation projects and release savings. The strategy will be updated as further announcements are made.

40. Costs of service transformation have been reviewed as part of the 2019/2020 Capital Programme and these costs have been added to the programme for 2019/2020 where appropriate to be funded by the flexible use of capital receipts. A review will be conducted annually to determine what, if any, costs can be funded from capital receipts in the following year.

Asset Management Plan

41. The council's Asset Management Plan (revised version also under review by Cabinet as part of this agenda) 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.

42. 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.

43. 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.

44. 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 or investment.

Restrictions on Borrowing

45. In October 2018, Central Government announced a policy change of abolition of the HRA debt cap. The Chancellor announced in the Budget that the applicable date was 29 October 2018.

DEBT AND BORROWING AND TREASURY MANAGEMENT

Debt & Borrowing

46. 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.

47. The following table shows the Council's projection of external debt and internal borrowing over the next 5 years:

	2019/2020	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
	£million	**£million**	**£million**	**£million**	**£million**
CFR – General Fund	466.056	465.755	462.375	447.273	440.737
CFR – HRA	123.122	127.327	127.600	127.797	127.797
Gross Borrowing – Gen Fund	249.198	258.425	264.556	267.295	271.399
Gross Borrowing – HRA	117.257	121.463	121.735	121.933	121.933
CFR not funded by gross borrowing – General Fund	**216.858**	**207.330**	**197.819**	**179.978**	**169.338**
CFR not funded by gross borrowing – HRA	**5.865**	**5.865**	**5.865**	**5.865**	**5.865**

48. Against this background and the risks within the economic forecast, caution will be adopted with the 2019/2020 treasury operations. The Director of Finance 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

49. 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.

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

51. 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.

52. Council approved an amended MRP Policy in February 2018 to be applied from the 2017/2018 financial year. The Treasury Management Strategy 2019/2020 recommends that Council approve the current MRP Policy without further change.

53. The proposed MRP policy for 2019/2020 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.

Treasury Management Indicators

54. The following Treasury Management Indicators are set within the Treasury Management Strategy 2019/2020 which is approved by Full Council annually. Further details are included in the Treasury Management Strategy 2019/2020.

Operational Boundary

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

56. 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.

57. The operational boundary limits as set out in the Treasury Management Strategy 2019/2020 are as follows:

Operational Boundary	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
	£million	£million	£million	£million	£million
General Fund	488.951	488.728	485.326	470.148	463.729
HRA	123.122	127.327	127.600	127.797	127.797
Other Long-Term Liabilities	0.200	0.200	0.200	0.200	0.200
TOTAL	**612.273**	**616.255**	**613.126**	**598.145**	**591.726**

Authorised Limit for External Debt

58. 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.

59. The authorised limit is the operational boundary, including an allowance for unplanned and irregular cash movements. This allowance is difficult to predict, Cabinet approved an amended allowance of 2.5% in the Treasury Management Strategy 2012/2013 at its meeting on 15 February 2012.

60. The authorised limits set out in the Treasury Management Strategy 2019/2020 are as follows:

Authorised Limit	**2019/2020**	**2020/2021**	**2021/2022**	**2022/2023**	**2023/2024**
	£million	**£million**	**£million**	**£million**	**£million**
General Fund	501.175	500.946	497.459	481.902	475.322
HRA	123.122	127.327	127.600	127.797	127.797
Other Long-Term Liabilities	0.200	0.200	0.200	0.200	0.200
TOTAL	**624.497**	**628.473**	**625.259**	**609.899**	**603.319**

Decisions/Risk

61. The Treasury Management Strategy 2019/2020 (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 and deposits
- Any surplus cash balances not required to cover borrowing are placed in authorised money-market funds, 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

62. 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

63. 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.

64. 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

65. 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.

66. 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.

67. 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

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

69. 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

70. 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.

71. 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.

72. 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.

73. 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 proposed 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.

74. 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.

75. 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.

76. The indicators are set out in the table below

Indicators	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024
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.	6%	12%	18%	23%	29%
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	6.3	3.2	2.2	1.6
4.Loan to asset value ratio The amount of debt compared to the total investment property	0.5	0.6	0.7	0.8	0.8

asset value					
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.	15.8% 15.8%	8.1% 6.8%	5.5% 3.8%	4.2% 2.3%	3.4% 1.3%
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%

77. 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.

78. 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.

79. 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.

OTHER LONG-TERM LIABILITIES

80. 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.

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

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

83. 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

84. 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

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

86. 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.

87. 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 and documented, and subjected to regular review.

Other Consultants

88. 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 69.

Training

89. In order to ensure that members and Statutory Officers have appropriate capacity and skills regarding their involvement in the investments decision making the following steps will be taken:

- 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.

90. 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

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

Safeguarding Implications

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

Public Health Implications

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

Procurement Implications

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

Equalities Impact of the Proposal

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

Environmental and Climate Change Considerations

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

Risk Assessment

97. 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

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

Legal Implications

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

Proposals

100. Cabinet is requested to recommend that Full Council:

a) Adopts the Capital Strategy 2019/2020

b) Approves the Capital Programme 2019/2020-2023/2024

c) Adopts the non-financial investment indicators (paragraph 46)

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Background Papers

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

Treasury Management Strategy 2019/2020
Asset Management Plan

Appendices

Appendix A – Capital Programme 2019/2020-2023/2024