

DRAFT
SWINDON BOROUGH COUNCIL
CAPITAL STRATEGY
2019/20 – 2023/24

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Capital Strategy 2019/20 – 2021/22

1 Executive Summary

1.1 This purpose of this Capital Strategy is to:

- a. Set out the principles the Council will follow in its capital planning.
- b. Outline the methodology for inclusion of schemes within the Capital Programme.
- c. Set out the arrangement for management of capital schemes.
- d. Identify the investment requirements and how those schemes may be funded.

1.2 In addition the Strategy includes a number of other areas due to changes in the CIPFA's Treasury Management Code of Practice relating to the loans to companies and investments in property funds and how these differ from the Council's capital expenditure. The Strategy also sets out the principles of what is a capital investment, the knowledge and skills available to the Council, an overview of governance processes and an outline of its approach to commercial activities including due diligence and risk appetite.

1.3 The capital strategy is therefore 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 financial sustainability.

2 What is Capital Expenditure?

2.1 Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing fixed asset that is needed to provide services. Fixed assets are tangible or intangible assets that yield benefits to the Council generally for a period of more than one year, e.g. land, buildings, roads, vehicles. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. The definition of what can be classed as capital expenditure is a combination of accounting regulation and legislation and this distinction is important as capital funding (such as capital receipts and capital grants) cannot typically be used to fund revenue expenditure.

2.2 The capital programme is the authority's plan of capital works for future years, including details on the funding of the schemes. Included are the projects such as the purchase of land and buildings, the construction of new buildings, design fees and the acquisition of vehicles and major items of equipment. Also included could be service and commercial investments.

3 What are Treasury Investments?

3.3 Treasury Management investment activity covers those investments which arise from the organisation's cash flows and debt management activity, and ultimately represent balances which need to be invested until the cash is required for use in the course of business.

3.4 For Treasury Management investments the security and liquidity of funds are placed ahead of the investment return. The management of associated risk is set out in the Treasury Management Policy and the Annual Investment Strategy.

3.5 The CIPFA Treasury Management Code recognises that organisations may make investments for policy reasons outside of normal treasury management activity. These may include service and commercial investments.

4 What are Service and Commercial Investments?

4.1 These are investments for policy reasons outside of normal treasury management activity. This may include:

Service investments

4.2 Investments held clearly and explicitly in the course of the provision, and for the purposes, of operational services, including regeneration.

Commercial investments

4.3 Investments taken for mainly financial reasons. These may include:

- investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers;
- investments explicitly taken with the aim of making a financial surplus for the Council.

4.4 Commercial investments also include fixed assets which are held primarily for financial benefit, such as investment properties.

4.5 Due to the nature of the assets or for valid service reasons, such investments do not always give priority to security and liquidity over yield. In these cases, such a decision will be explicit, with the additional risks set out and the impact on financial sustainability identified and reported.

4.6 The Director of Finance will ensure that the Council has the appropriate legal powers to undertake such investments and will ensure the proportionality of all investments so that the Council does not undertake a level of investing which exposes it to an excessive level of risk compared to its financial resources.

5 Due Diligence

5.1 For all capital investments, the appropriate level of due diligence will be undertaken with the extent and depth reflecting the level of additional risk being considered.

5.2 Due diligence process and procedures will include:

- effective scrutiny of proposed investments by the relevant committee;
- identification of the risk to both the capital sums invested and the returns;

- understanding the extent and nature of any external underwriting of those risks;
- the potential impact on the financial sustainability of the Council if those risks come to fruition;
- identification of the assets being held for security against debt and any prior charges on those assets;
- where necessary independent and expert advice will be sought.

5.3 The Director of Finance will ensure that members are adequately informed and understand the risk exposures being taken on.

6 Council Objectives/Identifying Need

6.1 The Council has agreed a number of corporate aims, priorities and objectives which guide its work. The Council Plan 2016 – 2020 sets out vision for Swindon and the priorities we are trying to achieve for our residents and the borough of Swindon. The current Plan sets 4 priorities:

- Improve infrastructure and housing to support a growing, low-carbon economy
- Offer education opportunities that lead to the right skills and right jobs in the right places
- Ensure clean and safe streets and improve our public spaces and local culture
- Help people to help themselves while always protecting our most vulnerable children and adults

6.2 Capital investment projects must be in line with the Plan and priorities as well as individual service aims and objectives.

6.3 In addition to the Council's own priorities external influence may impact on capital decisions, for example central government and local enterprise partnership (LEP) priorities and funding requirements, and of course the influence of demographic and legislative changes. These need to be considered as part of the risk process when considering investment decisions.

7 Prioritising Investment

7.1 In order to ensure best use of resources, all capital investment proposals should be prioritised based on the following considerations:

- Is the proposal as a result of a statutory or urgent Health & Safety requirement and to what degree?
- Does the proposal fit within one of the Council's 4 priorities?
- Does the proposal attract external funding support?
- Does the proposal generate revenue savings, to what extent and timescales and are these acceptable?
- Does the proposal avoid future costs, to what extent and timescales and are these acceptable?
- Has risk been assessed and fully understood, is it manageable and considered acceptable?

7.2 The following processes are designed to ensure this happens.

8 Governance

- 8.1 In order for capital schemes to enter the capital programme, they must ultimately be approved at Cabinet. Prior to this there are various layers of scrutiny to ensure all proposals are deliverable, affordable, and provide value for money.
- 8.2 The Commercial Investment Strategy Board (“CISB”) specifically reviews proposals that are made for purely a commercial purpose. The Board, chaired by the Cabinet Member for Finance & Transformation meets monthly to review all proposals and if successful they either proceed to Cabinet for approval if greater than £10m, or through a Cabinet Member Decision Note process if less than £10m. All proposals through this Board are also presented to a CMAG (Cabinet Member Advisory Group) for additional scrutiny and comment.
- 8.3 General Fund Capital proposals that do not require CISB approval should be presented to the Capital Board for review and scrutiny prior to proceeding to Cabinet. The Capital Board is an officer Board and should consider schemes using the same criteria as detailed at section 7 above. Appendix A sets out the existing process which all proposals must follow in order to enter the Capital Programme.
- 8.4 Once a proposal has been formally approved, the identified budget manager must manage the project and ensure forecasts are updated regularly in line with financial processes so that they can be incorporated into the quarterly capital programmes reports for Cabinet. In addition, for larger projects, strong consideration should be given to setting up a Project Board chaired by the Head of Service which adds a further ability to monitor and scrutinise progress of the project against cost, time and deliverables.

9 The Capital Programme 2019/20 – 2023/24 - TBC

9.1 The following tables set out a summary of the current approved capital programme and investment requirements for service areas.

Table 1 - TBC

Table 2 - TBC

9.2 Table 2 identified current additional investment requirements over and above the existing approved programme shown in table 1, together with estimates of available funding and the subsequent shortfall and impact on the revenue budget of agreeing investment at these levels. The highways and property figures include the sums required to clear backlog maintenance plus the annual sums required for a steady state condition to be maintained. The NEV funding figures are a combination of known Local Growth Fund grants and estimated developers S106 contributions which are based on projected house completion estimates.

10 Funding Strategy and Capital Policies

10.1 This section sets out the policies of the Council in relation to funding capital expenditure and investment.

External Funding

10.2 Services must seek to maximise external funding wherever possible to support capital schemes. This can be in the form of grants and contributions from outside bodies including central government.

- 10.3 Prior to submitting bids for grant funding, an assessment of the risk of cost increases must be completed to estimate the likelihood of additional funding being needed, and whether this risk is acceptable.
- 10.4 If additional funding is required or match funding is required as part of the bid conditions then the source of the match funding must be identified and approved via the relevant Corporate Director prior to the external funding bid being submitted. If this is not possible then the appropriate service must raise this for consideration with the members of the Corporate Management Team and the relevant Portfolio Holder prior to submitting any bid for funding.

Capital Receipts

- 10.5 A capital receipt is an amount of money exceeding £10,000 which is received from the sale of an asset. This funding cannot be spent on revenue items other than where a statutory override exists such as through Flexible Use of Receipts detailed below.
- 10.6 The Director of Finance will review all of the Council's property annually against the aims and objectives of the Corporate Asset Management Strategy. The general policy is that any capital receipts are then pooled and used to finance future capital expenditure and investment according to priorities, although they may be used to repay outstanding debt on assets financed from loans, as permitted by the regulations.
- 10.7 The Government introduced Statutory Guidance on the Flexible Use of Capital Receipts in 2016 which was updated again in December 2017 to allow a continuation of the flexibility programme for a further 3 years to 2020/21. This allows for certain qualifying (revenue) expenditure which is forecast to generate on-going savings to the authority to be funded from Capital Receipts. A level of governance and reporting is required to take account of this benefit and the guidance recommends that a report is taken to Full Council each year detailing the use of this flexibility to ensure there is full transparency.

S106 Developer Contributions/Community Infrastructure Levy (CIL)

- 10.8 Developer contributions and CIL are sought to mitigate the impact of development and overcome what would otherwise be a potential reason to refuse a planning application. Following the introduction of CIL the Council primarily seeks S106 contributions to meet the social housing targets within our current planning policies.
- 10.9 The CIL charging mechanism which largely replaces s106 monies can be claimed to fund Community Facilities, Indoor Sports Facilities, Public Open Space, Environmental Improvements, Public Art, Highway measures (inclusive of Park and Ride, Pedestrian measures, Cycle Facilities etc.), Education, Libraries, Waste Recycling, Youth Services, Museum Resource Centre and Day Care Provision for Adults.
- 10.10 The finance team keep a record of all S106 and CIL payments received, committed and spent. Officers should always liaise with the finance team to identify potential funding sources before submitting capital bids with funding gaps.

Revenue Funding

- 10.11 Services may use their revenue budgets to fund capital expenditure.
- 10.12 The Director of the service and the Director of Finance will need to take a view and decide the most appropriate way of funding their service areas.

Prudential/Unsupported Borrowing

- 10.13 Local Authorities can set their own borrowing levels based on their capital need and their ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code... This borrowing may also be referred to as Prudential Borrowing.
- 10.14 Capital projects that cannot be funded from any other source can be funded from Prudential Borrowing. Borrowing costs are not funded by the Government and therefore Services must be able to afford the borrowing repayment and interest charges on the loan from existing revenue budgets or the Council must see this as a key priority for the budget process and to be factored into the medium term financial strategy accordingly.
- 10.15 The Director of Finance will make an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing will be reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA's Prudential Code for Capital Finance.
- 10.16 The view of the Director of Finance will be fed into the corporate bidding process so that, should the borrowing levels be unaffordable or not prudent, then the schemes will be prioritised against the available funding from borrowing using the prioritisation framework in this strategy.
- 10.17 The Director of Finance will also determine the timing and extent of any external borrowing as part of the Treasury Management Strategy.
- 10.18 The Housing Revenue Account has a borrowing cap in place which was calculated as part of the self-financing debt settlement in 2013. This restricts the total amount of long-term debt to £172.6m that can be undertaken in respect of the service. The debt forms part of the overall monitoring and regulation under the Prudential Code and is reported as part of the Councils treasury Management reporting.

Spend to Save Schemes

- 10.19 Occasionally projects arise for which services require assistance with meeting the set up costs of projects which may bring long term service delivery improvements and/or cost savings. The initial set up costs may be of a revenue or capital nature. Assistance for these schemes must be considered on an individual basis by the Corporate Management Team and then the Cabinet with consideration to the Council's overall priorities and resources.
- 10.20 For 'spend to save' schemes assistance may be given for initial set up costs, but it is expected that in the longer term these schemes will produce savings and/or additional income that will as a minimum fund any additional operational or borrowing costs. If the additional savings/income does not cover the additional costs incurred, then the service will be required to fund the gap from their existing budgets (i.e. they will underwrite the savings/income).

Leasing

- 10.21 The Director of Finance may enter into finance leasing agreements to fund capital expenditure on behalf of services. However, a full option appraisal and comparison of other funding sources must be made and the Director of Finance must be certain that leasing provides the best value for money method of funding the scheme.
- 10.22 Under the Prudential Code finance leasing agreements are counted against the overall borrowing levels when looking at the prudence of the authority's borrowing.

11 Asset Management Planning

11.1 Disposals of the existing commercial portfolio are considered on the basis set out in the investment and disposal strategy which has been agreed through the Commercial Investment Strategy Board. There are no planned disposals, opportunities are considered as they arise and in the context of the disposals strategy, recognising the fact that commercial properties are revenue producing and that the Council is looking to retain and maximise the return from revenue making assets, and acquire further assets in line with the investment strategy.

11.2 There are also sites that are available for disposal that are non-income producing that are dealt with as part of business as usual. These mainly consist of undeveloped plots where planning is either available or specific planning briefs are obtained to maximise the value as part of the marketing and disposal process, or assets that are no longer required for operational use. Opportunities are considered taking into account

- Potential demand if a site is marketed and the ability to maximise the sale value;
- The holding cost of assets. The higher the cost the more this will influence the timing of a proposed sale;
- Whether there is an opportunity for a sale to one of the Council's fully owned companies to maximise revenue generation.

12 Treasury Management and Debt

12.1 Treasury Management performance is reported to Cabinet twice a year and an Annual Treasury Strategy is approved at Council every year. The amount of long term borrowing is linked to capital expenditure and therefore is relevant to this strategy. The reports provide full information around the strategy for the year ahead and the performance for the previous period, but some of the key information is replicated below from the latest reports.

12.2 As at the end of March 2018, the Councils debt position was as follows:

Table 3

	GF	HRA	Total
External Debt	£193.7m	£114.0m	£307.7m
Internal Borrowing	£128.6m	Nil	£128.6m
Total Debt	£322.3m	£114.0m	£436.3m

12.3 Internal borrowing represents capital expenditure incurred, but for which long term borrowing has not yet been undertaken. This is because the timing of borrowing is dependent on the wider treasury management strategy which takes into account cash flow requirements and interest rate forecasts amongst other things.

12.4 Debt is repaid through an annual charge to the revenue budget known as the Minimum Revenue Provision. This is a charge which sets aside cash to repay the principal element of any borrowing and for the General Fund is calculated with reference to the life of the assets being financed and interest rates. The budgeted MRP charge for 2018/19 is £870k for General Fund and £5m for HRA. The mechanism for the MRP charge to the General Fund was amended in 16/17 to an Annuity basis which means the charge for repayment will increase year on year.

- 12.5 The Council under the Prudential Code is required to set Prudential Indicators which include both an **Authorised Limit** and an **Operational boundary** for debt. These were set at Council but are reproduced below for completeness:

The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed. This limit reflects the Councils current estimated debt position, with the assumption that internal borrowing will be reduced as new external borrowing is undertaken. Other long term liabilities represent PFI and finance leases. The operational boundary for 2018/19 and projected up to 2021/22 is shown below:

	2018/19	2019/20	2020/21	2021/22
CFR (Total Borrowing)	465,331	461,500	457,504	515,590
Other Long Term Liabilities (PFI & Leases)	49,555	47,632	45,505	45,505
Uplift applied to borrowing	20,000	20,000	20,000	20,000
Operational Boundary	534,886	529,132	523,009	581,095

The Authorised Limit for external borrowing. A further key prudential indicator, this represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited. This has been set to reflect the Council's estimate of the Capital Financing Requirement for borrowing, and for other long term liabilities (PFI and other leases) at £5m above the Operational Boundary (i.e. the expected level)

	2018/19	2019/20	2020/21	2021/22
Borrowing	485,331	481,500	477,504	535,590
Other Long Term Liabilities	49,555	47,632	45,505	45,505
Uplift applied to borrowing	5,000	5,000	5,000	5,000
Authorised Limit	539,886	534,132	528,009	586,095

- 12.6 The Council sets out its Treasury management Strategy to Full Council annually in the Treasury Strategy Statement and regularly updated its Treasury Management Practices document which sets out how officers will apply the strategy. The Councils Director of Finance and Treasury management team meet quarterly to review borrowing and investment requirements in the light of interest rate movements.

- 12.7 Appendix 1 sets out the forecast level of debt and debt charges over future years using the information set out at tables 1 (existing approved capital programme) and 2 (future investment requirements).

Investment Strategy

- 12.8 The updated 2017 Prudential Code and Treasury Management Codes now require that an Investment Strategy should be approved annually, either as a stand-alone strategy or as part of either the Capital Strategy (this document) or the Treasury Management Strategy.

- 12.9 The investment strategy splits invests into two areas, Treasury investments to support treasury management activities where yield is secondary to security and liquidity and other investments which may be towards service delivery and/or place-making (see paragraphs 3 and 4). This will include loans made to other

bodies including wholly owned companies as well as commercial investments (known as “non-financial investments”)

- 12.10 The Strategy should include quantitative indicators that allow Councillors and the public to assess a local authority’s total risk exposure as a result of its investment decisions including how they are funded and the rate of return received.
- 12.11 Local Authorities are free to decide their own indicators, but they should be consistent and presented in a way that allows a real understanding of the total risk exposure from treasury management and other types of investment.
- 12.12 The Strategy will state the Council’s approach to assessing risk of loss before entering into and whilst holding an investment, making it clear in particular:
- How it has assessed the market (including over time), market competition, barriers to entry and exit and any on-going investment requirements
 - Whether it uses external advisors (treasury management, property and other)
 - How the quality of advice from advisors is monitored and maintained
 - Whether credit ratings are utilised in making a decision
 - What other sources of information are used to assess risk
- 12.13 The Investment Strategy will also set out procedures for determining liquidity recognising that assets can take a considerable period to sell in certain market conditions, and will also detail the extent to which the Council is dependent upon profit generating investments (and disclosed in the Medium Term Financial Plan)
- 12.14 Finally, the Investment Strategy will set out the steps taken to ensure elected members and statutory officers involved in investment decision making have appropriate capacity, skills and information to enable them to take informed decisions, to be able to assess potential investments in the context of the strategic objectives and risk profile of the authority, and to ensure that Governance arrangements are in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council’s corporate values.

Commercial activity

- 12.15 As part of the Swindon Programme, a Commercialisation Theme Board is in place, chaired by the Corporate Director of Communities & Housing. The purpose of this Board is to review Commercial proposals and oversee delivery.
- 12.16 In addition, a Commercial Investment Strategy Board chaired by the Cabinet Member for Finance and Transformation reviews proposals to either invest in Commercial Property or to provide funding to one of the Councils wholly owned companies on a commercial basis. If agreed, these will proceed via CMAG for Members comments and then either to Cabinet or approval via a Cabinet Member Decision note if under £10m.
- 12.17 The Council has a number of wholly owned commercially operated companies which are detailed at section 17 such as Public Power Solutions Ltd, Forward Swindon Limited and a Housing Development Company and its subsidiaries. The Council has representation on the Boards of these companies as part of the Governance process.

13 Other long-term liabilities

- 13.1 Other long term liabilities relate to off balance sheet items such as finance lease and PFI. The largest long term financial liability that the Council is committed to is its 7 schools PFI contract signed in 2005 and in operation until 2032. This contract with Education and Support Swindon Limited, a company operated by John Laing and provides Design, Build, Finance and Operate services to the Council at a cost of c£10.7m per annum.

14 Procurement and Value for Money

- 14.1 The Council is under a general Duty of Best Value to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness
- 14.2 Procurement is the purchase of goods, services, consultancy and works with a strategy being developed to assist with the definition of quality standards and securing provision of the best possible services for local people for a given price.
- 14.3 The Council has a Procurement team that ensures that effective procedures and scrutiny are in place to deliver value for money and identify opportunities for efficiency savings to be maximised.
- 14.4 It is essential that all procurement activities comply with both the Councils own Contract Standing Orders (that incorporates national legislation) and financial regulations in addition to the EU procurement directives to ensure compliance with all of the relevant procedures and regulations.
- 14.5 The main aim is to hold ‘value for money’ as a key goal in all procurement activity to optimise the combination of cost and quality.

15 Management Framework

- 15.1 The governance structure of the Council has the Corporate Management Team that takes a corporate and group view on the capital programme and investment.
- 15.2 The Corporate Management Team will also ensure a corporate and group portfolio perspective to the use and allocation of the Council’s capital assets and those within its control, and in planning capital investment. The team receives reports on proposed capital projects and recommends to the Cabinet proposals for the development of the capital programme.

16 Performance Management

- 16.1 Clear measurable outcomes should be developed for each capital scheme. After the scheme has been completed, services should check if outcomes have been achieved budgets.
- 16.2 All capital projects should have an identified budget manager responsible for managing the performance of the scheme in terms of both time and cost. All individual projects with a total budget of greater than £1m should consider setting up a Project Board set up, or be overseen by a wider Project Board, that meets regularly to monitor scheme progress against required outcomes. Project Boards should also review the project risk register and provide strategic direction to the project manager where required.
- 16.3 Formal post scheme evaluation reviews should be completed by Departments for all schemes over £1 million and for strategic capital projects.

16.4 Reviews should look at the effectiveness of the whole project in terms of service delivery outcomes, design and construction, financing etc. and identify good practice and lessons to be learnt in delivering future projects.

16.5 A report should be submitted to the relevant Corporate Director at formal close for them to review.

17 Risk Management

17.1 Risk is the threat that an event or action will adversely affect the Council's ability to achieve its objectives and to execute its strategies successfully.

17.2 Risk management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of managing them and/or responding to them. It is both a means of minimising the costs and disruption to the organisation caused by undesired events and of ensuring that staff understand and appreciate the element of risk in all their activities.

17.3 The aim is to reduce the frequency of adverse risk events occurring (where possible), minimise the severity of their consequences if they do occur, or to consider whether risk can be transferred to other parties.

17.4 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.

17.5 It is important to identify the appetite for risk by each scheme and for the capital programme as a whole, especially when investing in capital assets held primarily for financial returns. Under the CIPFA Prudential Code these are defined as investments and so the key principle of control of risk and optimising returns consistent with the level of risk applies.

17.6 The Director of Finance will report explicitly on the affordability and risk associated with the Capital Strategy. Where appropriate he will have access to specialised advice to enable him to reach his conclusions.

17.7 An assessment of risk should therefore be built into every capital project and major risks recorded in a Risk Register.

18 Alternate Delivery Models

18.1 In response to reducing capital resources the Council has looked to existing and new delivery models to continue its significant capital investment in the town which levers in other partners and innovative financing. These include:

- Forward Swindon Ltd - The Councils wholly owned regeneration agency
- Public Power Solutions Ltd – Wholly owned subsidiary offering waste and power solutions
- Solar Farms – Common and Chapel Farms are wholly owned companies delivering solar power
- Swindon Housing Company Ltd – wholly owned Housing development companies
- Wichelstowe Joint Venture – 50/50 Joint Venture between Barratt Developments and the Council to deliver up to 2,800 homes on Wichelstowe

18.2 A Shareholder Panel meets every 6 months to review the performance of the companies listed above, their wider benefit to the Council and risks.

18.3 Innovative funding streams and partnerships will be explored where these could provide benefits to the Council but will be subject to rigorous assessment

and approval in line with the Capital Strategy and wider Council governance processes.

19 Property Investments

- 19.1 As part of Commercial activity and the response to reducing resources, the Council has looked to purchase property where returns are greater than the cost of funding. This is underpinned through a Commercial Acquisitions & Disposal Strategy and purchases are approved via a business case to the Commercial Investment Strategy Board chaired by the Deputy Leader of the Council and Cabinet Member for Finance.
- 19.2 Hartnell Taylor Cook, a firm of specialist commercial property consultants, have been procured to offer external expert advice on proposed purchases as well as an overview of the overall Council portfolio to ensure the portfolio is balanced, and risks are actively identified and managed.
- 19.3 The Council has also engaged specialist accounting and financial advisors to support this process.

Appendices

Appendix 1 – Capital investment impact on debt levels - TBC