Appendix A

Capital Strategy Report 2019/20

1. Introduction

1.1. This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Capital Expenditure and Financing

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

2.2. The Council has incurred £7.8m capital expenditure in 2018/19 to date and may incur further capital expenditure by the end of the year. The Council has approved a Capital Programme for 2019/20 of £15.291 million which consists of £3.425 million of general fund services and £11.866 million for Commercial Property Strategy investments. In addition there is a further recommendation to Council (on this agenda) on Community Housing capital expenditure.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ '000s

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
General Fund services	4,179	8,932	3,425	2,190	1,480
Community Housing	0	385	8,386	50	
Capital investments*	0	0	11,866	12,864	631
TOTAL	**4,179**	**9,317**	**23,677**	**15,104**	**2,111**

*Capital investments relate to areas such as capital expenditure on investment properties.

2.3. The main General Fund capital project to which the Council is currently committed is Leisure Investment of £6.3m. The Council is being reimbursed by the leisure contractor for the borrowing of the Leisure Investment and the income has already been factored into the Medium Term Financial Strategy. In terms of slippage, £3.2m of capital expenditure approved for 2018/19 will be spent in 2019/20 (this is for all Council capital projects within the Capital Programme).

2.4. The Council also plans to incur up to £60m of capital expenditure over the medium to longer term if it fulfils the development and acquisitions outlined in its Commercial Property Strategy, which was agreed at Full Council on 27 September 2018 – see links below.

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=151&MId=1136&Ver=4

2.5. A Commercial Development Opportunities Report was taken to Executive on 13th December 2018 detailing the proposed schemes in the 2019/20 strategy. The proposed capital expenditure in Table 1 above was put before the Joint Development Management Committee and Overview and Scrutiny Panel on 24th January 2019 for their views. This was further considered by the Executive on 7th February and on 21st February 2019 Full Council approved the 2019/20 Capital Programme of £15.291 million. In addition there is a further recommendation to Council (on this agenda) on Community Housing capital expenditure of £8.386m.

2.6. All items in Table 1 which are also in the Capital Programme for 2019/20 are based on budgeted estimates and will be subject to the normal project appraisal procedures as required under the Council's Assets Strategy

2.7. Governance

2.7.1. The Head of Finance Practice invited bids for capital funding from all service areas, for a new capital programme during July 2018 on the strict proviso that all bids must go towards meeting a strategic priority. All capital bids received were ranked against a prescribed priority criteria set out in the bid process. The submitted capital bids have been assessed against the categories in each priority. Priority 1 categories include meeting strategic priorities and statutory obligations (e.g. Health and Safety, DDA etc.) and other capital works required to ensure the existing Council property assets remain open.

2.7.2. Priority 2 categories link to good asset management whereby the capital work proposed would either generate capital/revenue income or reduce revenue spending. A capital bid that will enable rationalised service delivery or improvement is also considered a Priority 2 category to meet the Council's aims and objectives.

2.8. Financing

2.8.1. All capital expenditure must be financed, either from (i) external sources (government grants and other contributions), (ii) the Council's own resources (revenue contribution, reserves and capital receipts) or (iii) debt (internal borrowing and borrowing from third party lenders such as the Public Work Loans Board). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ '000s

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
(i) External sources	1,079	1,387	2,760	1,190	930
(ii) Own resources	2,356	2,408	3,495	550	550
(iii) Debt	744*	5,522	17,422	13,364	631
TOTAL	**4,179**	**9,317**	**23,677**	**15,104**	**2,111**

*Debt in 2017/18 was internal borrowing for leisure investment – external PWLB debt of £5.49 million was taken out in 2018/19 following the Council decision in March 2018.

2.9. The projected debt for 2019/20 also relates to borrowing for waste and cleansing procurement (approved by Council in December 2018 as part of the report on Frontline Services) and potential borrowing from the PWLB for projects shown in the South Hams Commercial Developments Report. In addition there is a further recommendation to Council (on this agenda) on Community Housing capital expenditure.

2.10. Debt is only a temporary source of finance, since loans must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ '000s

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
Own resources - MRP - Use of capital receipts	0 0	0 0	254 0	334 0	629 0

The Council's full MRP statement is shown below:

2.11. Minimum revenue provision (MRP) policy statement

2.11.1. Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 states that 'A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'. The provision is made from revenue in respect of capital expenditure financed by borrowing or credit arrangements.

2.11.2. With all options MRP should normally commence in the financial year following the one in which expenditure was incurred. Regulation 28 does not define 'prudent'. However MRP guidance has been issued, which makes recommendations to authorities on the interpretation of that term. Authorities are legally obliged to 'have regard' to the guidance.

2.11.3. The first recommendation given by the guidance is to prepare, before the start of each financial year, an annual statement of the policy on making MRP in respect of that financial year and submit this to Full Council for approval.

2.11.4. The guidance aims to ensure that the provision for the repayment of borrowing which financed the acquisition of an asset should be made over a period bearing some relation to that over which the asset continues to provide a service.

The MRP policy to be adopted is as below:-

Borrowing	**MRP Methodology**
Commercial Property acquisition (Borrowing of up to £60 million)	***Annuity Method (over the 50 years)*** Under this calculation, the revenue budget bears an equal annual charge (for principal and interest) over the life of the asset by taking into account the time value of money. Since MRP only relates to the 'principal' element, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates. For two commercial property investments it is proposed to repay MRP based on 50% on the annuity method over the 50 year life (the assets will be regularly maintained), and 50% will be paid on maturity of the loan from either sale of the asset (a capital receipt) or through refinancing of the debt. The position will be regularly monitored. If at any point in time the valuation of the asset falls below the open market value then the MRP policy will be revisited.
Waste Fleet, Leisure Investment	**Asset Life Method** MRP is charged using the Asset Life method – based on the estimated life of the asset. This option provides for a reduction in the borrowing need over approximately the assets' life.

2.12. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £17.2m during 2019/20.

Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ '000s

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
General Fund services	646	6,168	5,914	5,660	5,406
Community Housing*	0	0	7,016	7,016	0
Capital investments	0	0	10,406	23,691	23,947
TOTAL CFR	**646**	**6,168**	**23,336**	**36,367**	**29,353**

***Although the total capital expenditure for Community Housing is in the region of £8.5m, it is anticipated that Homes England capital grant and S106 contributions will fund some of this expenditure.

2.13. Asset management

2.13.1. To ensure that capital assets continue to be of long-term use, the Council has an asset management strategy in place.

2.14. Asset disposals

2.14.1. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans to third parties for capital expenditure and investments also generate capital receipts. The Council estimates to receive nil capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ '000s

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Asset sales	33	600	0	0	0
Loans repaid	0	0	0	0	0
TOTAL	33	600	0	0	0

3. Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically more cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

3.2. At 31st March 2018, the Council had no external borrowing but had internally borrowed (i.e. used its own resources in lieu of external borrowing) £744,000 for the leisure investment. The temporary internal borrowing was replaced by a series of loans for £5.49m from the Public Works Loans Board (PWLB) in May 2018 for the Leisure Fusion contract investment. Other borrowing requirements (i.e. non commercial property strategy) include those for community housing which are not funded through Homes England capital grant or S106 contributions (This is a recommendation to Council on this March 2019 agenda).

3.3. The Council currently has £35m treasury investments earning an average rate of around 0.59% which are expected to fall to £31m at 31/3/2019.

3.4. Borrowing strategy

3.4.1. The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore will seek to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

3.4.2. Projected levels of the Council's total outstanding debt which comprises borrowing is shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ '000s

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Debt	0	5,490	22,912	36,276	29,891
Capital Financing Requirement	646	6,168	23,336	36,367	29,353

3.4.3. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term. In 2021/22 the debt is slightly higher than the CFR by £0.538m but this is only a short term position as the gross debt will reduce in 2022/23.

3.5. Affordable borrowing limit

3.5.1. The Council is legally obliged to set an affordable borrowing limit (also termed the "Authorised Limit" for external debt) each year and to keep it under review. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit.

In view of the Council's intended commercial property strategy, the Council obtained independent external advice on the total amount of borrowing that would be acceptable for the District Council based on the Council's own financial status. The report on the advice is confidential, the advised maximum limit of £75 million is incorporated into the Prudential Indicator for the Authorised Limit. This limit takes into account the proposed commercial property strategy of up to £60m and £15 million for other borrowing requirements including borrowing for community housing schemes.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000s

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – total external debt	**14,000**	**75,000**	**75,000**	**75,000**
Operational boundary – total external debt	**9,000**	**70,000**	**70,000**	**70,000**

3.5.2. Further details on borrowing are in the treasury management strategy (Appendix C).

3.6. Investment Strategy

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

3.6.2. The Council's policy on treasury investments is to prioritise security and liquidity over yield, i.e. to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely including in collective investment schemes (pooled funds whose underlying assets are company shares, bonds, property etc.) one example of which is the CCLA Local Authorities' Property Fund in which the Council is invested, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £'000s

	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Short-term investments	42,762	31,000	29,000	29,000	29,000
Longer-term investments	-	1,500	3,500	3,500	3,500
TOTAL	**42,762**	32,500	32,500	32,500	32,500

3.6.3. Further details on treasury investments can be found in the treasury management strategy (Appendix C).

3.7. Governance

3.7.1. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Strategic Finance Lead (S151 Officer) and finance staff (where appropriate), who must act in line with the treasury management strategy approved by Council. Semi-annual reports on treasury management activity are presented to the Audit Committee which is responsible for scrutinising treasury management decisions.

4. Investments for Service Purposes

4.1. The Council has approved making a £50,000 investment in the South West Mutual Bank which takes the form of shareholding in the bank. The Council is also proposing to make a £25,000 investment in a 10 year investment bond being offered by the Dartington Trust. It is proposed to finance this from the Business Rate Pilot gain as the investment is supporting the local economy. Other than this, the Council does not currently have investments assisting local public services, such as making loans to local service providers or to local small businesses to promote economic growth or to subsidiaries that provide services. However, it may do so in the future if required. In light of the public service objective, the Council would thus be willing to take more risk than with treasury investments, however the objective would be for such investments to break even after all costs (Council Minute 43/18).

4.2. Governance

4.2.1. Decisions on service investments are made by the relevant service manager in consultation with the Strategic Finance Lead (Section 151 Officer) and must meet pre-approved criteria and limits. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

5. Current and Proposed Commercial Activities

5.1. South Hams DC owns a number of commercial units industrial units, office accommodation, the site in Lee Mill (see 5.3 below) within the District valued at £28.5 million at 31/3/2018.

5.2. The Council leases various parcels of land and buildings to external organisations. This reflects the historic policy of supporting small start-ups which has proved and continues to be successful.

5.3. During 2017/18, a review of existing assets resulted in the site in Lee Mill which is currently leased to a supermarket being reclassified in from Property Plant and Equipment to Investment Properties, with effect from 31 December 2017. This was based on the view that the site is now held solely to earn rentals, i.e. for a commercial objective, and as such should so be reclassified. This decision was also informed by external advice which was obtained independently. The 2017/18 Annual Statement of Accounts shows the value of this property at £12.53m.

5.4. Commercial activity generates net income each year after all costs, but it also exposes the Council to normal commercial risks. In 2017/18 rental income net of direct operating expenses was £165,000 and is expected to be £634,000 in 2018/19. The increase is due to the reclassification in 5.3 (Lee Mill). The risks are managed by the Council's Senior Leadership Team and the Council's Assets team who engage specialist advisors where appropriate. The Council has a comprehensive due diligence check list which is completed before any commercial property acquisitions are made.

5.5. **The Council's Commercial Property Strategy**

5.5.1. With the withdrawal of Government funding, the Council recognises it will need to generate additional income (as an ancillary benefit) to be able to carry on delivering the current range of services.

5.5.2. In September 2018 the Council endorsed the principle of a Commercial Property Strategy, which includes multiple objectives: (a) to support regeneration and the economic activity of the Council (b) to enhance economic benefit (c) to grow business rate income (d) to assist with the financial sustainability of the Council as an ancillary benefit and (e) to help continue deliver and/or improve frontline services in keeping with its adopted strategy and objectives.

5.5.3. Details of this strategy can be found in the report taken to Full Council on 27/9/2018.

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=151&MId=1136&Ver=4

5.5.4. This strategy, which is expected to be predominantly funded through prudential borrowing, has two strands. The first is development on Council-owned land, the second is commercial property acquisition in South Hams.

5.5.5 A report on the projects within the South Hams that were Commercial Development Opportunities was presented to the Executive on 13th December 2018. (Minutes E.62/18)

http://mg.swdevon.gov.uk/ieListDocuments.aspx?CId=149&MId=1259&Ver=4

5.5.6 The projects set out within the report are:

i) A new build development in Kingsbridge which would be let to a major UK hotel operator on the former Rope Walk Resource Centre Site, providing year around visitor accommodation.
ii) An office development on a brown field site, for a well-established architect practice wishing to invest and grow in Totnes.
iii) The acquisition of approx. 10 acres of commercial land in Sherford to provide for future commercial expansion of business within or re-locating to the South Hams.
iv) Construction of 7 no. chalet style beach huts at Beesands to provide beach front tourist accommodation in the heart of the village, combined with the provision of a new play park facility.
v) The construction of a single additional deck of car parking at Shadycombe Car Park, to provide approx. 30 new parking spaces in the centre of Salcombe.
vi) Provision of a discount supermarket in central Ivybridge, alongside car park improvements providing no net loss of car parking spaces.
vii) Construction of 5 Employment units in Batson and a Workshop for the Harbour Authority to work from that is fit for purpose and future proofed.
viii) Dartmouth Health and Wellbeing Hub

5.5.7. Due diligence and risk assessment will be undertaken and a business case produced for each development or acquisition opportunity, when identified. It will also be assessed on meeting the above objectives and on delivering one or more of the following outcomes: job creation or safeguarding; health and wellbeing; town centre regeneration; tourism / increased footfall; business rate growth; improved asset utilisation.

5.5.8. A minimum net yield return of 2% is being targeted. However, in some circumstances, e.g. where there is a community benefit, a lower return may be acceptable. The Council will put in place contingency plans should expected yields not materialise.

5.5.9. Other borrowing: A report was presented to the Executive in March 2019 which recommends to Council (to be considered in March 2019) to approve £8.5 million for community housing schemes within the South Hams, to build out four community housing schemes delivering 55 residential units. This borrowing, in aggregate with other borrowing, will not exceed the Authorised Limit and Operational Boundary in 3.5 above.

5.6. Governance

5.6.1. Commercial developments on Council owned land: There are multiple projects (see 5.5.6) being worked on by officers that meet the criteria set out in the strategy and decisions on progressing and committing borrowing or funding to these projects is a delegated function of the Executive.

5.6.2. For commercial acquisitions, governance and decision making is detailed in Section 3 of the Commercial Property Strategy.

5.6.3. Property and most other commercial investments are also capital expenditure; purchases and development will therefore also be approved as part of the capital programme.

5.7. Risk management

5.7.1. The Council accepts there is higher risk on commercial investment than with treasury investments. Financial risk will be weighed up against the social and economic benefits of the investment. The principal risk exposures include vacancies resulting in a disruption or fall in income streams, fall in capital value which is either site-specific or due to general market conditions, deterioration in the credit quality of the tenant. These risks will be managed, for example by having an appropriate tenant mix for small start-ups where the creditworthiness tends to be lower, targeting tenants with strong financial standing for larger units or, where there is single occupancy, having long unexpired leases on the date of acquisition.

Proportionality

5.7.2. The commercial property strategy considers the risks of investment and the Council has engaged Treasury Management advisors to analyse the level of debt proportionality to the Council's finances (e.g. levels of reserves, asset base and level of interest costs as a percentage of income). Commercial property acquisitions expand the Council's balance sheet and interest costs will form a higher percentage of locally derived income. It would absorb a high level of reserves if there are shortfalls in or disruption to the income stream required to meet the additional expenditure.

Sensitivity analysis on the level of debt interest against the Council's level of reserves was considered as part of the Medium Term Financial Strategy and as part of the budget proposals for 2019/20. In order that commercial investments remain proportionate to the size of this Council, borrowing for the Commercial Investment Property Strategy is subject to an overall maximum limit of £60m. Within this £60m upper limit, capital expenditure of and borrowing before 30th April 2019 is capped at £30m.

5.8 The Council set an upper limit on External Borrowing (for all Council services) as part of the Medium Term Financial Strategy of £75 million. Interest payments at 2.5% would equate to 16.4% of available reserves. At an interest rate of 3%, interest payments would equate to 19.7% of available reserves (Appendix E to the Budget Proposals report for 2019/20 – Council 21 February 2019).

6. Liabilities

6.1. In addition to the current debt of £5.49m detailed above, the Council is committed to making future payments to cover its pensions liability. The Pensions Reserve for the net defined benefit liability was £51.4m at 31/3/2018.

6.2. As stated in Note 35 of the 2017/18 Statement of Accounts – Contingent Liabilities - at the time of the transfer of the Council's housing stock in 1999, wide warranties were given to South Hams Housing (now Liverty) on staffing, environmental and other issues, to safeguard the housing company if any of the main assumptions on which the transfer price was calculated, turn out to be different in reality. Any liabilities that do arise will be funded from the Council's general reserves. Due to the uncertainties surrounding any potential claim on this contingent liability, it is not practicable to make an estimate of the total value of liabilities (if any).

6.3. Governance

6.3.1. Decisions on incurring new discretional liabilities are taken by Heads of Practice in consultation with the Strategic Finance Lead (S.151 Officer). The risk of liabilities crystallising and requiring payment is monitored as part of budget monitoring and reported quarterly.

6.3.2. Further details on liabilities can be found in Note 35 of the 2017/18 Statement of Accounts.
https://www.southhams.gov.uk/article/3769/Annual-Accounts

7. Revenue Budget Implications

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

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Financing costs (£m)	(140,882)	(60,358)	717,322	1,176,326	1,299,745
Proportion of net revenue stream	(1.7)%	(0.7)%	8.1%	13.4%	14.3%

Further details on the revenue implications of capital expenditure are included in the 2019/20 Revenue Budget.

7.2. Statement on Sustainability

7.2.1. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future.

7.2.2. With no external debt at 31st March 2018, the Council is starting from a low base when comparing interest costs with income and reserves. It is anticipated that debt funded acquisitions will generate additional revenue above the capital funding costs. Based on reserves of £11.4m (£1.8m unearmarked and £9.6m earmarked), as shown in Appendix E of the Budget Proposals 2019/20 report to Council, an increase in debt to £75m will result in debt interest costs being equivalent to 16.4% of reserves (assuming an interest rate of 2.5%). Should average the average rate rise to 3%, then debt costs will be 19.7% of reserves. These costs do not include MRP which will also need to be considered.

7.2.3. The Strategic Finance Lead (S151 Officer) is satisfied that the proposed capital programme is prudent, affordable and sustainable and it is fully integrated with the Council's 2019/20 Medium Term Financial Strategy, Treasury Management Strategy and Investment Strategy and other strategic plans. The Capital Strategy is compiled in line with the requirements of the 2017 CIPFA Prudential Code and 2017 Treasury Management Code. The risks associated with the Commercial Property Strategy are covered within the Investment Strategy.

7.2.4 The delivery of the individual capital schemes on the plan is directly linked to the original approval of the capital project supported by each project having a project lead who is responsible for the delivery of the project (appropriate skills, contracting, planning etc.) and the subsequent achievement of the objectives of that project.

7.2.5 Members, via the Executive meetings receive quarterly budget monitoring reports on the Council's Capital Programme. Through these updates, which are driven by the requirement of financial reporting, Members can review and challenge the delivery of projects and any changes to both the timing and expenditure of the capital project.

7.2.6 If subsequent to the capital project being completed there are variations to the income expected to be generated from that asset, this will be reported as a variance in the quarterly budget monitoring reporting and if ongoing will be included in the following year's revenue budget proposals.

7.2.7 The Council's Senior Leadership Team has oversight for the delivery of and challenge to the Capital Strategy and Capital Programme.

Affordability

7.2.8 Affordability is critical in applying the capital strategy and approving projects for inclusion in the capital programme. This is mostly demonstrated by a report on the project being presented to Executive/Council for approval supported by a business case identifying the expenditure and funding, appraisal of alternative options and the risks and rewards for the approval of the scheme.

7.2.9 All projects need to have a clear funding source. If external funding such as an external grant is to be used, there needs to be a clear funding commitment.

7.2.10 Affordability of each project needs to be clear, not only for the funding of the capital spend, but also to cover any ongoing costs of the operation and funding of that capital spend.

7.2.11 Where borrowing is to be used the affordability is of greater importance and the affordability has to include the interest costs of that borrowing and the provision for the repayment of the borrowing (MRP). This repayment is matched to a prudent asset life and any income streams estimated to fund this asset must be sustainable. The rules around the governance of this borrowing are outlined in the Prudential Code (as summarised above).

7.2.12 At no stage should the asset value be lower than the value of outstanding debt unless there is a clear plan to mitigate that shortfall or to sell that asset.

Risks

7.3.1. The risks associated with a significant Capital Programme and a significant level of borrowing can be mitigated through all capital projects being supported by a business case, having adequate project management and/or project boards, suitable skills for the delivery of the project, tax planning, cash flow, clear operational plan for the use of the asset, security and due diligence on loans and purchases, use of external advice where appropriate, project contingencies, full tender process and regular and transparent reporting to Members.

7.3.2 There are clear links from the capital strategy to both the treasury management strategy, prudential indicators, authorised borrowing limits and the revenue budget. These are also subject to review and oversight by Members at the Audit Committee and Council. For any new borrowing, and this is a greater risk as the value of borrowing increases, this does increase the Council's overall liabilities that will need to be repaid in the future.

7.3.3. In addition, this increases the Council's level of fixed interest and repayment costs that it will incur each year. This is currently increasing by 2022 and could be up to a borrowing liability of £29.9m (see Table 6) and ongoing financing costs of the borrowing of approx. £1.48m by 2021/22. This is a clear risk that all Members need to be aware of.

7.3.4. However this risk for assets is mitigated by a robust business case and a MRP that will repay the borrowing costs over a (prudent) asset life. Any variations from this are set out in the MRP Policy (See section 2.11.4). Any variation in expected income is an issue, however given the wide range of operational assets and different income streams this helps to mitigate this risk.

7.3.5 As outlined above in the position statement, investment properties are a different type and level of risk. Risk arises from both variations in income streams (tenant non-renewal etc.) and from asset values (impact economic conditions and retail trends etc.). The Council has established a clear strategy, criteria and a governance route for these purchases which has included member training, second opinion on asset values, due diligence, site visits, surveys etc.

7.3.6 There are risks (and rewards) associated with the purchase of this type of assets, therefore all Members need to have sight of and understand the risks and rewards inherent in these commercial investments(development opportunities).

Knowledge and Skills

8.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for recommending capital expenditure, borrowing and investment decisions to Members.

8.2 The Group Manager of Business Development is a qualified Project Manager and Accounting Technician, with a RICS (Royal Institute of Chartered Surveyors) Accredited degree in Estates Management, incorporating Investment and Development. In addition, the Group Manager for Business Development also has 15 years of banking/lending experience, having worked on multi-million pound asset investment, disposal and development projects.

8.3 The Chief Executive has a MSc in Leadership of Public Services (2009) from UWE (Bristol Business School) and an IoD (Institute of Directors) Certificate of Directorship in 2016. In addition, the Chief Executive has been involved in the oversight of the Councils' interests (as shareholder) in its wholly owned companies when working as a Director for a Unitary Council.

8.4 The Strategic Finance Lead (S.151 Officer) is a Chartered Accountant (ICAEW) with 15 years of experience of being a S151 Officer (Chief Finance Officer). In addition, the Strategic Finance Lead holds a BSc in Mathematics and has previously worked in the private sector for accountancy firms.

8.5 The Head of Assets Practice is a Chartered Civic Engineer with sixteen years of experience. In addition, the Head of Assets holds a MSc in Construction Law.

8.6 The Estates Specialist is a Chartered Surveyor, qualified for over 13 years, with an Estate Surveying degree. In addition they are a Registered Valuer.

8.7 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The appropriate expertise is always resourced in relation to any financial, legal and asset related due diligence required. A list is below:-

- Savills - Property agents
- CCD Properties Limited - Development specialists
- Arcadis – Building Surveyors and Engineers
- Womble Bond Dickinson - Solicitors
- Link Services – Treasury Management advice
- Arlingclose – Treasury Management advice

8.8 This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

8.9 External treasury management training was offered to all Members in November 2018 to ensure Members have up to date skills to make capital and treasury management decisions. In addition some internal training events on the Council's Medium Term Financial Strategy were organised in the year. The Council's Members Services are consulted when organising all training in order to maintain training and development plans for Councillors. A comprehensive Members Induction Programme, following the District Elections in May 2019 has been organised, this includes specific financial and treasury management training which will be undertaken as part of the induction.

8.10 The purpose of this training is to ensure elected Members involved in the investments decision making process have appropriate capacity, skills and information to enable them to: 1. take informed decisions as to whether to enter into a specific investment; 2. to assess individual assessments in the context of the strategic objectives and risk profile of the local authority; and 3. to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.