

**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?**

3.1 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.

3.3 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.

3.4 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.

4.7 Annex 3 sets out in detail the Council's Investment Strategy around Commercial Investments

#### **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 Councils 4 priorities?
- Does the proposal attract significant external funding support or other sustainable income streams such as business rates or income tax?
- 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 Investment Strategy attached at Annex 3 to this paper details the Governance process for this Board.

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.

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**

9.1 Table 1 below provides an estimate of further investment requirements over the next 5 years including the new 19/20 proposals contained elsewhere in this report.

9.2. The estimates for 20/21 forwards are based on best understanding at this time using:

- Schools - place planning forecasts
- New Eastern Villages “NEV” - strategic delivery plans and Local Growth fund awards
- Highways maintenance – 19/20 Local transport settlement
- Property assets – condition survey information
- Children’s & Adults – 19/20 approvals

<b>Table 1</b>	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>	<u>22/23</u>	<u>23/24+</u>	<u>Total</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
<b><u>Capital Investment</u></b>						
Highways maintenance	5.1	4.1	4.1	4.1	4.1	21.5
Schools (excl NEV)	4.1	14.4	0.9	23.9	0.9	44.2
Property assets	3.7	1.1	1.1	1.1	1.1	8.0
Childrens & Adults	1.3	1.3	1.3	1.3	1.3	6.5
New Eastern Villages	33.4	55.4	38.6	43.1	39.5	210.0
<b>sub-total</b>	<b>47.5</b>	<b>76.3</b>	<b>46.0</b>	<b>73.5</b>	<b>46.8</b>	<b>290.2</b>
Grant/S106 Funding	39.1	51.8	20.1	57.5	116.0	284.5
<b>Shortfall - Borrowing</b>	<b>8.4</b>	<b>24.5</b>	<b>25.9</b>	<b>16.0</b>	<b>-69.2</b>	<b>5.7</b>

9.3 Due to the requirement to fund NEV infrastructure costs in advance of expected Developers S106 contributions (which are paid in line with house completions) there is an annual borrowing requirement until 23/24 when significant contributions are estimated to become payable. The Council has no control over the delivery timescales or scale of delivery and there is clearly significant financial risk around these.

9.4 There is also a bid for Housing Infrastructure funding of £18m to support the Southern Connector Road which hasn't been factored into the above. This, if successful, would significantly reduce the borrowing requirement to 2020/21.

9.5 Annex 1 contains a more detailed breakdown of the information contained in Table 1 above.

### **Backlog and Investment shortfalls**

9.6 Capital investment in service assets is highly constrained by the funding available and therefore has historically not been funded at a level required to keep assets in a "steady state" condition or to address backlog maintenance needs.

9.7 Work has been commissioned to understand backlog maintenance requirements around highways and property assets as well as to understand the future level of spend required to prevent assets from further deterioration and is summarised in table 2. This shows the required steady state spend compared with funding/historic spend together with an estimate of the debt charge impact of funding this deficit.

9.8 In summary, **highways assets** have a backlog spend requirement of £10.6m based on the current approved performance management framework for highways assets and requires a further annual sum of around £11.8m per annum to keep the highways infrastructure from deterioration as opposed to estimated future annual funding availability of between £4.1m and £4.9m per annum. Annex 2 provides further detail.

9.9 Property Services has identified a total backlog maintenance liability of c£7M from its condition survey programme for its **operational property** portfolio. This excludes all assets where there are options appraisals underway for their future use such as maintained schools, properties let under commercial arrangements, non-highway structures and works resulting from statutory compliance inspections.

9.10 For each property the condition categories of A, B, C & D (D being the worst) and priority levels of 1, 2, 3 & 4 (1 being the most urgent) of each backlog maintenance element is assessed. With a diverse operational property portfolio it is not always appropriate to maintain them all to the same standard although in all cases property assets must remain safe, secure and substantially fit for the purpose for which they are used.

9.11 Future funding of c£5.8m over the next 5 years (£1.4m for 19/20, £1.1m for each subsequent year) will be required to address all backlog maintenance targeting the highest priority worst condition items first. However estate rationalisation programmes, closure/disposal of assets, asset transfers and other capital projects to refurbish or replace operational properties will also be utilised to offset the backlog funding required. This is lower than the sum of £2m per annum that has traditionally been made available due to a reduction in the asset base. The phasing of future requirements will be reviewed annually.

## **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 and S106/CIL teams 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. The Government abolished the cap in October 2018.

### **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.
- 11.3 On-going costs of existing assets are reflected in budgets and these are taken into account when considering investment or disposal opportunities

## **12 Treasury Management and Debt**

- 12.1 Treasury Management performance, the effective management of the Authority's daily cash balances, is reported to Cabinet twice a year and an Annual Treasury Strategy is approved at Council every year. Under the Council's Constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Director of Finance and his team, including compliance with agreed policies.
- 12.2 The amount of long term borrowing undertaken to fund 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.

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

**Table 2**

	<b>GF</b>	<b>HRA</b>	<b>Total</b>
External Debt	£193.7m	£114.0m	£307.7m
Internal Borrowing	£103.2m	Nil	£103.2m
<b>Total Debt</b>	<b>£296.9m</b>	<b>£114.0m</b>	<b>£410.9m</b>
PFI liabilities	£51.3m		£51.3m
<b>Total CFR</b>	<b>£348.2m</b>	<b>£114.0m</b>	<b>£462.2m</b>

12.4 Internal borrowing represents the use of cash backed reserves as a temporary measure to defer the need to immediately borrow externally for capital purposes. This saves the Council interest as the opportunity cost of using reserves is less than the cost of external borrowing.

12.5 Total Debt including Internal Borrowing is measured through a calculation derived from the balance sheet at year end and is known as the “**Capital Financing Requirement**”. It is a true measure of underlying debt which takes into account the requirement for further borrowing rather than just the actual external debt at a moment in time.

12.6 Debt is repaid through an annual charge to the revenue budget broadly equating to the life of the underlying asset that has been financed and is 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 MRP Policy Statement forms part of the Treasury Management Strategy taken to Cabinet and approved at Full Council annually.

12.7 HRA borrowing forms part of overall Council borrowing for treasury management purposes but charges are earmarked to the HRA on an accounting basis which reflects the initial debt allocation when HRA subsidy was abolished less annual repayments. Effectively charges are ring-fenced between the General Fund and the HRA.

#### **Future borrowing levels**

12.8 Section 9 of this strategy sets out the estimate future level of capital investment and the level of borrowing required to support it.

12.9 The following table sets out the estimated General Fund debt position taking into account the projected spend estimates to 2023/24 as set out in table 1 and with an assumed level of new borrowing of £30m per annum to be taken out to fund both new expenditure and to re-finance maturing debt.

12.10 This shows the borrowing requirement increasing annually through to 2022/23 and then reducing as expected NEV S106 contributions are received. This does not include any further commercial investments funded through borrowing which will increase borrowing but be supported by underlying revenue streams.

**Table 3**

General Fund Projections	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
<b>CAPITAL FINANCING REQUIREMENT</b>						
CFR excl. PFI b/fwd 1 Apr	296.9	311.5	342.4	365.1	388.4	400.3
PFI liabilities	51.3	49.6	47.6	45.5	43.1	40.4
<b>CFR incl. PFI b/fwd 1 Apr</b>	<b>348.2</b>	<b>361.1</b>	<b>390.0</b>	<b>410.6</b>	<b>431.5</b>	<b>440.8</b>
Add Capital Expenditure funded through borrowing	16.1	32.6	24.5	25.9	16.0	1.1
Less NEV Developer s106	-	-	-	-	-	(70.3)
Less MRP (debt repayment)	(1.5)	(1.7)	(1.8)	(2.6)	(4.1)	(3.6)
Underlying Borrowing Requirement excl PFI	311.5	342.4	365.1	388.4	400.3	327.5
PFI Liabilities	49.6	47.6	45.5	43.1	40.4	37.4
<b>CFR c/fwd incl PFI 31 Mar</b>	<b>361.1</b>	<b>390.0</b>	<b>410.6</b>	<b>431.5</b>	<b>440.8</b>	<b>365.0</b>
External Borrowing b/fwd 1 Apr	(193.7)	(202.2)	(230.7)	(248.0)	(266.1)	(283.1)
Loan Maturities	11.5	1.5	12.7	12.0	13.0	4.7
New Loans	(20.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
External Borrowing c/fwd 31 Mar	(202.2)	(230.7)	(248.0)	(266.1)	(283.1)	(308.4)
Under Borrowing (excl PFI)	109.3	111.7	117.1	122.4	117.3	19.2

12.11 Table 4 below sets out the estimated HRA debt position. The HRA are currently repaying £5m of debt annually but are expected to take out new borrowing from 2020/21 as a result of the Queens Drive regeneration.

**Table 4**

HRA Fund Projections	2018/19 (£m)	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)
<b>CAPITAL FINANCING REQUIREMENT</b>						
CFR excl. PFI b/fwd 1 Apr	114.0	109.0	104.0	109.6	120.6	115.6
PFI liabilities	-	-	-	-	-	-
<b>CFR incl. PFI</b>	<b>114.0</b>	<b>109.0</b>	<b>104.0</b>	<b>109.6</b>	<b>120.6</b>	<b>115.6</b>
Add Capital Expenditure funded through borrowing	-	-	10.6	15.9	-	-
Less MRP (debt repayment)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)
Underlying Borrowing Requirement	109.0	104.0	109.6	120.6	115.6	110.6
PFI Liabilities	-	-	-	-	-	-
<b>CFR c/fwd 31 Mar</b>	<b>109.0</b>	<b>104.0</b>	<b>109.6</b>	<b>120.6</b>	<b>115.6</b>	<b>110.6</b>
External Borrowing b/fwd 1 Apr	(114.0)	(109.0)	(104.0)	(109.6)	(120.6)	(115.6)
Loan Maturities	5.0	5.0	5.0	5.0	5.0	5.0
New Loans	-	-	(10.6)	(15.9)	-	-
External Borrowing c/fwd 31 Mar	(109.0)	(104.0)	(109.6)	(120.6)	(115.6)	(110.6)
Under / (Over) Borrowing	-	-	-	-	-	-

12.12 The Medium Term Financial Plan will take into account the additional borrowing costs which are dependent on future interest rate movements and timings of new loans.

## Borrowing Limits

12.13 The Council is required by the Cipfa Prudential Code to set Prudential Indicators around limits on external debt which include both an **Authorised Limit** and an **Operational boundary**. These were set at Council as part of the Annual Treasury Strategy but are reproduced below for completeness:

12.14 **The Operational Boundary** is the limit beyond which external borrowing is not normally expected to exceed i.e. a best estimate of the maximum level if all borrowing requirements were undertaken plus a contingency. This limit reflects the Council's current estimated debt position, with the assumption that internal borrowing (using existing working capital cash balances temporarily to fund capital expenditure in advance of undertaking new external 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:

Operational Boundary	£m's 2018/19	£m's 2019/20	£m's 2020/21	£m's 2021/22	£m's 2022/23	£m's 2023/24
CFR (borrowing requirement)	420.5	446.4	474.8	509.0	515.9	438.1
PFI liabilities	49.6	47.6	45.5	43.1	40.4	37.4
Uplift	20.0	20.0	20.0	20.0	20.0	20.0
Total	490.1	514.1	540.3	572.0	576.3	495.5

12.15 **The Authorised Limit** for external borrowing is 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)

Authorised Limit	£m's 2018/19	£m's 2019/20	£m's 2020/21	£m's 2021/22	£m's 2022/23	£m's 2023/24
Operational Limit	490.1	514.1	540.3	572.0	576.3	495.5
Uplift	5.0	5.0	5.0	5.0	5.0	5.0
Total	495.1	519.1	545.3	577.0	581.3	500.5

12.16 The prime policy objectives of local authority investment activities are the security and liquidity of funds, and authorities should avoid exposing public funds to unnecessary or unquantified risk. However, all treasury management activity is subject to risk, including the 'do nothing' option and treasury management is all about the management of risk.

12.17 The key risks inherent in treasury management activity are set out below but the Treasury Management Policy and Treasury Management Practices (Annex to the Policy) sets out more detail:

12.17.1 Borrowing – it is important the any new borrowing is taken out at the lowest possible cost to the Council. As loans also have to be replaced upon maturity, it is important that the Council has a balanced portfolio in terms of varying loan period so that the risk of having to replace maturing loans in any one period when interest rates may be high is mitigated.

12.17.2 Lending – the priorities for lending are security and liquidity, followed by yield. The primary risks are therefore that the Council will receive its money

back (Security), and that the funds lent can be returned as quickly as required.(Liquidity) The Policy strategy sets out in full the framework around who the Council can invest with and the restrictions in place.

- 12.18 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 and mitigate the risks. The Councils Director of Finance and Treasury management team meet quarterly to review borrowing and investment requirements in the light of interest rate movements and obtain expert advice as required.
- 12.19 The Council uses external advisors, Link Asset Services, to provide Treasury Management advice and support its internal team. This includes both technical advice as well as advice around the market outlook given this is a key area for successful management of loans and investments. The Councils internal treasury team have significant experience in this area gained with a number of local authorities over many years.
- 12.20 In addition, staff undertake regular training to ensure knowledge is up to date and Member training is periodically provided using both in house and external resources.
- 12.21 The annual Treasury Management Policies and Strategies are presented annually to Council for approval and contain significantly more detail around Treasury Management and Debt.

### **13 Commercial activity**

- 13.1 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.
- 13.2 This document sets out the authority's risk appetite and governance processes which include due diligence.
- 13.3 The Councils Investment Strategy is attached at Annex 3.

### **14 Other long-term liabilities**

- 14.1 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£11m per annum.
- 14.2 Other than the PFI contract which is managed and monitored through an in-house client team, the Council does not have any other long-term liabilities. Any future leasing arrangements should be advised to the Treasury team within the finance function so that consideration of the value for money and accounting issues can be ascertained.

### **15 Procurement and Value for Money**

- 15.1 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

- 15.2 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.
- 15.3 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.
- 15.4 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.
- 15.5 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.

## **16 Management Framework**

- 16.1 The governance structure of the Council has the Corporate Management Team that takes a corporate and group view on the capital programme and investment.
- 16.2 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.

## **17 Performance and Project Management**

- 17.1 Clear measurable outcomes should be developed for each capital scheme and should include a project plan with milestones as well as robust budgets with contingencies that reflect known and unknown risks taking into account internal and external influences.
- 17.2 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, and gives strategic direction to the Project Manager.
- 17.3 After the scheme has been completed, services should check if outcomes have been achieved budgets.
- 17.4 If Project Boards are set up, they should ensure that agendas are prepared and circulated beforehand, minutes taken, and include as a minimum a risk register and project plan with key dates and tasks. Project Boards should also review the project risk register and provide strategic direction to the project manager where required.
- 17.5 Formal post scheme evaluation reviews should be completed by Departments for all schemes over £1 million and this should be signed off by the Project Board when the project is complete.
- 17.6 Post project 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.

## **18 Risk Management**

- 18.1 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.
- 18.2 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.
- 18.3 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.
- 18.4 To manage risk effectively, the risks associated with each capital project need to be systematically identified, analysed, influenced and monitored.
- 18.5 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.
- 18.6 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.
- 18.7 An assessment of risk should therefore be built into every capital project and major risks recorded in a Risk Register.

## **19 Alternate Delivery Models**

- 19.1 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:
- 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
- 19.2 A Shareholder Panel meets every 6 months to review the performance of the companies listed above, their wider benefit to the Council and risks.
- 19.3 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.

## **20 Property Investments**

- 20.1 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. The strategy is attached at Annex 4.

20.2 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.

20.3 The Council has also engaged specialist accounting and financial advisors to support this process.

## **Appendices**

Annex 1 - 5 year capital investment

Annex 2 - highways condition survey

Annex 3 - Investment strategy

Annex 4 - Property Investment and Disposal Strategy