Winchester City Council

Meeting The Overview and Scrutiny Committee – Additional Meeting

Date and Time Thursday, 31st January, 2019 at 6.30 pm.

Venue Walton Suite, Guildhall, Winchester

AGENDA

PROCEDURAL ITEMS

1. **Apologies and Deputy Members**
   To note the names of apologies given and Deputy Members who are attending the meeting in place of appointed Members.

2. **Disclosures of Interests**
   To receive any disclosure of interests from Members and Officers in matters to be discussed.

   Note: Councillors are reminded of their obligations to declare disclosable pecuniary interests, personal and/or prejudicial interests in accordance with legislation and the Council's Code of Conduct.

   If you require advice, please contact the appropriate Democratic Services Officer, prior to the meeting.

3. **Chairman's Announcements**

4. **Membership of Sub-Committees and Informal Groups etc**

BUSINESS ITEMS

5. Public Participation

   To receive and note questions asked and statements made from members of the public on matters which fall within the remit of the Committee

6. Winchester Sport and Leisure Centre - Full Business Case (less exempt appendix) (Pages 5 - 28)

(CAB3082(LC))

7. Treasury Management Strategy Statement 2019/20 (Pages 29 - 52)

   (OS220)

8. Capital Investment Strategy (Pages 53 - 90)

   (OS221)

9. EXEMPT BUSINESS: To consider whether in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

   i) To pass a resolution that the public be excluded from the meeting during the consideration of the following items of business because it is likely that, if members of the public were present, there would be disclosure to them of 'exempt information' as defined by Section 100 (I) and Schedule 12A to the Local Government Act 1972.

10. **Winchester Sport and Leisure Centre - Full Business Case (Exempt Appendix)** (Pages 91 - 142)

L Hall
Head of Legal Services (Interim)

Members of the public are able to easily access all of the papers for this meeting by opening the QR Code reader on your phone or tablet. Hold your device over the QR Code below so that it's clearly visible within your screen and you will be redirected to the agenda pack.

23 January 2019

Agenda Contact: Claire Buchanan, Senior Democratic Services Officer
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**With the exception of exempt items, Agenda, reports and previous minutes are available on the Council's Website www.winchester.gov.uk*

MEMBERSHIP

Chairman: Learney (Liberal Democrats) **Vice-Chairman:** Stallard (Conservative)

Conservatives	**Liberal Democrats**
Cunningham	Clear
Gemmell	Evans
McLean	Thompson
Weston	Tod
Lumby	

Deputy Members

Berry and Mather

Hiscock and Weir

Quorum = 4 members

Relevant Portfolio Holders:

Having regard to the content of the agenda, the Chairman requests that The Leader and all relevant Portfolio Holders attend meetings of the committee

PUBLIC PARTICIPATION

A public question and comment session is available at 6.30pm for a 15 minute period. There are few limitations on the questions you can ask. These relate to current applications, personal cases and confidential matters. Please contact Democratic Services on 01962 848 264 in advance of the meeting for further details. If there are no members of the public present at 6.30pm who wish to ask questions or make statements, then the meeting will commence.

Voting:

- apart from the Chairman, every Member has one vote when a matter before the meeting requires a decision.
- in the event of an equality of votes, the Chairman may exercise a casting vote and that vote may be exercised in any way seen fit.
- a Member may abstain from voting, or vote differently from how they may have indicated during the debate, without further explanation.
- the way each Member voted will not be recorded in the minutes, unless a motion to have a Recorded Vote has been passed.

DISABLED ACCESS:

Disabled access is normally available, but please phone Democratic Services on 01962 848 264 or email democracy@winchester.gov.uk to ensure that the necessary arrangements are in place.

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CAB3082(LC)
THE OVERVIEW AND SCRUTINY COMMITTEE
CABINET (LEISURE CENTRE) COMMITTEE

REPORT TITLE: WINCHESTER SPORT AND LEISURE CENTRE – FULL BUSINESS CASE

THE OVERVIEW AND SCRUTINY COMMITTEE – 31 JANUARY 2019
CABINET (LEISURE CENTRE) COMMITTEE - 11 FEBRUARY 2019

REPORT OF PORTFOLIO HOLDER: Councillor Lisa Griffiths, Portfolio Holder for Health and Wellbeing

Contact Officer: Andy Hickman Tel No: 01962 848105 Email ahickman@winchester.gov.uk

WARD(S): ALL

PURPOSE

The Council has been considering the provision of a new Sport and Leisure Centre for the District for several years, and in October 2018 the Planning Application for the Centre at the Garrison Ground, Bar End was approved.

During 2018, two separate procurement processes took place. The first sought to appoint a contractor and determine the cost for the construction of the new centre, whilst the second was to procure an operator for the new Centre and to identify the annual management fee which would be received by the Council. These are the key elements of the Full Business Case for the new Sport and Leisure Centre.

This report considers the Full Business Case for the project and covers both the construction and long-term operation of a new Sport and Leisure Centre for the District.

RECOMMENDATIONS:

It is recommended that The Overview and Scrutiny Committee:

Note the progress made to date and considers whether to provide any comments to be considered by the Cabinet (Leisure Centre) Committee on 11 February 2019.

It is recommended that Cabinet (Leisure Centre) Committee:

1. Acknowledges and notes the contents of the Full Business Case (FBC) in Exempt Appendix A.

2. Approves the preferred option for a new Sport & Leisure Centre as detailed in the FBC.

3. Authorises the Corporate Head of Asset Management, subject to agreeing terms, to enter into a construction contract with Willmott Dixon Construction Ltd to build the Sport and Leisure Centre.

4. Delegates to Head of Programme authority to;

   a. agree terms for the Funding/ Collaboration agreement with the University of Winchester.
   b. to agree and enter into a contract with the Operator based upon the outcome in relation to facilities to be included within the management operation.

5. Subject to Council approval of the revised budget, approves the total capital expenditure and associated revenue consequences as detailed in Exempt Appendix A for the construction and associated costs of the Sport and Leisure Centre.

6. Authorises the Corporate Head of Asset Management to oversee the construction of the Sport and Leisure Centre on the Garrison Ground.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

1.1 This project supports the Health and Happiness outcome of the Council Strategy through the provision of new facilities to meet the needs of a broad cross section of our communities for now and in the future.

1.2 The Vision for the Sport and Leisure Centre is one that:

- Reflects sporting needs and aspirations for the people of our district
- Is flexible to provide for current and future sporting needs and trends
- Is deliverable and affordable
- Is in a park setting providing additional sporting and leisure opportunities
- Provides an excellent water based offer for community use

1.3 The objectives for this project are:

- To provide accessible public sport and leisure facilities to improve the health and happiness of the District's residents
- To increase participation in sport and active recreation
- To improve the quality and energy efficiency of Winchester's main leisure facility
- To provide a Sport and Leisure Centre that is financially sustainable

2 FINANCIAL IMPLICATIONS

2.1 The proposed new Sport and Leisure Centre is estimated to provide the Council with an overall net surplus over its 40 year life and so produces a positive net impact on the General Fund when compared to the revenue costs of the existing leisure centre as well as producing a better financial position than extending the life of the existing centre.

2.2 However, due to the timing difference in incurring initial financing costs and receiving income from the operator, there will be a negative impact on the General Fund until an estimated annual surplus position is reached in 2030/31 with the most significant deficits from 2020/21 to 2022/23. It will be necessary therefore to cover this deficit by using earmarked General Fund reserves; however, once a surplus position is reached, the Council can then elect to begin to replenish those reserves or increase spend on service expenditure elsewhere.

2.3 The total cost of the leisure centre is being funded partly by external contributions with the majority funded by prudential borrowing. The detailed financial implications including the inflation and borrowing cost assumptions, total budget requirement and funding sources, and the impact on the General Fund are set out in the Full Business Case (FBC) at Exempt Appendix A.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 A funding/collaboration agreement with the University of Winchester (UoW) has yet to be concluded in relation to their financial contribution to the capital costs and management of the Sports Stadium. As there is no certainty until the Agreement is signed, the Business Case, which has been prepared, tests a Worst Case (assuming no involvement or contributions from the University of Winchester) and a Best Case scenario (ie a fully integrated facility and with contributions from the University of Winchester) based upon reaching an agreement with the UoW. The Council is working closely with the UoW to try to complete the Agreement and to achieve a fully integrated and managed facility at Bar End.

3.2 An agreement has been signed with The Pinder Trust in relation to their financial contribution to the capital costs. Hampshire County Council has allocated their financial contribution to their capital programme and a process has been agreed as to how this money will be transferred to the Council.

3.3 The governance process for the new Sport and Leisure Park was agreed in November 2017. This process sets out the terms for the funding partners' ongoing involvement in the project and aligns it with the Council's decision making processes.

3.4 The "agreements for leases" from the UoW will need to be agreed prior to, or simultaneously with, the completion of the contract for the construction of the facility and the management contract with the proposed Operator. In addition to this the draft lease to the Operator will also need to be agreed with the UoW (if appropriate) and the Operator prior to the completion of the construction contract and the 'Operator contract'.

4 WORKFORCE IMPLICATIONS

4.1 The staffing requirements for the project are continually reviewed to ensure effective and timely delivery. The nature and complexity of the project means that extra resources are being considered, particularly in relation to the legal aspects.

4.2 In terms of the staff at both River Park Leisure Centre (which will close when the new centre opens) and the Winchester Sports Stadium if required, they would transfer to any new contractor under the TUPE process. The existing list of staff to transfer was provided to all bidders as part of the leisure management procurement exercise.

4.3 A key consideration in relation to this project is the supervisory roles for the construction of the new centre. As agreed by the Cabinet (Leisure Centre) Committee, a site supervisor has been appointed to work directly for the Council in order to ensure that the construction is being carried out in accordance with the design and specification. The Council's Estates team will also have a key role in this process and Stride Treglown/LA architects has been retained on the client side, as Technical Advisor, working for the Council throughout the construction stages.

5 PROPERTY AND ASSET IMPLICATIONS

5.1 The existing River Park Leisure Centre (RPLC) needs to be maintained in good order until such time as a new Sport and Leisure Centre can be delivered and opened. Any delays to the timetable for the delivery of a new Centre may lead to increased maintenance costs. The Council's Estates Team is actively monitoring the condition of RPLC and undertaking any required works in the intervening period.

6 CONSULTATION AND COMMUNICATION

6.1 The engagement, listening and learning process to support the development of this project has been extensive and has allowed the project team to capture the aspects of leisure centre operation that are important to key groups and partners.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 One of the key objectives of the project is to deliver an EPC Grade A rating. The project will continue to be assessed against the BREEAM accreditation process.

8 EQUALITY IMPACT ASSESSEMENT

8.1 The facilities and services provided by the Operator must comply with the legislation relating to the Equality Act 2010. An equalities impact assessment is an ongoing process undertaken as part of the detailed design and engagement work of this project.

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 The operator will be required to work with the Council to agree a protocol regarding the sharing of data in line with the EU General Data Protection Regulation and the Data Protection Act 2018. This has been set out in the contract specification.

10 RISK MANAGEMENT

10.1 The Project has a separate risk register which is managed by the Project Manager; see Appendix B. This report considers matters linked to risks associated around achieving a satisfactory Business Case.

10.2 Key risks include:

Main Risk	Counter Measures
Construction delays	• Careful supervision • Carrying out early accommodation works • Careful programming and monitoring
Start up on new operator	• Good working relationship and agreed soft landings approach
Construction cost increases	• Careful supervision • Advanced level of detailed design and assessment undertaken • 2 stage design and build process
Impact of construction on residents	• Production of Construction Management Plan • Considerate Contractor Scheme • Good liaison with residents
Finished scheme does not match design	• Appointment of NEC site supervisor • Retain LA architects and Hoare Lea (mechanical and electrical) as Technical Advisors.

10.3 The main risk consideration of this report relates to achieving a satisfactory Full Business Case. The risks are greater in number and more complex because of the requirement to ensure that there is sufficient income from the facility to deliver a viable proposal whilst delivering a new centre which meets the needs and aspirations of users and sports groups and which is acceptable to local residents and statutory bodies.

10.4 There are also other important risks and impacts related to the lifespan of the existing River Park Leisure Centre (RPLC). These include the ongoing condition assessment and associated costs of required works in order to ensure that it remains safe and functional, along with the cost of heating and lighting an inefficient centre and the resultant environmental impact this has. The longer that the new Sport and Leisure Centre is delayed means that these risks and impacts will increase in terms of cost and reputation.

10.5 The risk around the completion of the Funding/Collaboration Agreement with the University not having been completed has been mitigated by testing a range of scenarios associated with any associated financial payments in the Full Business Case. If, as is hoped, an Agreement is reached, these will only improve the financial position.

11 <u>SUPPORTING INFORMATION:</u>

11.1 Following the approval of the agreed facility mix for the new Sport and Leisure Centre at Cabinet on 13 November 2017, The Sports Consultancy has finalised the financial model for the Full Business Case as set out below and in Exempt Appendix A.

11.2 The Full Business Case tests the development of a new Sport and Leisure Centre at Bar End reflecting total capital investment by Partners, as set out in Exempt Appendix A, with the remainder funded by prudential borrowing. The contribution from the University of Winchester is still subject to signing of a formal Funding/Collaboration Agreement. The Base Case model currently therefore assumes that this amount will also need to be funded by Prudential Borrowing. It is hoped that terms for this Agreement can be reached soon. This Agreement will determine two aspects both of which could be agreed independently.

- o The management of the Winchester Sports Stadium within the overall Management Contract for the Sport and Leisure Centre operation
- o A capital contribution in return for the use of certain facilities within the new Sport and Leisure Centre on a Wednesday afternoon

11.3 If the Full Business Case is approved the Council will be able to confirm the appointment of the preferred bidder for the leisure management contract and the construction contract with Willmott Dixon and progress to the implementation stage. It is important that these agreements are entered into simultaneously.

11.4 The Full Business Case has been produced using the HM Treasury “Five Case Model”. The approved format is the Five Case Model, which comprises the following key components:

- The **strategic case** section. This sets out the strategic context and the case for change, together with the supporting investment objectives for the scheme
- The **economic case** section. This demonstrates that the organisation has selected the choice for investment which best meets the existing and future needs of the service and optimises value for money (VFM)
- The **commercial case** section. This outlines the content and structure of the proposed deal
- The **financial case** section. This confirms funding arrangements and affordability and explains any impact on the balance sheet of the organisation
- The **management case** section. This demonstrates that the scheme is achievable and can be delivered successfully to cost, time and quality.

11.5 The purpose of the Full Business Case is to consider the viability of the project against the project objectives based on all the information to date and to determine whether the new Sport and Leisure Centre is financially viable. It builds on the Outline Business Case that was completed in 2017. The Business Case takes account of the allowance of ‘Income Benchmarking’ to offer the appointed Operator a degree of protection against being committed to paying a certain management fee over the life of the contract if factors occur such as economic or legislative impacts which are outside of their control. It should be emphasised that this benchmarking provision is part of the Sport England template leisure management contract (which is the basis for the contract here) and reflects the current market position. Allowing this within the contract ensured that bidders remained interested in the opportunity and that the Council could achieve the required level of management fee.

The controls in place for this process include:

- The process can only be implemented 5 years into the contract
- The operator cannot call for this process as a result of their net income being down due to poor performance
- It can only be triggered if the operator income is down by an agreed proportion of their profit as part of their bid e.g. 50%
- The operator has an obligation to mitigate any loss or decline in income prior to a benchmarking exercise
- A third party can be appointed if the Council and operator cannot agree to the management fee adjustment
- There is a process of dispute resolution if no agreement can be reached

12 STRATEGIC OBJECTIVES

12.1 The 4 main strategic objectives of this project are as follows:

- **Objective 1:** To provide accessible public sport and leisure facilities to improve the health and happiness of the District's residents.

- **Objective 2:** To increase participation in sport and active recreation.

- **Objective 3:** To improve the quality and energy efficiency of Winchester's main leisure facility.

- **Objective 4:** To provide a Sport and Leisure Centre that is financially sustainable.

12.2 See next section and Appendix A for details on how this project delivers these strategic objectives

13 MEETING THE STRATEGIC OBJECTIVES

13.1 **Objective 1:** To provide accessible public sport and leisure facilities to improve the health and happiness of the District's residents.

Will be delivered through

- A programme of activities to improve the health, fitness and wellbeing of the residents of the district

- A facility that can meet the existing demand and (has the potential to expand) to meet the population growth. An accessible location for the wider District's residents as well as for town residents
- Providing a wider park setting which combines both leisure activity opportunity together with competition sports
- Providing integration with specialist facilities such as the Sports Stadium, the hydrotherapy centre and treatment rooms
- Providing a high standard, fully Sport England compliant facility allowing many different sports and leisure activities to take place
- Allowing for much greater participation in water based activities including learning to swim, training, gaining confidence, hydrotherapy and specialist areas such as triathlon training, many of which can take place at the same time due to the flexibly design water areas and facilities
- To allow for regional swimming events
- Providing a wide range of facilities for those who have disabilities
- Providing a full range of accessible facilities and events for young people linked to school and college activities.

13.2 **Objective 2:** To increase participation in sport and active recreation.

Will be delivered through

- Provision of opportunities for people to reach their full potential in their chosen sport and leisure activity
- Improvement in the wellbeing of the local community through access to high quality sport and leisure facilities and foster partnerships with health organisations to achieve health outcomes
- Provision of a centre of sport excellence encouraging wider participation in many sporting activities
- Provision of a regional centre for water facilities, for sport , leisure and aquatic therapy
- Seeking to maximise the benefits from the existing facilities on the site including athletics and boxing
- Provision of additional capacity for school based activities

Further comment

13.3 The Full Business Case considers all aspects of the proposed development and it is important for the Council to be sure at this critical point in the project that this is the correct investment decision. In recognising that the Garrison Ground and King George V playing fields at Bar End already provides for sport and leisure use, the Council is considering the use of this space as a whole through a Design Framework. The new Sport and Leisure Centre forms part of the longer term vision for a Winchester Sport and Leisure Park.

13.4 Partnership working is essential to the delivery of this bold and ambitious development. The University of Winchester (UoW) subject to the agreement of terms has indicated that they will make a capital investment into the project. The University of Winchester own and manage the adjacent Sports Stadium and are reviewing options as to whether the management of the Stadium will pass to the Operator of the new Leisure Centre or be provided by another route. In return for their capital investment the University would receive access to the sports hall, squash courts and the pool at the new Sport and Leisure Centre and on Wednesday afternoons for University sports fixtures and student usage The Pinder Trust and Hampshire County Council are making significant capital contributions, which have been confirmed, towards the delivery of the leisure centre.

13.5 Extensive engagement has taken place with local clubs and residents who will benefit from this new major public sport and leisure facility in Winchester which firmly supports the Council Strategy objective to promote health and happiness and other aspirations in relation to being a Lower Carbon Council.

13.6 The unique aspects of the Winchester Sport and Leisure Park Project focus around the provision of a modern leisure facility with a 50m pool, which maximises the flexibility of water space for different water leisure uses and creates a facility for future use. This focus on water differentiates this facility from other centres in the area. An integrated hydrotherapy facility adds a special element to the centre enabling a range of therapeutic services to be offered in this community facility.

13.7 This facility is coupled with the University of Winchester Sports Stadium and sits alongside open space and existing playing pitches. This combination of a modern centre in a Sport and Leisure Park setting provides for a compelling blend of facilities for residents of the district for both leisure and more competitive sporting activities.

13.8 **Objective 3:** To improve the quality and energy efficiency of Winchester’s main leisure facility.

Will be delivered through

- A building with an EPC Grade A rating and BREEAM assessment
- Assessing the scheme against the BREEAM accreditation system

Further comment

13.9 This is a key consideration and is integral to the design work. Setting this object at the start of the project has allowed this to be designed in from the outset. The appointed mechanical and electrical specialists along with the BREEAM consultant have been set the challenge of meeting these objects, led by the lead designer, and within the context of an affordable budget.

13.10 **Objective 4:** To provide a Sport and Leisure Centre that is financially sustainable.

Will be delivered through

- The centre is affordable and self-financing over the life of the asset

Further comment

13.11 Leading up to the approval of the facility mix in November a great deal of assessment and technical work was undertaken to bring forward a facility mix which:

I. Supports the project objectives

II. Meets assessed demand

III. Reflects Sport England and Governing Bodies guidance

IV. Provides a good balance of community and sporting facilities and which delivers a projected amount of income to support the ongoing costs of running and delivering the new centre.

13.12 Based on the facility mix agreed on 13 November 2017, the capital costs of the proposed new leisure centre are set out in Exempt Appendix A, reflecting contributions from Partners organisations, leaving the remainder to be funded by the Council. It is proposed that £1.8m million is funded by Community Infrastructure Levy (CIL) and the remainder through prudential borrowing. Borrowing costs have been taken into account in the financial appraisal.

13.13 The Financial Case concludes that building a new Sport and Leisure Centre on a like-for-like basis will result in a net financial surplus as set out in Exempt Appendix A over the 40 year life of the leisure centre and results in a better financial position than trying to keep the existing leisure centre operational for a further 40 years.

13.14 Due to the timing difference in incurring initial financing costs and receiving increasing income from the operator, there will be a negative impact on the General Fund until an estimated annual surplus position is reached in 2030/31 with the most significant deficits from 2020/21 to 2022/23. It will be necessary therefore to cover this deficit by using earmarked General Fund reserves; once a surplus position is reached, the Council can then elect to begin to replenish those reserves or increase spend on service expenditure elsewhere.

13.15 The Council collects contributions from developers through Community Infrastructure Levy (CIL) and the amounts due are calculated using the Council's approved charging schedule. The protocol for allocating CIL funds was agreed by Cabinet in June 2016 (CAB2807) and includes the development of a rolling 3 year programme of schemes (CAB2962 September 2017 refers).

13.16 Cabinet has agreed in principle to date to allocate £1m of CIL funding towards the proposed Leisure Centre. An update report on CIL is due to be considered by Cabinet in February and will include this provision.

14 PARTNER FUNDING

14.1 University of Winchester

14.2 The University of Winchester (UoW) is a partner and subject to the agreement of terms intend to make a capital investment into the project and place their Sports Stadium into the partnership.

14.3 In return for their investment the University will receive some free usage at certain times of the week.

14.4 Pinder Trust

14.5 The Pinder Trust is a key partner investing £1.2 million into the delivery of a hydrotherapy pool to allow access for treatment. The Pinder Trust is a grant giving charity established by the late Margaret Pinder and is devoted to supporting provision for hydrotherapy and physiotherapy to patients with long term health conditions.

14.6 The Pinder Trust has appointed a clinical physiotherapist, specialising in aquatic therapy, to help inform the design of the hydrotherapy suite. The Sports Consultancy has worked with local aquatic therapists to develop a financial appraisal of the hydrotherapy suite. The Pinder Trust and their consultant will also help to inform the specification for the management operator.

14.7 The funding agreement has been signed with The Pinder Trust. The Pinder Trust is also actively fund raising in order to further help support the project.

14.8 Hampshire County Council

14.9 The County Council has various land interests on the wider site and negotiations are underway to establish whether the County Council wish to include any land in the development of the Sport and Leisure Park. These negotiations will continue and are not time critical to decisions required in this paper.

14.10 The County Council have committed a capital investment in the project of £1 million.

15 GOVERNANCE ARRANGEMENTS

15.1 In order to deliver the project a core project team is in place to manage the project under the leadership of the Head of Programme who reports to the Director of Place as project sponsor and portfolio holder for Health and Wellbeing. The Cabinet (Leisure Centre) Committee has been established to help guide the project and to make key decisions.

15.2 The Governance Structure that was agreed by Cabinet in November 2017 will allow the Council, and its Partners to work together to deliver and manage a new Sport and Leisure Centre.

15.3 These governance arrangements and agreements propose that a Leisure Centre Advisory Board is established. Once the centre is operational the Board will have day to day oversight of the contract and will give their advice and make their recommendations to the Cabinet (Leisure Centre) Committee for determination of required actions.

16 GATEWAYS

16.1 The Business Case Gateways for this project are set out in the table below.

Gateway	**RIBA Stage**	**Evidence required (what will we know)**
1. Strategic Outline Case	End of RIBA Stage 1	In September 2015 Cabinet was provided with a financial assessment of shortlisted options. At this stage Cabinet decided the preferred option, if feasible was to build at Bar End.
2: Outline Business Case (Q4 2017)	End of RIBA Stage 2	Estimated capital costs (CAPEX) Operating income estimate *(both based on Concept Design)*
3: Full Business Case (Q1 2019)	End of RIBA Stage 4	Generated capital costs (CAPEX) Operating income *(both obtained by a procurement process)*

17 OTHER OPTIONS CONSIDERED AND REJECTED

17.1 The Council could chose not to adopt the Full Business Case. Any delay would have significant cost implications. Should the Council not proceed with the Full Business Case then it is unlikely that the project can continue on the agreed timeline.

17.2 The Sport and Leisure Centre project is at an important decision stage. The facility mix has been agreed and shown as viable within the Full Business Case. It is for Cabinet to consider whether to progress with this project at this time.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

CAB3081 (LC) – 14th January 2019 – Operator Procurement

CAB3076 (LC) – 18th September 2018 – Project Update and Budget

CAB3068 (LC) – 25 July 2018 – Winchester Sport and Leisure Park – planning application consultation

CAB3067 (LC) – 25 July 2018 – Winchester Sport and Leisure Park – sports club and national governing bodies of sport - engagement

CAB3066 (LC) – 25 July 2018 – Winchester Sport and Leisure Park – response to notice of motion

CAB3031 – 6 June 2018 – Winchester Sport and Leisure Centre Operator Procurement

CAB3035(LC) – 23 May 2018 – Approval of Design Framework

CAB3030(LC) - 26 March 2018 - Winchester Sport and Leisure Park Project Update

CAB2983(LC) – 16 January 2018 – Outline Business Case and associated Governance

Other Background Documents:-

None

APPENDICES:

- Exempt Appendix A – Full Business Case
- Appendix B - Risk Matrix

Other Background Documents: None

Risk Register – Key:

Likelihood Rating

It is unlikely that in many cases the probability of a risk occurring can be calculated in a statistically robust fashion as we do not have the data to do so. However, as an indicator, the likelihood is defined by the following probability of a risk occurring:

Likelihood	Probability
Highly Unlikely	1% to 25% chance in 5 years
Unlikely	26% to 50% chance in 5 years
Likely	51% to 75% chance in 5 years
Highly Likely	76% to 100% chance in 5 years

Risk Proximity

The score for risk proximity supports the Council in focusing on certain risks that may occur soon and ignore risks that will not occur in the near future. This enables risk management to be more efficient.

A number of between 1 and 4, where 1 means the risk is about to occur within the next 3 months and 4 means the risk is not likely to occur within the next year is provided.

Risk Proximity Score	Time scale
1	Occurring within the next 3 months
2	Occurring within the next 6 months
3	Occurring within the next 1 year
4	Unlikely to occur within 1 year

Financial Impact

The financial impact to the Council is an important consideration, however this should be viewed alongside the likelihood of the risk occurring and not assumed to be inevitable.

The scoring of the financial impact relates to the cost to the Council if that risk were to occur, however it should not relate to the cost of managing or mitigating the risk.

The financial impact is scored as highly likely it would be prudent for the Council to ensure that it has set aside an adequate financial provision. The financial impact is scored as follows:

Financial Impact Score	Time scale
£	£1 – £20,000
££	£20,0001 - £200,000
£££	£200,001 - £2,000,000
££££	£2,000,001 plus

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

Impact Rating
The following table provides the definitions which should be used when determining whether a risk would have a Low, Moderate, Major or Significant impact

	Low (1)	Moderate (2)	Major (3)	Significant (4)
Financial	Less than £20K	£20k or over and less than £200K	£200K or over and less than- £2MK	£2M plus
Service Provision	No effect	Slightly Reduced	Service Suspended Short Term / reduced	Service Suspended Long Term Statutory duties not delivered
Health & Safety	Sticking Plaster / first aider	Broken bones/illness Lost time, accident or occupational ill health	Loss of Life/Major illness – Major injury incl broken limbs/hospital admittance. Major ill health	Major loss of life/Large scale major illness
Morale		Some hostile relationship and minor non cooperation	Industrial action	Mass staff leaving/Unable to attract staff
Reputation	No media attention / minor letters	Adverse Local media Leader	Adverse National publicity	Remembered for years
Govt relations	One off single complaint	Poor Assessment(s)	Service taken over temporarily	Service taken over permanently

Page 20

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

Risk Number: 1	**Risk Owner:** Project Executive
Risk Title: Project is not financially viable	

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Full Business Case gateway does not confirm that project is financially viable. The management fee proposed by the potential operator and/or the cost of construction are not in line with current estimates Significant and unforeseeable change in external financial/macro economic position ("Viable" = that the annualised cost of the project to the Council based on the preferred facility mix is sufficiently close to the income expected to be generated from a management contract in relation to be a sustainable investment).	Project is halted for review of underlying assumptions. Revisions are tested and agreed. Project recommences on revised brief, timetable and cost estimate.	Tendered figures for operator management fee and construction cost inputted to Full Buisness Case		Significant (4)	1	££££

Further actions?	Target Date	Residual Risk Score	
		Likelihood	Impact
Cabinet Committee will make key decisions in line with project plan. Decisions requiring approval of full Council under the Constitution will be referred accordingly. Regular reporting on progress will be made.	Feb 2019	Highly Unlikely (Probability 1% - 25%)	Significant (4)

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

Risk Number: 2	**Risk Owner:** Project Executive

Risk Title: Absence of financial support from project partners

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
External grants and partner funding does not materialise or offers withdrawn because Council cannot meet funders' requirements	Project could be rendered nonviable by increasing Council proportion of cost. Review project as in R1.	Continue negotiations with partner organisations and external funders. Signed Partner/Funding agreements in place.		Significant (4)	2	££

Further actions?	Target Date	Residual Risk Score	
		Likelihood	Impact
Translation of negotiated arrangement into legal documentation. Continue Financial appraisal of contribution's value to the scheme vs financial contribution.	Feb 2019	Highly Unlikely (Probability 1% - 25%)	Significant (4)

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

<table>
<tr><td colspan="3">Risk Number: 3</td><td colspan="4">Risk Owner: Project Executive</td></tr>
<tr><td colspan="7">Risk Title: Council unable to recover VAT on construction costs</td></tr>
<tr><td rowspan="2">Causes</td><td rowspan="2">Consequences</td><td rowspan="2">Current Controls</td><td colspan="2">Current Risk Score</td><td rowspan="2">Risk Proximity</td><td rowspan="2">Financial impact</td></tr>
<tr><td>Likelihood</td><td>Impact</td></tr>
<tr><td>Project and governance structure means that Council unable to recover VAT incurred on construction costs.</td><td>The project cost would increase significantly and possibly become non-viable or show major overspend if HMRC refuses claims.</td><td>Obtain best available VAT advice at appropriate stages and before decision making. Reflect VAT advice in negotiations with funding partners.</td><td>Unlikely (Probability 26% - 50%)</td><td>Significant (4)</td><td>1</td><td>££</td></tr>
</table>

<table>
<tr><td rowspan="2">Further actions?</td><td rowspan="2">Target Date</td><td colspan="2">Residual Risk Score</td></tr>
<tr><td>Likelihood</td><td>Impact</td></tr>
<tr><td>Advice reflected in decisions taken, advice obtained and utilised.</td><td>Spring 2019</td><td>Highly Unlikely (Probability 1% - 25%)</td><td>Major (3)</td></tr>
</table>

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

Risk Number: 4	**Risk Owner:** Project Executive
Risk Title: Stakeholders expectations on pricing and usage not met	

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Pricing and usage strategy necessary to create viable project is not in line with stakeholder expectations. i.e. hire charges for club use, membership levels etc.	Business Case and procurement of operator specification may need to be reviewed if Council wishes to alter pricing and usage strategy.	Maintain dialogue with main users and early enagagemnt with appointed operator		Moderate (2)	2	£

Further actions?	Target Date	Residual Risk Score	
		Likelihood	Impact
Dialogue with likely user groups.	Ongoing through construction process	Unlikely (Probability 26% - 50%)	Low (1)

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

Risk Number: 5	**Risk Owner:** Project Executive
Risk Title: Project delivery delayed	

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Delay in programme/ delivery and resulting cost implications and or building not delivered to required standards. .	Potential for project delay due to a number of potential factors. This could also include the delivery of associated mitigation, accommodation or facilitating works. The quality of the design may not be reflected in the quality of the construction.	Mace appointed as project managers and cost consultants. LA architects retained as Technical Advisor The Council has appointed a Site Supervisor to oversee and monitor the works The Council's Estates team will help to ensure that works are progressed in accordance with the design and specification.	Unlikely (Probability 26% - 50%)	Major (3)	1	££

Further actions?	Target Date	Residual Risk Score	
		Likelihood	Impact

Risk Number: 6	**Risk Owner:** Project Executive
Risk Title: Unexpected costs arise for keeping River Park Leisure Centre open	

Causes	Consequences	Current Controls	Current Risk Score		Risk Proximity	Financial impact
			Likelihood	Impact		
Unexpected costs arise for keeping existing River Park Leisure Centre (RPLC) open	Rising financial costs to keep RPLC open and running may require difficult decisions between additional capital expenditure and facility availability depending on scale. Expenditure on RPLC depletes reserves.	Monitor condition of existing facility carefully. Allow some contingency in budget planning if possible. Identify, approve & monitor maintenance costs.	Unlikely (Probability 26% - 50%)	Moderate-Major (2/3)	3	££

Further actions?	Target Date	Residual Risk Score	
		Likelihood	Impact
Keep building condition under review. Will remain a risk until RPLC closes. The 2018/19 capital programme includes a budget to undertake essential capital works required to extend the life of RPLC.	N/A	Unlikely (Probability 26% - 50%)	Moderate (2)

Winchester Sport and Leisure Centre Project – Full Business Case Risk Register

Risk Number: 7	**Risk Owner:** Project Executive
Risk Title: Legal challenges are raised	

Causes	Consequences	Current Controls	Current Risk Score: Likelihood	Current Risk Score: Impact	Risk Proximity	Financial impact
Legal challenges to any aspect of decision making and or procurement.	If legal challenges are successful the project is halted. If unsuccessful - a delay in the development and additional costs to the project which may render it unviable.	Ensure any legal challenges can be mitigated by obtaining expert advice and evidence to guide and inform processes. Raise awareness of implications of delay.	Unlikely (Probability 26% - 50%)	Significant (4)	3	££

Further actions?	Target Date	Residual Risk Score: Likelihood	Residual Risk Score: Impact
Continue to obtain expert advice on procurement and to inform decision making	N/A	Unlikely (Probability 26% - 50%)	Major (3)

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OS220
THE OVERVIEW AND SCRUTINY COMMITTEE

REPORT TITLE: TREASURY MANAGEMENT STRATEGY STATEMENT 2019/20

31 JANUARY 2019

REPORT OF PORTFOLIO HOLDER: Finance – Cllr. Guy Ashton

Contact Officer: Joseph Holmes Tel No: 01962 848220 Email jholmes@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

This report sets out the proposed Treasury Management Strategy Statement, including the Annual Investment Strategy for the Council for 2019/20.

RECOMMENDATIONS:

That the Overview and Scrutiny Committee raises with the Leader or other relevant Portfolio Holder any issues arising from the information in this report and considers whether there are any items of significance to be drawn to the attention of Cabinet.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

1.1 Treasury management is an integral part of helping the deliver the Council Strategy and all of its outcomes.

2 FINANCIAL IMPLICATIONS

2.1 Effective treasury management ensures both the financial security and liquidity of the Council. The overall target return is a 1% yield which, with an average balance of £40m, would yield £400k p.a.

3 LEGAL AND PROCUREMENT IMPLICATIONS

3.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.

3.2 With effect from September 2014 Hampshire County Council (HCC) and Winchester City Council (WCC) established arrangements for the joint discharge of functions under Section (101)(1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of WCC's cash balances and investment of surplus cash or sourcing of short-term borrowing in accordance with the agreed Treasury Management Strategy Statement.

4 WORKFORCE IMPLICATIONS

4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

5.1 None

6 CONSULTATION AND COMMUNICATION

6.1 This report has been produced in consultation with Hampshire County Council's Investments & Borrowing team.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 None

8 EQUALITY IMPACT ASSESSEMENT

8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None required

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
Returns from investments are too low	A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the Council's risk appetite.	Returns 0.13% above budgeted levels
A counterparty fails	A diversified strategy that has relatively low levels of counter-party risk	
Cash is not available	A balanced portfolio of liquid and long term funds are held to ensure cash is available to utilise. The Council also mitigates this risk through cashflow forecasting	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity
Access to Money Market Funds (MMFs) may be restricted when the UK exits the EU	Invest in suitable alternatives	

11 SUPPORTING INFORMATION:

12 Summary

12.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) require authorities to determine the Treasury Management Strategy Statement (TMSS) before the start of each financial year.

12.2 As per the requirements of the Prudential Code, the Council adopts the CIPFA Treasury Management Code. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

13 Introduction

13.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

13.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a TMSS before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

13.3 Investments held for service purposes or for commercial profit are considered in a different report, the Capital Investment Strategy.

13.4 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since September 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

14 External Context

Economic background

14.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council's TMSS for 2019/20.

14.2 UK Consumer Price Inflation for October was up 2.4% year-on-year, slightly below the consensus forecast and broadly in line with the Bank of England's (BoE) November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, means real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

14.3 The rise in quarterly GDP growth to 0.6% in Quarter 3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Quarter 1. At 1.5%, annual Gross Domestic Product growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

14.4 Following the BoE's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee (MPC) continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Credit outlook

14.5 The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

14.6 European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest rate forecast

14.7 Following the increase in Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The BoE's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

14.8 The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (at the time of writing this commentary in mid-December). As such, the risks to the interest rate forecast are considered firmly to the downside.

14.9 A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix 1.

15 Balance Sheet Summary and Forecast

15.1 On 30 November 2018, the Council held £156.7m of borrowing and £61.7m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below. One important policy change that will impact on the treasury strategy is the removal of the debt cap for the Housing Revenue Account (HRA). This will likely lead to an increased borrowing requirement for the HRA as the council explores opportunities to build more new homes over the period of the TMS.

Table 1: Balance sheet summary and forecast

	31/03/18 Actual £m	31/03/19 Estimate £m	31/03/20 Forecast £m	31/03/21 Forecast £m	31/03/22 Forecast £m
General Fund CFR	13.2	32.1	75.1	99.6	102.9
HRA CFR	164.0	164.0	172.0	187.5	196.5
Total CFR	**177.2**	**196.1**	**247.1**	**287.1**	**299.3**
Less: Other debt liabilities *	(0.5)	(0.2)			
Borrowing CFR	**176.7**	**195.9**	**247.1**	**287.1**	**299.3**
Less: External borrowing **	(156.7)	(156.7)	(156.7)	(156.7)	(156.7)
Internal (over) borrowing	**20.0**	**39.2**	**90.4**	**130.4**	**142.6**
Less: GF Usable reserves	(33.7)	(28.2)	(21.0)	(18.7)	(16.1)
Less: HRA Usable reserves	(16.7)	(17.4)	(10.5)	(7.2)	(10.4)
Less: Working capital	(8.6)	(8.6)	(8.6)	(8.6)	(8.6)
Resources for investments	**(59.0)**	**(54.2)**	**(40.1)**	**(34.5)**	**(35.1)**
New borrowing or (investments)	**(39.0)**	**(15.0)**	**50.3**	**95.9**	**107.5**

* finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

** shows only loans to which the Council is committed and excludes optional refinancing

15.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

15.3 The Council has a forecast increasing CFR due to the planned capital programme over the coming years, and the Council's reserves will gradually reduce over the same period. If the capital programme is delivered as planned, this will require the Council to take out new external borrowing from 2019/20.

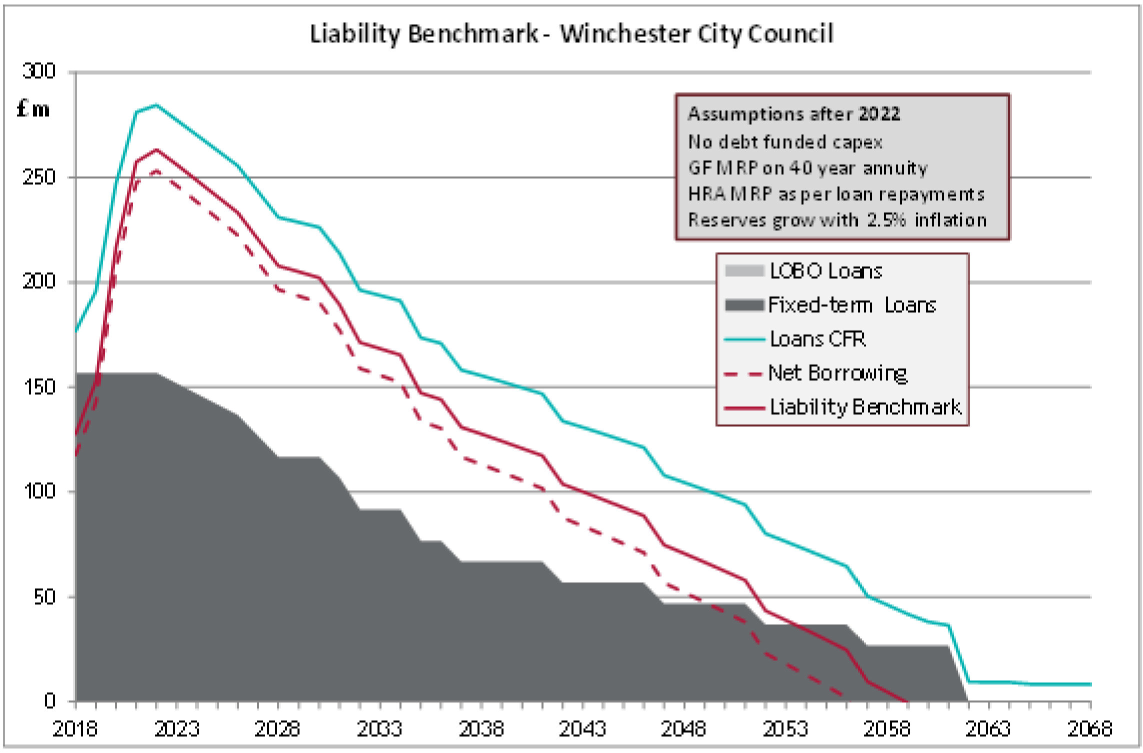
15.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2019/20.

Liability benchmark

15.5 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 2: Liability benchmark

	31/03/18 Actual £m	31/03/19 Estimate £m	31/03/20 Forecast £m	31/03/21 Forecast £m	31/03/22 Forecast £m
Total CFR	177.2	196.1	247.1	287.1	299.3
Less: Total usable reserves	-50.4	-45.6	-31.5	-25.9	-26.5
Less: Working capital	-8.6	-8.6	-8.6	-8.6	-8.6
Plus: Minimum investments	10	10	10	10	10
Liability benchmark	**128.2**	**151.9**	**217.0**	**262.6**	**274.2**



15.6 At the start of the period, 31st March 2017, the Council had a Loans CFR of £177m, fixed term loans of £157m and a liability benchmark of £139m. The difference of £20m between the CFR and fixed term loans is internal borrowing and is where the Council has used its own resources to fund capital expenditure.

15.7 The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves and cash flow surpluses.

15.8 The forward projection using the Council capital programme forecasts suggest that capital expenditure funded by borrowing of around £103m will occur over the next three financial years as evidenced by the rising CFR and where the liability benchmark increases above the debt portfolio is where the Council will need to take on additional external borrowing to fund this expenditure. It is anticipated that to keep debt at a minimum level, a maximum of £118m of additional debt would need to be taken out. Any debt should be taken on an amortising basis to match the shape of the liability benchmark.

16 Borrowing Strategy

16.1 The Council currently holds £156.7m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Council expects to borrow up to £50m in 2019/20. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £281.8m.

Objectives

16.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy

16.3 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, when the Council does borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

16.4 By internally borrowing, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

16.5 Alternatively the Council may arrange forward-starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

16.6 In addition, the Council may borrow (normally for up to one month) short-term loans to cover unplanned cash flow shortages.

Sources of borrowing

16.7 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any other UK public sector body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

Other sources of debt finance

16.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback

16.9 The Council has previously raised all of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Short-term and variable rate loans

16.10 These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to the interest rate exposure limits in the treasury management indicators at Section 17 of this TMSS.

Debt rescheduling

16.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

17 Investment Strategy

17.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £38.7m and £72.5m.

Objectives

17.2 The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Negative interest rates

17.3 If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

17.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £15m that is available for longer-term investment. At 30 November 2018 approximately 50% of the Council's surplus cash was invested so that it is not subject to bail-in risk (decreased from 63% last year due to the requirement of extra liquidity to fund the forthcoming land purchase), as it was invested in local authorities, pooled property funds, corporate bonds and secured bank bonds. Whilst the remaining cash is subject to bail-in risk, 66% is held in cash plus funds and overnight money market funds which are subject to a reduced risk of bail in, 16% is held in certificates of deposit which can be sold on the secondary market, 10% is held in maturing notice accounts (which once available, these funds will be placed in more secure/higher yielding investments) and the remaining 8% of cash subject to bail-in risk is held in overnight bank call accounts for liquidity purposes. Further detail is provided at Appendix 2. This diversification represents a continuation of the new strategy adopted in 2015/16.

17.5 The Council's investment in a pooled property fund allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The fund, which is operated on a variable net asset value (VNAV) basis, offers diversification of investment risk, coupled with the services of a professional fund manager; also offers enhanced returns over the longer term but is more volatile in the short-term. The Council's pooled fund investment is in the fund's distributing share class which pays out the income generated.

17.6 Although money can be redeemed from the pooled fund at short notice, the Council's intention is to hold it for at least the medium term. Its performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose.

17.7 As shown in Appendix 2, without this allocation the weighted average return of the Council's cash investments would have been 0.81%; the allocation to high yielding investments has added 0.28% (£0.17m based on the cash balance at 30 November 2018) to the average interest rate earned by the remainder of the portfolio.

Investment limits

17.8 The maximum that will be lent to any one organisation (other than the UK Government) will be £7 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, and investments in pooled funds, as they would not count against a limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£7m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£7m per group
Any group of pooled funds under the same management	£7m per manager
Money Market Funds	50% in total

Approved counterparties

17.9 The Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved investment counterparties and limits

Credit rating	**Banks unsecured**	**Banks secured**	**Government**	**Corporates**
UK Govt	n/a	n/a	£ Unlimited 30 years	n/a
AAA	£3.5m 5 years	£7m 20 years	£7m 50 years	£3.5m 20 years
AA+	£3.5m 5 years	£7m 10 years	£7m 25 years	£3.5m 10 years
AA	£3.5m 4 years	£7m 5 years	£7m 15 years	£3.5m 5 years
AA-	£3.5m 3 years	£7m 4 years	£7m 10 years	£3.5m 4 years
A+	£3.5m 2 years	£7m 3 years	£3.5m 5 years	£3.5m 3 years
A	£3.5m 13 months	£7m 2 years	£3.5m 5 years	£3.5m 2 years
A-	£3.5m 6 months	£7m 13 months	£3.5m 5 years	£3.5m 13 months
None	£1m 6 months	n/a	£7m 25 years	£3.5m 10 years
Pooled funds	£7m per fund			

This table must be read in conjunction with the notes below

Credit rating

17.10 Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured

17.11 Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured

17.12 Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

17.13 Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 30 years.

Corporates

17.14 Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

17.15 Where a counterparty does not have a credit rating and to ensure there is a clear process for external scrutiny specifically around these alternative investments, the governance structure detailed below was approved in the Treasury Management Mid-Year Review 2017/18 in order for the Council to consider such investment opportunities in a timely manner and ensure that there has been effective scrutiny over the proposed decisions. The S151 officer will consult with this group on these types of investment prior to making the final decision.

Option	• Alternative Investment identified by the Finance Manager (Capital & Treasury) • Considered with the s151 officer
Due Dilligence	• Officers commission due diligence report from external advisor / organisation • Information to also include identification of option against other current or potential investment opportunities
TIG*	• Treasury Investment Group (TIG) considers the option • Recommend / reject option to s151 officer • s151 officer to make final decision

* The TIG (Treasury Investment Group) includes the following officer and member roles:

- Finance Manager (Capital & Treasury)
- Portfolio Holder (Finance)
- One other Cabinet member
- Chair of the Audit Committee
- Shadow Portfolio Holder (Finance)
- S151 officer

<u>Pooled funds</u>

17.16 Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

17.17 Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts

17.18 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer terms, but are more volatile especially as the share price reflects changing demands for the shares as well as changes in the value of the underlying properties. Given the increased volatility as a result of supply and demand the Council will not invest in REITs.

Operational bank accounts

17.19 The Council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings

17.20 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

17.21 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments

17.22 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

17.23 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

18 Treasury Management Indicators

18.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

18.2 The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates.

Table 5: Interest rate risk indicator

	30 November 2018	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates		
Investment	£48.2m	+/-£0.48m
Borrowing	(£0.0m)	+/-£0.0m

Maturity structure of borrowing

18.3 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 6: Refinancing rate risk indicator

	Upper	**Lower**
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	30%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	50%	0%
30 years and within 40 years	75%	0%
40 years and within 50 years	100%	0%

18.4 Time periods start of the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

18.5 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 7: Price risk indicator

	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£15m	£15m	£15m

19 Prudential Indicators – Borrowing

Gross Debt and the Capital Financing Requirement

19.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table 8: Debt

	31.03.18 Revised £m	**31.03.19 Estimate £m**	**31.03.20 Estimate £m**	**31.03.21 Estimate £m**
Borrowing	(156.7)	**(156.7)**	(156.7)	(156.7)
New borrowing	-	**-**	(50.3)	(95.9)

Finance leases	(0.5)	**(0.2)**	-	-
Total Debt	**(157.2)**	**(156.9)**	**(207.0)**	**(252.6)**

19.2 Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

19.3 The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Table 9: Operational Boundary

	2017/18 Revised £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Borrowing	195.3	**213.7**	264.4	304.0
Other long-term liabilities	0.5	**0.2**	-	-
Total Debt	**195.8**	**213.9**	**264.4**	**304.0**

Authorised Limit for External Debt

19.4 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Table 10: Authorised Limit

	2017/18 Limit £m	2018/19 Limit £m	2019/20 Limit £m	2020/21 Limit £m
Borrowing	212.4	**231.0**	281.8	321.8
Other long-term liabilities	0.6	**0.3**	-	-
Total Debt	**213.0**	**231.0**	**281.8**	**321.8**

20 Related Matters

20.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial derivatives

20.2 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

20.3 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

20.4 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Housing Revenue Account

20.5 The Council has adopted the "two pool approach" whereby each of its long-term loans are split into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA applying the following rates:

- The PWLB 3 month variable loan rate is applied to a deficit balance
- The risk free Debt Management Office rate is applied to a surplus balance.

Investment training

20.6 The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

20.7 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

20.8 CIPFA's Code of Practice requires that the Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 27 November 2018, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2019.

Investment advisers

20.9 Hampshire County Council has appointed Arlingclose Limited as treasury management advisers for all Councils under the arrangement, and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with Arlingclose.

Investment of money borrowed in advance of need

20.10 The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £282m.

Markets in Financial Instruments Directive

20.11 The Council has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers, allowing it access to a greater range of services but with out the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the s151 Officer believes this to be the most appropriate status.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3013: Treasury Management Strategy 2018-19, 14 February 2018

CAB3064: Treasury Management Outturn 2017/18, 18 July 2018

AUD223: Treasury Management Mid-Year Monitoring Report 2018/19, 29 November 2018

Other Background Documents:-

None

APPENDICES:

Appendix A – Arlingclose Economic & Interest Rate Forecasts October 2018

Appendix B - Existing Investment & Debt Portfolio Position at 30 November 2018

Appendix A – Arlingclose Economic & Interest Rate Forecast October 2018

Underlying assumptions:

- The MPC left Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.

- Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union and Eurozone economic growth softens.

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise and cuts are required.

- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank is adopting a more strident tone in conditioning markets for the end of QE, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.

- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2%-2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for Bank Rate is to rise twice in 2019. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.17**
Arlingclose Central Case	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.17**
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.65**
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	**0.17**
Arlingclose Central Case	**0.80**	**1.00**	**1.10**	**1.20**	**1.30**	**1.30**	**1.25**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.20**	**1.17**
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.68**
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.33**
Arlingclose Central Case	**1.05**	**1.25**	**1.35**	**1.40**	**1.50**	**1.45**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.37**
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	**0.69**
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.15**	**1.20**	**1.25**	**1.35**	**1.40**	**1.40**	**1.35**	**1.35**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.54**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.60**	**1.65**	**1.65**	**1.70**	**1.75**	**1.75**	**1.75**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.55**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.90**	**1.95**	**1.95**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**	**1.98**
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	**0.32**
Arlingclose Central Case	**1.80**	**1.85**	**1.85**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.90**	**1.88**
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	**0.43**

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Appendix B - Existing Investment & Debt Portfolio Position at 30 November 2018

Investment Position (Treasury Investments)

	30/09/2018 Balance £m	Movement £m	30/11/2018 Balance £m	30/11/2018 Rate %	30/11/2018 WAM* years
Short term investments					
Banks and Building Societies:					
- Unsecured	9.8	0.8	10.6	0.74	0.16
- Secured	4.0	2.0	6.0	0.87	0.17
Money Market Funds	17.1	2.1	19.2	0.72	0.01
Cash Plus Funds	1.0	-	1.0	0.53	n/a
Local Authorities	1.5	-	1.5	0.65	0.13
Corporate Bonds	4.9	-	4.9	0.69	0.04
	38.4	**4.8**	**43.2**	**0.74**	**0.08**
Long term investments					
Banks and Building Societies:					
- Secured	7.0	-	7.0	1.08	2.54
Local Authorities	6.5	-	6.5	1.06	1.52
	13.5	**-**	**13.5**	**1.07**	**2.05**
High yield investments					
Pooled Property Funds**	5.0	-	5.0	4.26	n/a
	5.0	**-**	**5.0**	**4.26**	**n/a**
TOTAL INVESTMENTS	**56.9**	**4.8**	**61.7**	**1.09**	**0.55**

* Weighted average maturity

** The rate provided for pooled property fund investments is reflective of the average of the most recent dividend return as at 30 November 2018

Treasury Management position

	30/11/2018 Balance £m	30/11/2018 Rate %
External borrowing:		
PWLB Fixed Rate	(156.7)	(3.30)
Total Gross External Debt	**(156.7)**	**(3.30)**
Investments	**61.7**	**1.09**
Net (Debt) / Investments	**(95.0)**	

OS221
THE OVERVIEW AND SCRUTINY COMMITTEE

REPORT TITLE: CAPITAL INVESTMENT STRATEGY

31 JANUARY 2019

REPORT OF PORTFOLIO HOLDER: Cllr. Guy Ashton

Contact Officer: Joseph Holmes Tel No: 01962 848220
Email: jholmes@winchester.gov.uk

WARD(S): ALL

PURPOSE

The report presents the Capital Strategy and Capital Programme for consideration and approval.

RECOMMENDATIONS:

That the Overview and Scrutiny Committee raises with the Leader or other relevant Portfolio Holder any issues arising from the information in this report and considers whether there are any items of significance to be drawn to the attention of Cabinet.

IMPLICATIONS:

1. COUNCIL STRATEGY OUTCOME

1.1. The investment of capital resources will contribute to the achievement of the Council's main objectives and priorities in the Council Strategy and Portfolio Plans. The Capital Strategy is an integral part of the Medium Term Financial Strategy and impacts directly on the Treasury Management Strategy.

2. FINANCIAL IMPLICATIONS

2.1. As detailed in the report.

2.2. The Government has updated the capital financing regime and CIPFA have published updates to the prudential code. Included in these updates to the Prudential Code is the requirement that "the chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions". The statement below is the Winchester City Council Chief Finance Officer's response

2.3. Affordability and risk are key considerations within this capital strategy. The key principles articulated within this strategy include that the strategy must support the financially viability of the organisation, and that payback should be a key consideration of the strategy. Further analysis in the strategy sets out that the capital investment detailed within the strategy provides an overall positive return to the General Fund as well as providing a number of key services enhancements. The risk section is articulated below and importantly, business cases for new schemes are required to ensure that risks are adequately covered; one of the most significant risks being capacity to deliver the individual projects contained within the strategy and adequately identifying resources required at the commencement of projects. The HRA capital programme is a key element of the Housing Revenue Account (HRA) Business Plan which is refreshed annually; individual schemes are assessed for affordability within the overall context of this plan, and it is expected that these schemes will grow in size with the removal of the housing debt cap.

2.4. The strategy proposes to set aside further funding for the Strategic Asset Purchase scheme of £15m. There is a strong governance programme around the process for these purchases, and this is being reviewed at present after a year of inception to consider any further improvements. The total funding set aside of £45m is reasonable within the overall context of the Council's capital strategy and the scale of the Council's balance sheet. Assets purchased during the current financial year meet the council's 'double-win' basis and have all been within the local economic area. Over the next ten years, the strategy is expected to see over £329m of capital spend. Within this financial context and the Council's balance sheet and historic investment properties (£47.7m as at 31 March 2018) the Council has a long history of managing and acquiring assets to support its objectives. The level of this scheme remains proportionate within the Council's overall activities. This scheme is highlighted in this strategy and includes access to independent valuations to support commercial acquisitions or when considering the financial implications of major schemes included within the capital strategy. The Council also utilises our treasury management advisors, Arlingclose, to consider the implications of the prudential code and the impact on the treasury management strategy.

2.5. The strategy articulates a wide range of new and existing activities. This blends some major regeneration ambitions, new infrastructure, and significant investment in housing as well as smaller schemes that are more local. The strategy also has ambitions to consider new income streams to the Council that fit with our ambitions in the Council Strategy and support areas which we already have skills and knowledge.

3. LEGAL AND PROCUREMENT IMPLICATIONS

3.1. The Council's Capital Investment Strategy Statement follows the latest codes of practice, and the MHCLG and CIPFA guidance.

3.2. Individual projects included within the programme will be carefully considered in relation to legal and procurement issues and separate approvals sought as appropriate.

4. WORKFORCE IMPLICATIONS

4.1. Project resources for individual projects are identified as part of the business case production.

5. PROPERTY AND ASSET IMPLICATIONS

5.1. Many of the projects and schemes within the Capital Programme are related to the Council's properties and assets and therefore aligning the programme with the Asset Management Plan is an important consideration. The Capital Strategy Board plays a key role in ensuring that this process takes place and that funds are identified to improve the Council's assets in line with its Strategies and Plans.

6. CONSULTATION AND COMMUNICATION

6.1. The Capital Programme is a mechanism to deliver the Council's Strategy and associated schemes and projects. The formulation of the Council Strategy other supporting strategies and plans and associated consultation is therefore a key determinate in the formulation of the Capital Strategy and Programme.

6.2. Appropriate engagement and consultation is undertaken for all individual projects and schemes.

7. ENVIRONMENTAL CONSIDERATIONS

7.1. Environmental considerations will be part of the business case supporting specific capital projects where relevant. Many of the schemes have environmental benefits included within them.

8. EQUALITY IMPACT ASSESSMENT

8.1. Equality Impact assessments will be considered as part of the business case for specific capital projects.

9. DATA PROTECTION IMPACT ASSESSMENT

9.1. Data Protection Impact assessments will be considered as part of the business case/approvals for specific capital projects

10. RISK MANAGEMENT

10.1. In setting out this strategy, and when considering the programme and the projects within in it, reference is made to the Council's risk appetite as set in section 11.11.

Risk	**Mitigation**	**Opportunities**
Property Council Assets not fully utilised	An effective capital strategy and its delivery helps to ensure Council assets are used to achieve the Council's objectives	Investment in the Council's assets can increase income generation Identification of assets suitable for sale can generate capital receipts which can be reinvested in assets or used to reduce the overall borrowing need.
Community Support Projects are unsupported by the community or the community's needs are not met	Engagement is undertaken with for key projects to ascertain community views	Engagement with the Community ensures the Council's capital programme meets the needs of the district's citizens
Timescales Projects not delivered on time resulting in a delay in benefits to the Council	The 10 year strategy and its associated governance structures including monthly review by the Capital Strategy Board and quarterly at by O&S/Cabinet	

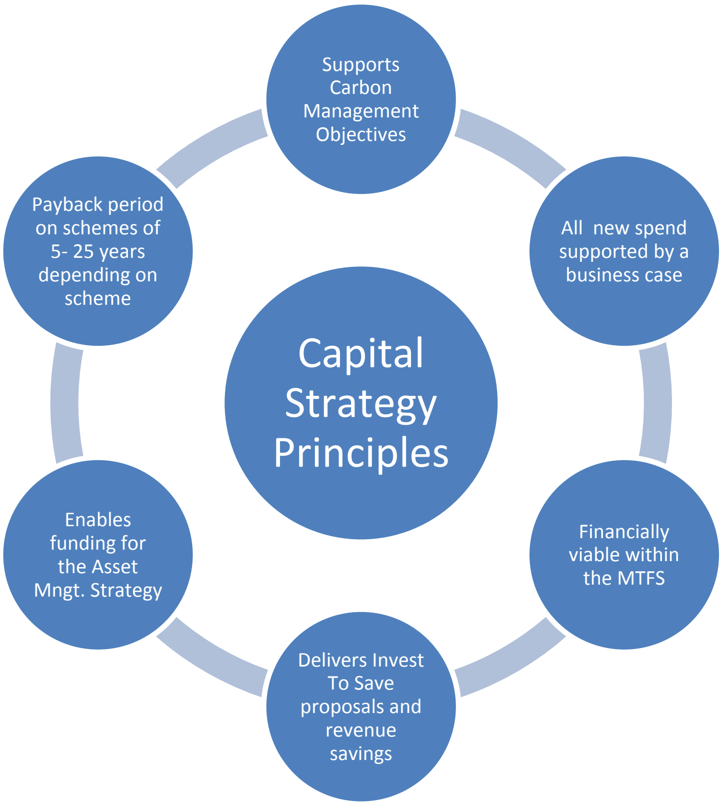
Project capacity Failure to deliver major capital schemes due to insufficient staff resources	Ensure robust business cases are taken forward and sufficient resources are available to deliver the Projects.	Consideration of a wide base of potential capital / investment schemes to enable a balanced risk portfolio and other schemes to be chosen should any schemes not progress
Financial / VfM	Detailed elsewhere within the report	None
Legal	Considered as part of the approval process for individual capital schemes	None
Innovation	Considered as part of the approval process for individual capital schemes	Strategy includes new schemes to innovate
Reputation	Considered as part of the approval process for individual capital schemes	None
Other		

11. <u>SUPPORTING INFORMATION:</u>

11.1. <u>Purpose</u>

11.1.1. The primary purpose of this strategy is to identify and progress schemes to help deliver the Council Strategy and to help make the Council self sufficient in order to be able to deliver the level of required services. It outlines how the Council ensures that individual schemes and the programme as a whole are both deliverable and financially viable.

11.1.2. The Strategy sets out the Council's capital spending programme and the principles which underpin this to deliver the Council Strategy:

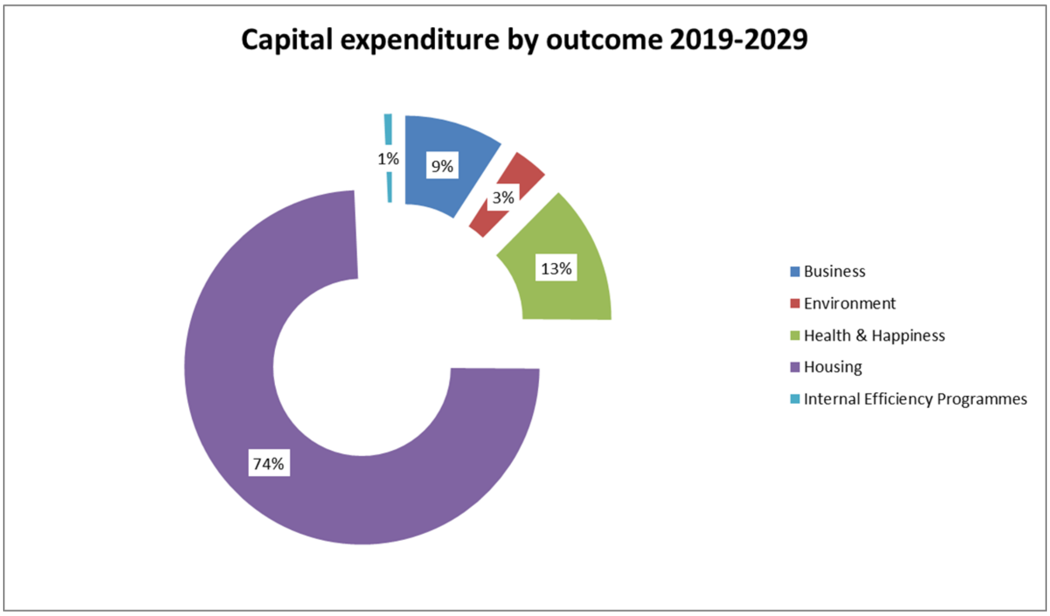


11.1.3. The City Council's capital programme incorporates both the General Fund (GF) and the Housing Revenue Account (HRA) capital requirements to support service provision and links with the Council Strategy, Housing Business Plan, Asset Management Plan, IMT strategy and Medium Term Financial Strategy. This strategy provides a framework for the development and implementation of the capital programme.

11.1.4. As detailed in the Council's Medium Term Financial Strategy (MTFS), the Council is facing a significant reduction in its anticipated financial resources (further detail is provided in the paper elsewhere on the agenda – CAB3131). It is vital therefore that the Council maximises the use of its capital investment in the district over the next decade. As government grant to the Council reduces, the Council needs to utilise its capital programme to drive the most effective and efficient use of financial resources for the District's residents.

11.1.5. The Council Strategy details how the Council will deliver its four strategic outcomes: Business, Health & Happiness, Environment, and Housing. Several of these aims will be delivered through capital spend and associated projects including for example: the provision of new housing and maintenance of existing housing stock; major regeneration schemes; provision of new leisure facilities; and flood prevention schemes.

11.1.6. The following chart illustrates the percentage of total capital expenditure forecast for each of the Council's outcomes:



11.2. <u>The Capital Programme</u>

11.2.1. Over the period 2019 to 2029, the Council's total estimated capital expenditure is £329m of which £111m is General Fund and £218m is Housing Revenue Account. The following table summarises the capital programme by year for the period. Further detail by project is included in Appendix A.

Capital Expenditure 2019 - 2029	2019/20 Est. £m	2020/21 Est. £m	2021/22 Est. £m	2022/23 Est. £m	2023/24 Est. £m	2024/25 Est. £m	2025/26 Est. £m	2026/27 Est. £m	2027/28 Est. £m	2028/29 Est. £m	TOTAL Est. £m
General Fund	58.7	31.9	7.3	3.6	1.7	1.7	1.5	1.5	1.5	1.6	**111.1**
HRA	31.5	40.9	21.9	29.6	18.7	18.4	19.0	19.5	20.2	20.5	**240.1**
Total Expenditure	**90.2**	**72.8**	**29.2**	**33.2**	**20.4**	**20.1**	**20.5**	**21.0**	**21.7**	**22.1**	**351.2**

11.2.2. The existing programme contains a number of **significant projects**:

- The **Strategic Asset Purchase Scheme (SAPS)** seeks to identify assets for the Council to acquire which will assist it in meeting its strategic objectives whilst also generating ongoing revenue streams. Following a number of successful acquisitions in 2018/19, an additional budget of £15m has been allocated to 2019/20 in order to continue the acquisition of property to support the Council's ambitions, and in line with the principles of the 'double win' that have been established to date. This brings the total allocated since the introduction of the scheme to £45m.

- The **Partnered Home Purchase (PHP)** scheme allows the Council to invest its capital resources into shared ownership properties providing revenue via rental income on the share the Council owns and the potential to generate increased capital receipts in the future. It works by providing an ongoing revenue stream to the council through rental payments from residents who are moving onto the property ladder through the council investing in an open market shared ownership property.

- The delivery of **one thousand new Council homes,** including 77 properties at the Valley, Stanmore.

- Provision of a **Replacement Surgery** in the city centre to replace the existing St Clement's Surgery.

- Investment in public realm and master planning with respect to the **Station Approach** area at **Carfax** and **Cattlemarket** subject to economic viability, business case and full review of delivery options/

- The provision of a state of the art **Sports & Leisure Centre** in the Bar End area.

- The former **Depot at Bishops Waltham** is suitable for redevelopment. Interest has been expressed by a number of local businesses in the possibility of leasing new business accommodation. Initial feasibility studies have been completed and a planning application has been submitted for the demolition of the existing buildings and the construction of three new terraced industrial units, including hard and soft landscaping

- The **transfer of HRA Garages to the General Fund** which will provide the HRA with capital resources to enable it to expand its new build schemes and will provide the GF with ongoing revenue;

- Provision of **a new car park at The Dean in Alresford**.

- The establishment of **a Housing Company** to support the delivery of sub-market rented housing.

- The demolition and provision of a car park at **Coventry House (Vaultex)** following its acquisition. There is an existing budget to provide a surface car park in the programme; however, in line with the emerging Movement Strategy, the potential for a multi storey facility will be included in a feasibility study. Further details on this project will be reported later in 2019.

- There is an existing budget to undertake capital refurbishment works to **Abbey House**; however, consideration is being given to more significant works to the property including its potential for alternative uses. Further detail and a business case will be reported when appropriate.

- The provision of a new **Coach Park** at St Catherine's Park and Ride to replace the existing facility at Worthy Lane.

11.2.3. There are several **new projects** in the capital programme with the principles agreed:

- **Coitbury House** – refurbishment of currently unused building in the central Winchester area to provide much-needed office accommodation, provide a source of income to the Council, and revitalise the area. Architects have recently been appointed and works are expected to begin in 2019 subject to full business case approval.

- A budget has been allocated to replace the **King George V Pavilion** providing facilities for football, cricket and the boxing club. The project is at the feasibility stage and the potential for external funding sources such as grants is being explored.

- Following the refurbishment works to City Offices and the main reception a budget has been allocated to **refurbish the West Wing**. In addition to replacing the flooring and ceiling, the installation of energy efficient lighting is estimated to provide up to £8,000 per annum in savings.

- **Community Infrastructure Levy (CIL) – Community projects**. A £1m allocation was approved in September 2018 allowing community groups to apply for a share of between £10,000 and £200,000 for their essential infrastructure projects.

- A budget of £250,000 per annum over the next 3 years has been allocated to **energy management projects**. Expenditure will be subject to a business case as individual projects are identified. As well as reducing the Council's carbon emissions it is anticipated that projects will provide additional income and/or savings to the Council.

- The Council will purchase new **recycling bins for the kerbside glass collection** recently announced waste collection contract extension.

- Following the properties becoming vacant, **refurbishment works** will be carried out to **68 St George St** and **59 Colebrook St** in preparation for re-letting.

- Further budget allocation has been made to undertake significant essential repairs to the **riverbank at the Weirs** following initial works in 2018/19. Funding from the Council's partners is currently being explored**.**

11.2.4. The following are **key considerations for future years**:

Outcome: Business

- **Central Winchester Regeneration (CWR)** – the Council continues with its Corporate priority to regenerate the city centre to create a new heart and additional life and vitality in the area, support business and the city centre economy, and make it a more attractive place for residents and visitors alike. In addition to the proposed works on Coitbury House, the Council will receive tenders on meanwhile uses feasibility works in early February and a brief has been drafted for design work in relation to public realm in the Lower High Street through to King Alfred's statue. Work is also underway to plan for the main development of the site.

- **Station Approach** – there are several potential options to deliver the regeneration of this area one of which is that the Council itself undertakes the development. Should this decision eventually be taken there would be a capital requirement of around £140m

- **Goods Shed, Bar End**– options are being explored to provide small business units.

Outcome: Health & Happiness

- **River Park Leisure Centre area** – the Council is keen to explore alternative uses for the land where the existing leisure centre is located once the new Winchester Sports and Leisure Park is open

- **District-wide Sports hall capacity** – CAB3015(LC) gave approval to a £50,000 revenue budget to consider the feasibility of building a separate sports hall elsewhere in the district. A feasibility study has been commissioned and is underway; a report is expected in Spring 2019.

- **King George V play area and skate park** – following confirmation of the location of the new leisure centre it is necessary to refurbish the play area and skate park. Winchester Town Forum will consider the funding for this project (WTF265 refers)

Outcome: Environment

- **Movement Strategy** – explore the options available, and financing of these, to support the emerging Movement Strategy for Winchester.

- **Solar Farm** – opportunities to invest in a solar farm either independently or in partnership are being explored. The potential benefits include supplying the Council with its own energy, supplying energy to Council owned assets including housing tenants, providing tenants with the option of a cheaper and greener energy supply

- **Bridge at City Mill** – the existing bridge over the Itchen at this location is narrow and the addition of a footbridge for pedestrians is being carefully considered.

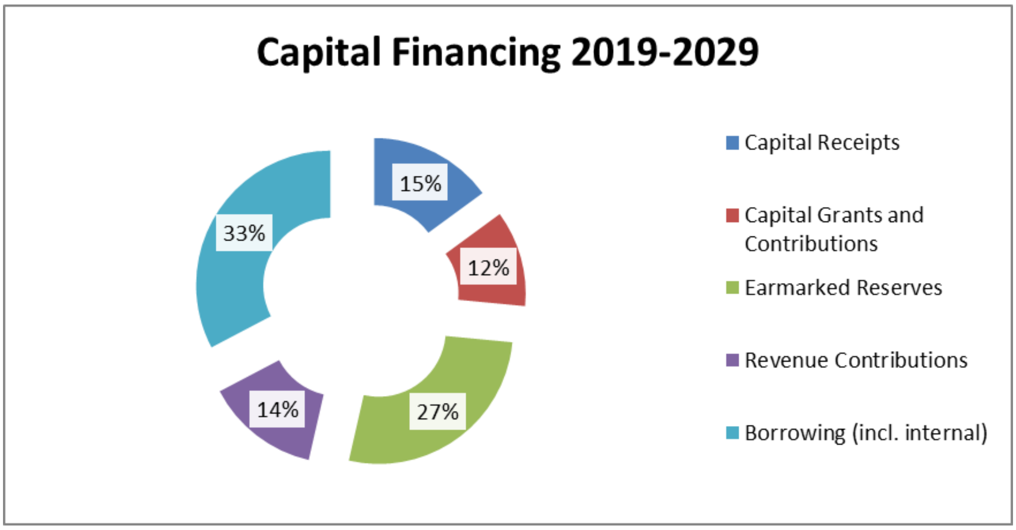
11.3. Financing the Capital Programme

11.3.1. The Council can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”. For the HRA, a maximum level of borrowing (Housing debt cap) was imposed as part of the self-financing settlement but this cap was removed by the Government on 29 October 2018.

11.3.2. The main sources of finance for capital projects are as follows:

- Capital receipts (from asset sales);
- Capital grants (e.g. Disabled Facilities Grant);
- External contributions (e.g. Section 106 developers’ contributions and Community Infrastructure Levy (CIL));
- Earmarked Reserves (e.g. the Major Investment Reserve, the Property Reserve, the Car Parks Property Reserve, and the IMT Reserve);
- Revenue contributions; and
- Borrowing including internal (also known as the “Capital Financing Requirement”).

11.3.3. Full details of the proposed financing for the 2019-2029 capital programme are provided in Appendix B and is summarised in the following graph:



11.3.4. Borrowing (or Capital Financing Requirement) makes up a significant element of the Council’s proposed financing over the next 10 years. While the Council has sufficient cash and investment balances in the near term it is able to internally borrow but, if the proposed capital programme is delivered on time, it will need to borrow externally in 2019/20 in addition to the £156.7m the Council has already borrowed as a result of the HRA self-financing settlement. The impact of this borrowing is estimated as part of the revenue consequences of the capital programme (see Appendix C) and is incorporated into the Medium Term Financial Strategy (CAB 3131), the General Fund budget (CAB 3132) and the Housing Revenue Account budget (CAB 3111 (HSG)).

11.3.5. Before committing the Council to borrowing, consideration is giving to the forecast savings and/or income a new project may generate and how this will contribute to the financing costs as part of its respective business case. The Capital Financing Requirement is reduced over the life of individual assets in the General Fund by a statutory annual contribution from revenue referred to as the Minimum Revenue Provision (MRP). In addition, the Council can elect to reduce its borrowing need by making contributions from revenue or from the sale of asset (capital receipts). Planned MRP is as follows:

Replacement of debt finance in £ millions

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Minimum Revenue Provision (GF)	0.4	0.5	0.6	0.6	1.4
Reserves (HRA)	1.0	0.0	0.0	0.0	0.0
Total	**1.4**	**0.5**	**0.6**	**0.6**	**1.4**

The Council's full MRP statement is available at Appendix E.

11.3.6. The Council's cumulative outstanding amount of debt finance (borrowing need) is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and voluntary contributions from revenue or capital receipts. The CFR is estimated to increase by £51m during 2019/20 subject to full delivery of the Capital Programme.

Estimates of Capital Financing Requirement (CFR) in £ millions

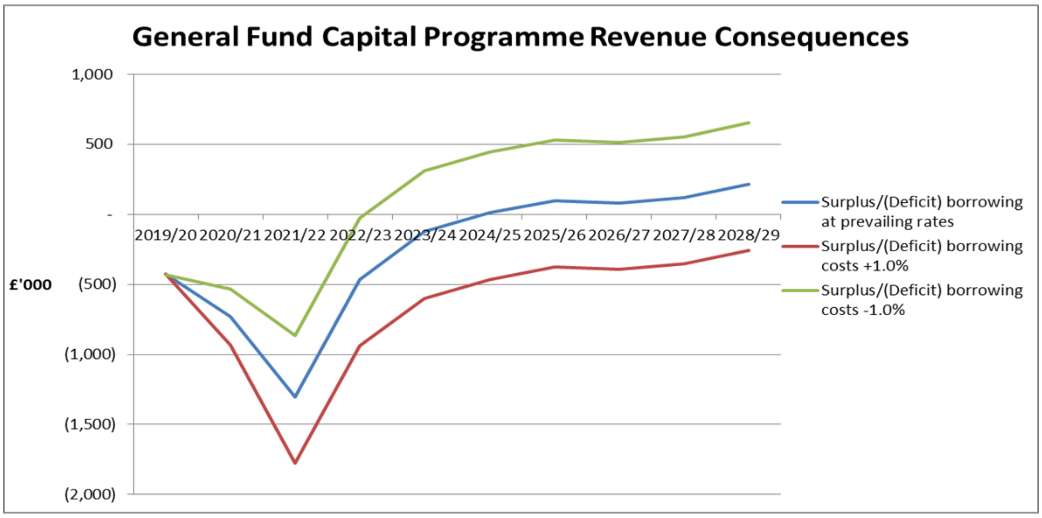
	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
General Fund	13.2	32.1	75.1	99.6	102.8
Housing Revenue Account	164.0	164.0	172.0	187.5	196.5
TOTAL CFR	**177.2**	**196.1**	**247.1**	**287.1**	**299.3**

11.3.7. Further information including borrowing forecasts and borrowing limits are set out in the Treasury Management Strategy (CAB 3133).

11.4. <u>Revenue Consequences of the Capital Programme on the General Fund</u>

11.4.1. Appendix C details the impact of the Capital Programme on the Council's General Fund. Not all projects provide savings or generate income but, in aggregate, the capital programme is forecast to have a positive net benefit to the General Fund from 2023/24. There is an overall negative impact on the General Fund prior to this year which reflects significant spend on preliminaries and costs associated with major projects early in their lifecycle.

11.4.2. A significant proportion of the Council's programme is likely to be financed by borrowing and this exposes the Council to the risk of changing interest rates. The Council can mitigate against this by borrowing ahead of need where it is advantageous to do so and by taking longer-term fixed rate loans. The graph below illustrates the impact on the General Fund at prevailing long-term rates available to the Council as well as the impact of a change in those rates by 1.0%:



11.4.3. For short term borrowing, prevailing rates available to the Council are as low as just under base rate (0.75%) and we would make use of these rates for short periods of time for cashflow purposes or where financially advantageous.

11.4.4. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, MRP, and any revenue funded reductions in the borrowing need are charged to the General Fund (GF) or Housing Revenue Account (HRA) income and expenditure statements as appropriate, offset by investment income receivable. The net annual charge is known as financing costs - this is compared to the net revenue stream: Council Tax, Business rates, and general government grants in the case of the GF; and rents and other charges in the case of the HRA.

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
GF financing costs (£m)	-0.1	0.02	0.9	0.8	2.3
GF proportion of net revenue stream	-0.8%*	0.1%	5.8%	5.6%	17.6%
HRA financing costs (£m)	6.1	5.1	5.2	6.1	6.7
HRA proportion of net revenue stream	21.2%**	17.9%	17.8%	20.5%	21.6%

* in 2017/18 investment income exceeded interest payable and MRP

** in 2017/18 the HRA elected to reduce its borrowing need by £1m from revenue

11.4.5. **Sustainability** – due to the long-term nature of capital expenditure and financing, the revenue implications of the expenditure in the next few years will extend up to 50 years in the future. It is imperative therefore that the Council ensures that the proposed programme is prudent, affordable, and sustainable. This is achieved by ensuring that the governance and procedures outlined in this strategy are followed, by incorporating and considering the revenue impact in the context of the 10 year medium term financial strategy (MTFS), by undertaking financial appraisals of individual projects as part of their business cases on a whole life basis, and for HRA expenditure incorporating the impact in the 30 year business plan.

11.5. Capital Receipts

11.5.1. When a capital asset is sold the proceeds, known as capital receipts, can be spent on new assets or to reduce debt from prior year capital expenditure. Repayments of capital grants, loans, and investments also generate capital receipts. Forecast capital receipts and their use in funding capital expenditure is detailed in Appendix D.

11.5.2. In order to effectively manage its estate the council commenced an asset challenge programme in 2018/19. This process is reviewing all of the council's assets on a rolling basis to establish why the council holds assets, what options the council has to, for example, increase income, dispose, hold or develop, and when these can be realised. Initial progress has been positive and has highlighted three assets that the council is considering disposing of. It is expected that these assets have the potential to generate capital receipts in excess of £1m.

11.6. The approval process and Project and Programme management

11.6.1. For effective delivery of the Capital Programme it is important that the programme is realistic in terms of projects which can be delivered on time, within budget, and whilst achieving the desired outcomes. The Council has a number of programme and project management procedures in place to help to ensure successful delivery of the capital programme, from the initiation and approval of projects to effective performance monitoring and post-implementation review.

11.6.2. The Council has an ambitious capital programme with several major projects. To expedite their delivery the Council the Council created 3 new Heads of Programme posts in 2017/18 who lead on the delivery of three specific major project areas: Station Approach; the new Winchester Sports and Leisure Centre; and Central Winchester Regeneration.

11.6.3. The resource requirements for each corporate project are assessed as part of the development of the outline business case and associated project plan and initially identified in the Business Justification Case which is considered by the Capital Strategy Board. This is then looked at in relation to the whole programme of projects to determine the cumulative impact of delivery on staff resources. This can have impacts on key service areas such as the Council's Project Office in terms of providing project managers, and other key areas such as Legal, Finance and Estates teams depending upon the nature of the projects. Where required, external support is commissioned to provide resources which cannot be met from within the Council's own resources.

11.6.4. The Council's Programme Management Group, the role of which is to monitor the programme and projects delivery together with identifying and addressing resource issues, meets on a monthly basis to consider such issues and to report concerns and to refer key decisions to the Senior Leadership Team.

11.6.5. Cabinet receives quarterly updates on financial performance as well as key projects (many of which are in the capital programme).

11.7. Asset Management Plan (AMP)

11.7.1. The AMP seeks to address both the spending priorities for the maintenance of operational property and the development of the non operational estate to assist economic development and provide both capital receipts and revenue income streams. The most recent AMP covering the period to 2021 was approved in December 2016 (CAB2870 refers).

11.7.2. The Council owns a well located portfolio of property which can provide an increasing level of income for the Council, whilst other sources of income may be restricted in growth. The value of the Council's portfolio can be unlocked by undertaking prudent development or refurbishment schemes on existing property to be let to well secured tenants as well as identifying potential assets sales as detailed in 11.5 above.

11.7.3. The Capital Programme (Appendix A) includes specific projects in line with the AMP. In addition, a £200,000 annual budget, funded by the Property Reserve, has been allocated to support reactive maintenance and smaller scale refurbishments as they arise.

11.8. IMT Asset Management Plan

11.8.1. The purpose of the IMT Service is to deliver cost effective robust data processing and voice services to support the productivity and ambitions of the Council. The IMT Service uses good practice methodologies (ITIL3) to ensure the quality control of supportable, sustainable and secure services.

11.8.2. The Council has formulated a digital transformation strategy which has been a key focus since 2018 and aims to enhance how the Council engages and transacts with its customers whilst seeking efficiencies, savings and improvements. The Council is also keen to build on Smart City initiatives particularly in relation to Transport/ Parking and Tourism applications which will help to meet wider objectives.

11.8.3. The Council formed an IT delivery partnership with Test Valley Borough Council (TVBC) over eight years ago that shares an infrastructure platform that continues to produce both capital avoidance and revenue financial savings. The assets which constitute the shared platform are jointly procured and owned. Other capital assets which are required solely for the use of either party will continue to be funded independently. This will be reflected in setting out investment requirements.

11.8.4. It is paramount that a funding provision be made available to ensure that the IT infrastructure remains fit for purpose and capable of delivering sustainable and supportable services. Equipment must be maintained in a condition which supports the needs of the business.

11.8.5. The Capital Asset Management Plan (AMP) for IT infrastructure recognises this requirement for fit-for-purpose equipment through a programme of continuous investment. Generally, equipment will require refreshment after 4-5 years, at intermittent intervals due to the practical constraint of delivery and implementation. The Capital Asset Management Plan (AMP) for IT assumes the need to refresh infrastructure items on a like-for-like basis, and proposed costs reflect this. In reality, after five years the technology will have "moved on" and new developments which offer further advances will be considered which may give greater benefits for the same investment.

11.8.6. The following table sets out the proposed IMT capital expenditure for 2019/20 to be financed from the IMT reserve:

IMT Capital 2019/20	**£'000**
Equipment	80
Infrastructure (SAN)	90
Remote working investments	40
Telephony replacement	30
Total	**240**

11.9. Housing Revenue Account (HRA)

11.9.1. The Housing Portfolio Plan takes full account of priorities detailed in the Council's Housing Strategy, its 30 year HRA Business Plan and the Housing Asset Management Strategy.

11.9.2. Appendix A provides summary detail on the HRA capital programme for 2019/20 and forecasts to 2028/29. Further detailed information can be found in the Housing budget paper; CAB 3111 (HSG) refers.

11.10. Commercial and non-Treasury Investment Activities

11.10.1. The Council invests for three broad purposes:

- because it has surplus cash as a result of the reserves it holds and its day to day activities such is when income is received in advance of expenditure (known as **treasury management investments**);
- to support local public services by undertaking regeneration projects, by lending to, and by buying shares in other organisations (**service investments**); and
- to earn investment income (**commercial investments**)

11.10.2. The Council's Treasury Management Strategy, and associated limits and indicators, is reported in CAB3133. Further detail on service and commercial investments including total investment indicators is provided in Appendix F.

11.10.3. As noted elsewhere in this report, the Council's Asset Management Plan seeks to develop the estate to assist economic development and provide both capital receipts and revenue income streams.

11.10.4. Individual projects are supported by appropriate business cases and the programme as a whole is monitored to ensure that sufficient resources are available both financial and in respect of staff. Where appropriate, the Council will procure additional external resource when either there is insufficient officer availability or when specialist advice and support is required.

11.10.5. In addition to this, Council approved a Strategic Asset Purchase Scheme (SAPS) in January 2017 (CAB 2872 refers). As part of this a SAPS Board was created which includes Members and officers; the Board receives recommendations of potential purchases and the S151 has delegated authority to make acquisitions up to £4m following discussions with the Board subject to due diligence, or recommend to Cabinet and Council to approve for acquisitions above £4m.

11.10.6. The following flowchart details the process:

Property identified as a potential Strategic Acquisition by the Corporate Head of Asset Management and/or external advisor

Estates to advise SAPS Board members of a prospective asset purchase.

Pre-offer stage: circulate Business Case (to the s151 officer’s requirements) of information on full details and cash flow of the potential acquisition to the SAPS Board and Legal Services including full financial implications of purchase are fully understood, before proceeding

Request approval from SAPS & s151 Officer to enter into the bidding process.

To update SAPS Board as necessary and thereafter agree Heads of Terms where bid is successful and commission independent surveys, purchase report and valuation

Subject to any final observations from SAPS Board request their authority to accept the offer subject to contract.

Once the bid is confirmed by SAPS Board, Asset Management to instruct solicitors and when contracts are agreed, seek final approval from SAPS to exchange.

11.11. <u>Risk Appetite</u>

11.11.1. The Council’s Risk Appetite Statement is an integral part of the Council’s Risk Management Policy and ensures that the opportunities the Council is willing to take to achieve its strategic outcomes and objectives are measured, consistent and compatible with the Council’s capacity to accept and manage risk and do not expose the Council to unknown, unmanaged or unacceptable risks.

11.11.2. The Council during the course of the year will take fair, measured and targeted levels of risk to achieve the priority objectives included in the Council Strategy. There will be opportunities for the Council to be innovative or work differently and any identified risks will need to be considered against the anticipated cost or efficiency benefits.

11.11.3. The Council's Risk Appetite has four key elements and against each is the level of risk that the Cabinet is prepared to accept. These are set out below and will be used to assess projects as they are initially assessed and thereafter progressed.

Risk levels and description Key elements	Minimal As little risk as reasonably possible	Cautious Prefer limited delivery options	Open Consider all potential options	Seek Eager to be innovative
Financial/VFM	Very limited financial loss if essential (up to £100,000) VfM (focusing on economy) is primary concern	Some limited financial loss (from £100,000 to £500,000) Consider benefits and constraints beyond price	**Will invest and risk losing (from £500,000 up to £2m or 10% of value – which ever is the lower of the two) for larger potential financial return** **Value and benefits considered, not just cheapest price**	Invest and risk losing (from £2m up to £5m) for best possible return Resources allocated without firm guarantee of return
Exposure to Challenge	Be very sure we would win challenges	Limited tolerance for sticking neck out Reasonably sure we would win challenges	**Challenge is problematic, but takes the necessary steps to manage and win this. Gain outweighs adverse consequences**	Chances of losing challenge are real with significant consequences
Innovation, Quality, Outcomes	Innovations avoided unless essential or commonplace Essential systems or technology development only	Prefer status quo and avoid innovation Limited systems or technology development	Innovation supported New ways of working or using technology explored.	**Innovation pursued** **Actively seek new ways of working or using new technology**
Reputation	No chance for significant repercussions Avoid exposure to attention	Little chance of significant repercussions Mitigation in place for undue interest	**Will expose to scrutiny and interest** **Management of reputation through actively listening and talking**	New ideas experimented at the risk of damage to reputation
Appetite	**Low**	**Moderate**	**High**	**Significant**

11.12. <u>Knowledge, capacity, and skills</u>

11.12.1. In order to deliver the Capital Programme it is essential that the Council has access to the right knowledge and skills.

11.12.2. Internally the Council employs fully qualified and experienced staff such as accountants, solicitors and surveyors. It is fully supportive in providing access to courses both internal and external to enable those staff to complete their Continuing Professional Development (CPD) requirements.

11.12.3. Where the Council does not have the knowledge, capacity, or skills required, use is made of external advisors and specialists in their field. The Council currently employs Arlingclose Ltd as their Treasury advisers, Wilks Head & Eve to undertake its year end valuations, and other specialists as required to support, for example, its major projects.

11.12.4. In addition, the Council ensures that its Members are suitably qualified to undertake their governance role by providing training opportunities (internally and externally provided) and access to workshops either within the Council or with its Local Government partners.

11.12.5. The Council also procures, when required, expert advice and assistance externally such as financial and legal advice.

12. OTHER OPTIONS CONSIDERED AND REJECTED

12.1. None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

The Capital Strategy and Programme are approved annually.

Other Background Documents:-

None

APPENDICES:

Appendix A – Capital Programme 2019-2029

Appendix B – Capital Programme Financing 2019-2029

Appendix C – Revenue Consequences of General Fund Capital Programme 2019 to 2029

Appendix D – Capital Receipts Reserve Forecast

Appendix E – Minimum Revenue Provision Statement 2019/20

Appendix F – Investment activities

Capital Programme 2019 to 2029

2018/19				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
Revised Estimate		**Comments**	**Outcome**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**Forecast**	**2019-2029 Forecast**
£000				**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
	General Fund													
	Approved*													
3,009	Strategic Asset Purchase Scheme (SAPS)		Business	15,000	-	-	-	-	-	-	-	-	-	**15,000**
100	Replacement surgery	Replacement surgery in City Centre	Health & Happiness	3,835	290	-	-	-	-	-	-	-	-	**4,125**
1,000	Disabled Facility Grants	Help towards cost of home modifications	Housing	1,400	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	**10,400**
50	Bishop's Waltham Depot	Industrial Units	Business	1,325	-	-	-	-	-	-	-	-	-	**1,325**
250	Flood Prevention Works	Durngate flood prevention scheme	Environment	1,024	-	-	-	-	-	-	-	-	-	**1,024**
-	SAPS - Car Park at the Dean, Alresford	Acquisition of land and car park development	Business	1,005	-	-	-	-	-	-	-	-	-	**1,005**
2,000	Partnered Home Purchase scheme	Investment in open market shared ownership properties	Health & Happiness	1,000	1,000	500	-	-	-	-	-	-	-	**2,500**
9,972	SAPS - Central Winchester	Friarsgate and 158-165 High St - acquisition and refurbishment	Business	700	-	-	-	-	-	-	-	-	-	**700**
-	Matley's Yard	Small business unit and Council storage	Business	573	-	-	-	-	-	-	-	-	-	**573**
1,670	Coventry House (Vaultex)	Acquisition and car park development	Business	364	-	-	-	-	-	-	-	-	-	**364**
161	Car Parks	Various	Business	310	105	180	180	180	180	180	180	180	180	**1,855**
375	IMT Assets	Various	Internal Efficiency	240	100	444	88	233	160	122	130	85	250	**1,852**
62	Hampshire Community Bank	Direct share purchase	Business	125	-	-	-	-	-	-	-	-	-	**125**
-	Chesil Theatre Capital Grant	Improvement works (capital grant)	Health & Happiness	90	-	-	-	-	-	-	-	-	-	**90**
-	Depot	Replace electricity supply to depot	Environment	61	-	-	-	-	-	-	-	-	-	**61**
1,327	Winchester Sports & Leisure Centre	Figures to be confirmed following Full Business Case approval	Health & Happiness	-	-	-	-	-	-	-	-	-	-	**0**
400	Station Approach - Project Development	Commercial and residential development	Business	-	-	-	-	-	-	-	-	-	-	**0**
386	Main Reception & office reconfiguration	Refurbishment	Internal Efficiency	-	-	-	-	-	-	-	-	-	-	**0**
200	Garrison Ground Pitch & Boxing Club	Works to temporarily re-house boxing club	Health & Happiness	-	-	-	-	-	-	-	-	-	-	**0**
185	River Park Leisure Centre	Essential capital repairs	Health & Happiness	-	-	-	-	-	-	-	-	-	-	**0**
465	Open Spaces & Recreational Facilities	Approved play area refurbishments and replacements	Health & Happiness	-	-	-	-	-	-	-	-	-	-	**0**
175	Asset Management Plan	Reactive capital works to Estate	Environment	-	-	-	-	-	-	-	-	-	-	**0**
165	Security Bollards	High Street anti-terrorism barriers	Environment	-	-	-	-	-	-	-	-	-	-	**0**
103	IMT Smart District - WiFi	Wi-Fi Infrastructure	Business	-	-	-	-	-	-	-	-	-	-	**0**
100	City Office Reception & CAB works	Citizens Advice Bureau	Business	-	-	-	-	-	-	-	-	-	-	**0**
75	Hyde HA Waltham Chase Grant	Grant to Housing Association	Housing	-	-	-	-	-	-	-	-	-	-	**0**
75	Handlebar Café	Capital Grant	Health & Happiness	-	-	-	-	-	-	-	-	-	-	**0**
67	Newlands Walk West of Waterlooville	Play area	Health & Happiness	-	-	-	-	-	-	-	-	-	-	**0**
40	City Offices - Solar PV	Installation of solar PV on City Offices roof	Environment	-	-	-	-	-	-	-	-	-	-	**0**
38	The Weirs - Essential Repairs	Preliminary essential repairs to the river bank	Environment	-	-	-	-	-	-	-	-	-	-	**0**
28	Kayac Building	Acquisition and repairs	Business	-	-	-	-	-	-	-	-	-	-	**0**
27	Tourist Information Centre	Refurbishment	Business	-	-	-	-	-	-	-	-	-	-	**0**
25	City Offices 2nd floor suite of offices	Refurbishment	Internal Efficiency	-	-	-	-	-	-	-	-	-	-	**0**
15	Old Chesil Rectory	Improvements	Business	-	-	-	-	-	-	-	-	-	-	**0**
22,545	**Total Approved***			**27,052**	**2,495**	**2,124**	**1,268**	**1,413**	**1,340**	**1,302**	**1,310**	**1,265**	**1,430**	**40,999**

Capital Programme 2019 to 2029

2018/19 Revised Estimate £000		Comments	Outcome	2019/20 Forecast £000	2020/21 Forecast £000	2021/22 Forecast £000	2022/23 Forecast £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000	2028/29 Forecast £000	TOTAL 2019-2029 Forecast £000
	Subject to Appraisal													
-	Winchester Sports & Leisure Centre	Figures to be confirmed following Full Business Case approval	Health & Happiness	17,893	17,892	-	-	-	-	-	-	-	-	**35,785**
-	Station Approach - Public Realm	Improvements to the Public Realm	Environment	2,500	2,500	-	-	-	-	-	-	-	-	**5,000**
-	Coitbury House	Major refurbishment	Business	2,100	900	-	-	-	-	-	-	-	-	**3,000**
3,078	SAPS - Transfer of HRA Garages to GF	Transfer of Garages from HRA to GF	Business	1,961	1,977	1,510	-	-	-	-	-	-	-	**5,448**
-	Station Approach - Project Development	Commercial and residential development	Business	1,400	-	-	-	-	-	-	-	-	-	**1,400**
-	King George V Pavilion	Replacement pavilion	Health & Happiness	1,000	-	-	-	-	-	-	-	-	-	**1,000**
20	Chesil Multi Storey car park	Essential capital works	Business	841	-	-	-	-	-	-	-	-	-	**841**
-	Housing Company	Provision of housing at sub-market level rents	Housing	500	5,000	2,500	2,000	-	-	-	-	-	-	**10,000**
-	West Wing Refurbishment	Refurbishment	Internal Efficiency	500	-	-	-	-	-	-	-	-	-	**500**
-	CIL funded community projects	Community infrastructure projects	Environment	500	250	250	-	-	-	-	-	-	-	**1,000**
-	South Winchester Coach Park	Replacement coach park	Environment	400	-	-	-	-	-	-	-	-	-	**400**
-	Abbey House	External and internal remedial works	Environment	394	-	-	-	-	-	-	-	-	-	**394**
-	Changing Pavilions (Town A/C)	Replacement at North Walls	Health & Happiness	300	-	-	-	-	-	-	-	-	-	**300**
-	Energy Management Projects	Energy efficiency and generation projects	Environment	250	250	250	-	-	-	-	-	-	-	**750**
-	Asset Management Plan	Reactive capital works to Estate	Environment	200	200	200	200	200	200	200	200	200	200	**2,000**
-	Open Spaces & Recreational Facilities	Play area refurbishments and replacements	Health & Happiness	175	210	120	180	110	110	-	-	-	-	**905**
-	The Weirs - Essential Repairs	Essential infrastructure repairs to the river bank	Environment	175	215	335	-	-	-	-	-	-	-	**725**
-	Recycling Bins	Glass collection	Environment	150	-	-	-	-	-	-	-	-	-	**150**
-	68 St Georges Street	Refurbishment	Business	125	-	-	-	-	-	-	-	-	-	**125**
-	59 Colebrook Street	Refurbishment	Business	100	-	-	-	-	-	-	-	-	-	**100**
-	2-3 Bridge St	Remedial works to listed building	Business	100	-	-	-	-	-	-	-	-	-	**100**
-	Goods Shed, Barfield Close	Small business units - options being explored	Business	50	-	-	-	-	-	-	-	-	-	**50**
-	Large Format Printer	Equipment	Internal Efficiency	50	-	-	-	-	-	-	-	-	-	**50**
-	Enveloping Machine	Replacement - current machine at end of life	Internal Efficiency	36	-	-	-	-	-	-	-	-	-	**36**
107	IMT Smart District	Infrastructure and App	Business	-	-	-	-	-	-	-	-	-	-	**0**
-	Central Winchester Regeneration	Regeneration and public realm	Business	-	-	-	-	-	-	-	-	-	-	**0**
-	Redevelopment of Old Bar End Depot	Commercial development	Business	-	-	-	-	-	-	-	-	-	-	**0**
3,205	**Subject to Appraisal***			**31,700**	**29,394**	**5,165**	**2,380**	**310**	**310**	**200**	**200**	**200**	**200**	**70,059**
25,750	**Total General Fund**			**58,752**	**31,889**	**7,289**	**3,648**	**1,723**	**1,650**	**1,502**	**1,510**	**1,465**	**1,630**	**111,058**

*** Under the Council's Financial Procedure Rule 6.4, the inclusion of a scheme in the capital programme does not constitute authority to incur the expenditure. Such authority is obtained subject to the various conditions and limits as set out in the Constitution.**

Capital Programme 2019 to 2029

2018/19				2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
Revised Estimate		Comments	Outcome	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	2019-2029 Forecast
£000				£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Housing Revenue Account													
9,350	**New Build**		Housing	21,997	33,629	14,403	21,935	10,945	7,777	8,011	8,250	8,497	8,752	**144,195**
6,262	**Major repairs**		Housing	6,853	6,104	6,261	6,427	6,594	9,439	9,769	10,072	10,487	10,837	**82,845**
445	**Improvements & Loft Conversions**		Housing	320	350	350	300	300	300	300	300	300	-	**2,820**
775	**Disabled Adaptations**		Housing	770	770	770	770	770	770	770	770	770	770	**7,700**
-	**Fire Safety provision**		Housing	1,000	-	-	-	-	-	-	-	-	-	**1,000**
243	**Other Capital Spend**		Housing	513	106	109	111	114	117	121	124	127	130	**1,572**
17,075	**Total Housing Revenue Account**			**31,453**	**40,959**	**21,893**	**29,543**	**18,723**	**18,403**	**18,971**	**19,516**	**20,182**	**20,489**	**240,132**
42,825	**Grand Total**			**90,205**	**72,848**	**29,182**	**33,191**	**20,446**	**20,053**	**20,473**	**21,026**	**21,647**	**22,119**	**351,190**

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Capital Programme Financing 2018 to 2028

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
General Fund												
Externally Funded												
Government Grants	*1,000*	3,900	3,500	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	15,400
External Contributions												0
Non governmental grants	*50*	2,750	1,450	0	0	0	0	0	0	0	0	4,200
Open Space Fund	*56*	256	0	0	0	0	0	0	0	0	0	256
Developer's Contributions	*142*	349	0	0	0	0	0	0	0	0	0	349
Total Externally Funded	***1,248***	**7,255**	**4,950**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**20,205**
Earmarked Reserves												
Car Parks Property	*181*	1,601	105	180	180	180	180	180	180	180	180	3,146
Community Infrastructure Levy	*363*	2,422	250	250	0	0	0	0	0	0	0	2,922
Information, Management, and Technology	*375*	240	100	444	88	233	160	122	130	85	250	1,852
Landscape Mitigation	*0*	0	0	0	0	0	0	0	0	0	0	0
Major Investment Reserve	*67*	110	0	0	0	0	0	0	0	0	0	110
Property - Asset Management Reserve	*291*	594	200	200	200	200	200	200	200	200	200	2,394
Winchester Town	*249*	249	90	120	180	110	110	0	0	0	0	859
Total Earmarked Reserves	***1,526***	**5,216**	**745**	**1,194**	**648**	**723**	**650**	**502**	**510**	**465**	**630**	**11,283**
Capital Receipts	*3,482*	2,647	1,120	500	0	0	0	0	0	0	0	4,267
Revenue Contribution to Capital	*40*	0	0	0	0	0	0	0	0	0	0	0
Capital Financing Requirement	*19,454*	43,634	25,074	4,595	2,000	0	0	0	0	0	0	75,303
Total General Fund	***25,750***	**58,752**	**31,889**	**7,289**	**3,648**	**1,723**	**1,650**	**1,502**	**1,510**	**1,465**	**1,630**	**111,058**
Housing												
Capital Grants and Contributions	*1,226*	1,702	1,702	250	250	1,600	3,500	2,600	1,400	4,400	3,000	20,404
Major Repairs Reserve	*4,191*	6,904	7,128	7,532	7,914	8,293	8,607	8,896	9,195	9,502	9,821	83,792
Capital Receipts	*8,819*	6,226	13,014	4,939	5,336	2,756	2,894	3,037	3,180	3,333	3,487	48,202
Revenue Contribution to Capital	*2,839*	8,621	3,625	172	9,043	6,074	3,402	4,438	5,741	2,947	4,181	48,244
Capital Financing Requirement	*0*	8,000	15,490	9,000	7,000	0	0	0	0	0	0	39,490
Total Housing Revenue Account	***17,075***	**31,453**	**40,959**	**21,893**	**29,543**	**18,723**	**18,403**	**18,971**	**19,516**	**20,182**	**20,489**	**240,132**
Total Financing of Capital Programme	***42,825***	**90,205**	**72,848**	**29,182**	**33,191**	**20,446**	**20,053**	**20,473**	**21,026**	**21,647**	**22,119**	**351,190**

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Revenue Consequences of General Fund Capital Programme 2019 to 2029

Notes:

Revenue consequences are estimates and are subject to change. More detailed analysis is carried out prior to actual expenditure being approved.

To be consistent with the presentation in the published financial statements, negative figures (in brackets) represent income or savings.

* Under the Council's Financial Procedure Rule 6.4, the inclusion of a scheme in the capital programme does not constitute authority to incur the expenditure. Such authority is obtained subject to the various conditions and limits as set out in the Constitution.

GENERAL FUND	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Surplus/(Deficit) - approved*	**(652)**	**(349)**	**46**	**77**	**98**	**65**	**79**	**96**	**111**	**127**	**144**
Surplus/(Deficit) - subject to appraisal*	**(16)**	**(77)**	**(774)**	**(1,380)**	**(563)**	**(189)**	**(67)**	**1**	**(31)**	**(7)**	**73**
TOTAL SURPLUS/(DEFICIT)	**(668)**	**(426)**	**(728)**	**(1,303)**	**(465)**	**(124)**	**12**	**97**	**80**	**120**	**217**

Forecast interest payable and Minimum Revenue Provision are affected by borrowing rates available to the Council.
The figures above are based on prevailing rates. An increase or decrease of 1.0% (100 basis points) to long-term borrowing rates would have the following impact:

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Difference to TOTAL SURPLUS/(DEFICIT) (+1.0%)	**(20)**	**(1)**	**(206)**	**(476)**	**(475)**	**(475)**	**(475)**	**(474)**	**(474)**	**(474)**	**(474)**
Difference to TOTAL SURPLUS/(DEFICIT) (-1.0%)	**19**	**(8)**	**194**	**438**	**437**	**437**	**437**	**436**	**436**	**436**	**435**

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Capital Receipts Reserve Forecast

CAPITAL RECEIPTS RESERVE	2018/19 Forecast £000	2019/20 Forecast £000	2020/21 Forecast £000	2021/22 Forecast £000	2022/23 Forecast £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000	2027/28 Forecast £000
Consolidated Opening Balance	**(14,367)**	**(10,386)**	**(6,562)**	**(2,825)**	**(2,633)**	**(2,940)**	**(3,251)**	**(3,564)**	**(3,879)**	**(4,200)**
GENERAL FUND										
Opening Balance	**(6,867)**	**(3,701)**	**(2,253)**	**(1,455)**	**(1,280)**	**(1,608)**	**(1,940)**	**(2,275)**	**(2,613)**	**(2,955)**
Forecast receipts	(316)	(1,199)	(322)	(325)	(328)	(332)	(335)	(338)	(342)	(345)
Forecast utilisation	3,482	2,647	1,120	500	0	0	0	0	0	0
Closing Balance	**(3,701)**	**(2,253)**	**(1,455)**	**(1,280)**	**(1,608)**	**(1,940)**	**(2,275)**	**(2,613)**	**(2,955)**	**(3,300)**
HOUSING REVENUE ACCOUNT										
Opening Balance	**(7,500)**	**(6,685)**	**(4,309)**	**(1,370)**	**(1,353)**	**(1,332)**	**(1,311)**	**(1,289)**	**(1,266)**	**(1,245)**
Forecast receipts	(8,004)	(3,850)	(10,075)	(4,922)	(5,315)	(2,735)	(2,872)	(3,014)	(3,159)	(3,311)
Forecast utilisation	8,819	6,226	13,014	4,939	5,336	2,756	2,894	3,037	3,180	3,333
Closing Balance	**(6,685)**	**(4,309)**	**(1,370)**	**(1,353)**	**(1,332)**	**(1,311)**	**(1,289)**	**(1,266)**	**(1,245)**	**(1,223)**
Consolidated Closing Balance	**(10,386)**	**(6,562)**	**(2,825)**	**(2,633)**	**(2,940)**	**(3,251)**	**(3,564)**	**(3,879)**	**(4,200)**	**(4,523)**

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Annual Minimum Revenue Provision Statement 2019/20

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the Ministry for Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2018.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the equivalent principal repayment on an annuity with an annual interest rate equal to the relevant PWLB rate as at 31 March for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

For capital expenditure loans to subsidiaries that are repaid in instalments of principal, the Council will make nil MRP and will instead apply the capital receipts arising from principal repayments to reduce the associated capital financing requirement.

No MRP will be charged in respect of assets held within the Housing Revenue Account. (England only)

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until at least 2019/20 or the year following which an asset becomes operational.

Based on the Council’s latest estimate of its Capital Financing Requirement on 31st March 2019, the budget for MRP has been set as follows:

	31.03.2019 Estimated CFR £m	**2019/20 Estimated MRP £**
Unsupported capital expenditure after 31.03.2008	**31.9**	462,000
Finance leases and Private Finance Initiative	**0.2**	161,000
Total General Fund	**32.1**	**623,000**
Assets in the Housing Revenue Account	164.0	Nil
Total Housing Revenue Account	**164.0**	**Nil**
Total	**196.1**	**623,000**

Investment Activities

The Council invests for three broad purposes:

- because it has surplus cash as a result of the reserves it holds and its day to day activities such is when income is received in advance of expenditure (known as **treasury management investments** – further detail including associated limits and indicators is reported in CAB3133);
- to support local public services by undertaking regeneration projects, by lending to, and by buying shares in other organisations (**service investments**); and
- to earn investment income (**commercial investments**)

Service Investments: Loans

Contribution: The Council considers lending money to its subsidiaries, housing associations, and other entities to support local public services and stimulate local economic growth. The Council currently has outstanding loans with Housing Associations which help to meets its objective of providing affordable housing and preventing homelessness. It has no subsidiaries currently but is exploring the potential to set up a wholly owned Housing Company.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2018 actual			2019/20
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0m	0m	0m	10m
Housing associations	0.14m	0.1m	0.04m	1m
Other entities*	-	-	-	1m
TOTAL	**0.14m**	**0.1m**	**0.04m**	**12m**

**loans to other entities will be considered on a case by case basis by the Treasury Investment Group (TIG). Further information on TIG is provided in CA3133*

Accounting standards require the Authority to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. Included in loans to housing associations are 0.87m of loans which have an allowance of the full amount; these loans are in respect of asset purchases for the provision of temporary accommodation to prevent homelessness and are only repayable in the event the asset is sold or its use changes.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by considering any loans on a case by case basis. This includes, where appropriate, completion of a business case, assessing the purpose of the loan, the entity to which the loan is made, the use of credit ratings, and the procurement of external advice.

Service Investments: Shares

The Council does not actively consider the purchase of direct shares. It has, however, purchased one hundred and twenty five ordinary shares at a cost of £125,000 in Hampshire Community Bank for the purpose of assisting the local economy.

Commercial Investments: Property

Contribution: The Council owns an investment property portfolio (assets held solely for rental income or capital appreciation) which was valued at £47.7m as at 31 March 2018 and generated gross income of £2.6m and net income after costs of £1.8m in 2017/18. This income helps contribute to the Council Strategy outcomes.

No investment property enhancements are planned in 2018/19 but £2m is budgeted for acquisitions in respect of the Partnered Home Purchase scheme (open-market shared ownership) and £3.1m for the phased transfer of garages from the HRA.

Table 3: Property held for investment purposes in £ millions

1 April 2017	**46.4**
Acquisitions	0.0
Enhancements	0.1
Gains/(losses) in fair value	1.3
Transfers to PPE (operational assets)*	-0.1
31 March 2018	**47.7**
Budgeted	
Acquisitions	2.0
Garage transfer from HRA	3.1
Enhancements	0.0
Gains/(losses) in fair value**	-
31 March 2019	**52.8**

**an investment property is held for rental income and/or capital appreciation; when the continued purpose of holding the asset changes to meeting a service objective it is transferred to Property Plant & Equipment or vice versa*

***valuations are carried out at the balance sheet date and so it is not possible to forecast future changes in fair value*

The Council has a mixed investment property portfolio with the largest single element being in the retail sector. This is primarily due to historic holdings on Winchester's High Street with some assets being held by the Council and its predecessor organisations for over a hundred years.

Table 4: Investment properties by type

As at 31 March 2018	Retail	Offices	Industrial	Residential / Garages	Other	Total
Value £000s	31,941	8,790	4,133	1,881	969	**47,714**

Security: Investment property values are subject to fluctuation and so, in some years, the Council may make a loss in fair value. However, the Council is not reliant on capital receipts from the sale of its investment property assets and so any short or medium term loss is unrealised.

Risk assessment: The Council generates significant income from its portfolio and, in order to ensure continued revenue streams, the portfolio is kept under rolling review as part of the Asset Challenge programme and, where appropriate, assets are identified for sale. The Council does not plan to undertake borrowing to purchase new investment properties. It has, however, used prudential borrowing (also known as Capital Financing Requirement (CFR)) to undertake the refurbishment of property in its existing portfolio to enable it to continue to generate rental income. When any such refurbishment is planned, it is subject to a business case and approval in accordance with the governance arrangements outlined in the Capital Strategy. As at 31 March 2018, the Council had £2.3m of CFR in relation to investment properties.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. The Council is not reliant on the sale of investment property for short-term liquidity purposes.

Proportionality

The income the Council generates from its investment activities helps it deliver its objectives. The table below details the proportion of investment income as a proportion of gross service expenditure. In order to set the budget and include realistic forecasts in the Medium Term Financial Plan, prudent estimates of Treasury Management income are included which reflect forecast capital expenditure and reserve balances, and the Council's investment property portfolio is actively managed as detailed elsewhere in the Capital Strategy.

Table 5: Proportionality of Investments

	2017/18 Actual £000	2018/19 Forecast £000	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000
Gross service expenditure	30,922	33,694	32,104	32,050	32,518
Investment income*	2,617	3,272	2,980	3,332	3,380
Proportion	8.5%	9.7%	9.3%	10.4%	10.4%

**Investment income includes income from treasury investments and investment properties*

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total investments and therefore its exposure to potential investment losses. The Council seeks to minimise its risk of loss and how it achieves this is detailed in the Capital Investment Strategy and the Treasury Management Strategy (CAB3133).

Table 6: Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	39.0m	15.0m	15.0m
Service investments: Loans	0.1m	0.1m	0.6m
Service investments: Shares	0.1m	0.1m	0.1m
Commercial investments: Property	47.7m	52.8m	56.0m
TOTAL EXPOSURE	**86.9m**	**68.0m**	**71.7m**

How investments are funded: The following table details which investments are funded by external borrowing. The Council's borrowing need (known as its Capital Financing Requirement or CFR) reflects capital expenditure that hasn't been financed from other sources – CFR increases with additional unfinanced capital expenditure and reduces with annual provisions from revenue (known as Minimum Revenue Provision or MRP) over the life of each asset. The Council is able to internally borrow a proportion of its borrowing need due, for example, to the usable reserves it holds and income received in advance, but will borrow externally when its need exceeds cash balances available.

Table 7: Investments funded by external borrowing in £millions

Investments funded by external borrowing	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	0.0m	0.0m	0.0m
Service investments: Loans	0.0m	0.0m	0.5m
Service investments: Shares	0.0m	0.0m	0.0m
Commercial investments: Property	0.0m	0.0m	6.4m
TOTAL FUNDED BY EXTERNAL BORROWING	**0.0m**	**0.0m**	**6.9m**

Rate of return received (%): This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 8: Investment rate of return (net of costs) %

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	1.1%	1.0%	1.0%
Service investments: Loans	0.0%	0.0%	0.0%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	3.9%	4.5%	4.4%
ALL INVESTMENTS*	**2.6%**	**3.3%**	**3.6%**

**weighted average return*

Capital financing requirement (CFR) to total fixed assets value: Capital Financing requirement represents the total borrowing need of the Council. This indicator shows the CFR as a percentage of total fixed assets and forecasts assume the full delivery of the capital programme. The Council is able to internally borrow an element of its need and actual external borrowing stood at £156.7m at 31 March 2018. Further detail on borrowing is included in the Treasury Management Strategy (CAB3133)

Table 9: Capital Financing Requirement to total fixed assets value

Capital Financing Requirement to total fixed assets value	2017/18 Actual	2018/19 Forecast*	2019/20 Forecast*
General Fund - total fixed assets (£m)	114.3	140.1	198.0
Outstanding CFR (%)	**11.5%**	**22.9%**	**37.9%**
Housing Revenue Account - total fixed assets (£m)	456.5	465.6	493.2
Outstanding CFR (%)	**35.9%**	**35.2%**	**34.9%**

**excludes future changes in valuation*

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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