

REPORT TITLE: CAPITAL INVESTMENT STRATEGY

13 FEBRUARY 2019

REPORT OF PORTFOLIO HOLDER: Cllr. Guy Ashton

Contact Officer: Joseph Holmes Tel No: 01962 848220

Email: [jholmes@winchester.gov.uk](mailto:jholmes@winchester.gov.uk)

WARD(S): ALL

PURPOSE

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

RECOMMENDATIONS to Cabinet and Council:

1. That the Capital Programme and Capital Programme Financing (Appendices A and B to the report) be approved
2. That the Minimum Revenue Provision (MRP) Policy Statement (Appendix E) be approved
3. That it is noted that the Council is likely to need to increase its external borrowing in 2019/20 subject to delivery of the proposed capital programme.
4. That the Prudential indicators detailed in the report and its appendices be approved.

RECOMMENDATIONS to Cabinet:

5. That under Financial Procedure Rule 6.4 expenditure for the following budget items be approved:
  - a) the IMT equipment and software expenditure (£240,000 in 2019/20) as detailed in paragraph 11.8.6;
  - b) expenditure of £500,000 for the refurbishment of the West Wing as detailed in 11.2.3; and
  - c) expenditure of £50,000 for preliminary works in respect of the

development of small business units at the Goods Shed, Barfield Close as detailed in 11.2.4.

6. That the requirement to ensure Members have the right knowledge and skills to undertake their governance role as detailed in 11.12 is noted.

## 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 financial 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 £356m 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.
- 6.3. The Overview and Scrutiny Committee discussed the report at its meeting held on 4 February 2019. At the conclusion of questions and debate, the

Committee agreed that there were no particular matters that it wished to raise for Cabinet to further consider and welcomed the focus on community projects.

## 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.

<b>Risk</b>	<b>Mitigation</b>	<b>Opportunities</b>
<i>Property</i> 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.
<i>Community Support</i> 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
<i>Timescales</i>	The 10 year strategy and	

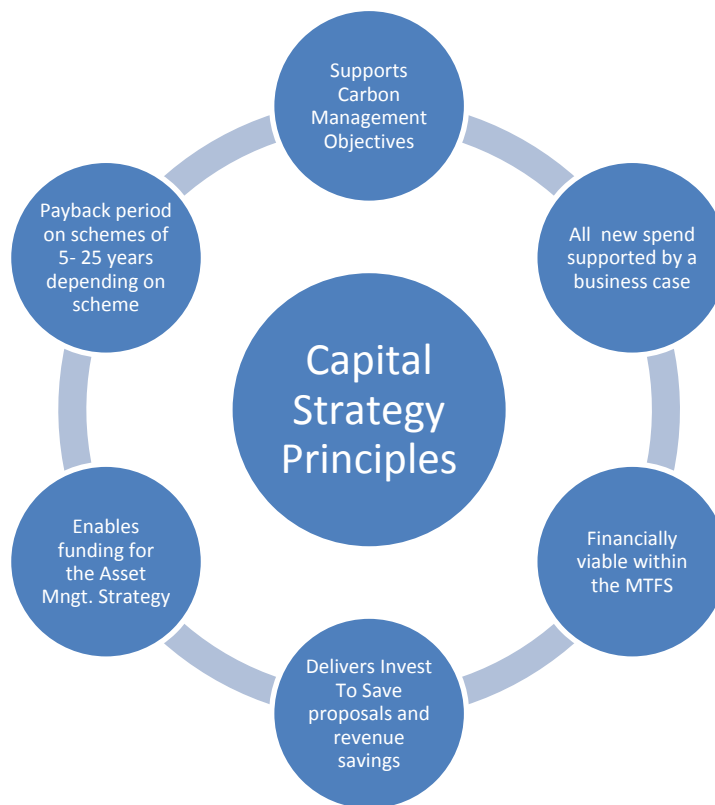
Projects not delivered on time resulting in a delay in benefits to the Council	its associated governance structures including monthly review by the Capital Strategy Board and quarterly at by O&S/Cabinet	
<i>Project capacity</i> Failure to deliver major capital schemes due to insufficient staff resources	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
<i>Financial / VfM</i>	Detailed elsewhere within the report	None
<i>Legal</i>	Considered as part of the approval process for individual capital schemes	None
<i>Innovation</i>	Considered as part of the approval process for individual capital schemes	Strategy includes new schemes to innovate
<i>Reputation</i>	Considered as part of the approval process for individual capital schemes	None
<i>Other</i>		

## 11. SUPPORTING INFORMATION:

### 11.1. Purpose

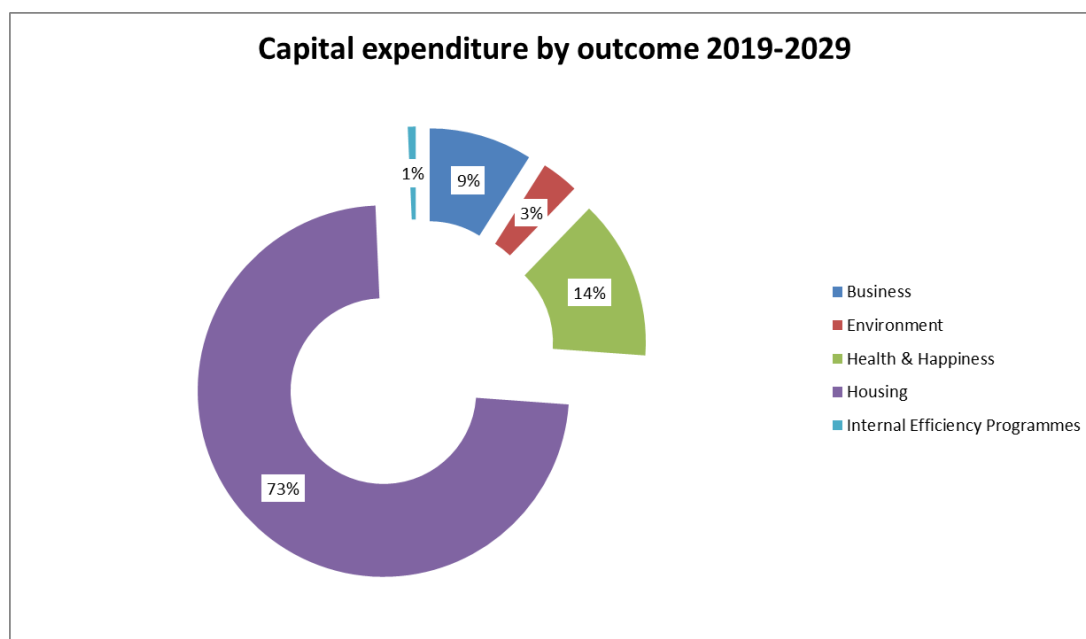
11.1.1. The primary purpose of this strategy is to identify and progress schemes to help deliver the Council Strategy and to help make the Council self sufficient in order to be able to deliver the level of required services. It outlines how the Council ensures that individual schemes and the programme 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. The Capital Programme

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	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
2019 - 2029	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
General Fund	61.2	34.3	7.3	3.6	1.7	1.7	1.5	1.5	1.5	1.6	116.0
HRA	31.4	41.0	21.9	29.6	18.7	18.4	19.0	19.5	20.2	20.5	240.1
<b>Total Expenditure</b>	<b>92.6</b>	<b>75.3</b>	<b>29.2</b>	<b>33.2</b>	<b>20.4</b>	<b>20.1</b>	<b>20.5</b>	<b>21.0</b>	<b>21.7</b>	<b>22.1</b>	<b>356.1</b>

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. CAB3082 (LC) provides further detail on the full business case.
- 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** and for which this paper seeks approval for expenditure of £500,000. The refurbishment will enhance the working conditions for staff and includes the installation of more energy efficient lighting and heating to ensure an improved working environment aligned to the city offices works recently completed. 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.

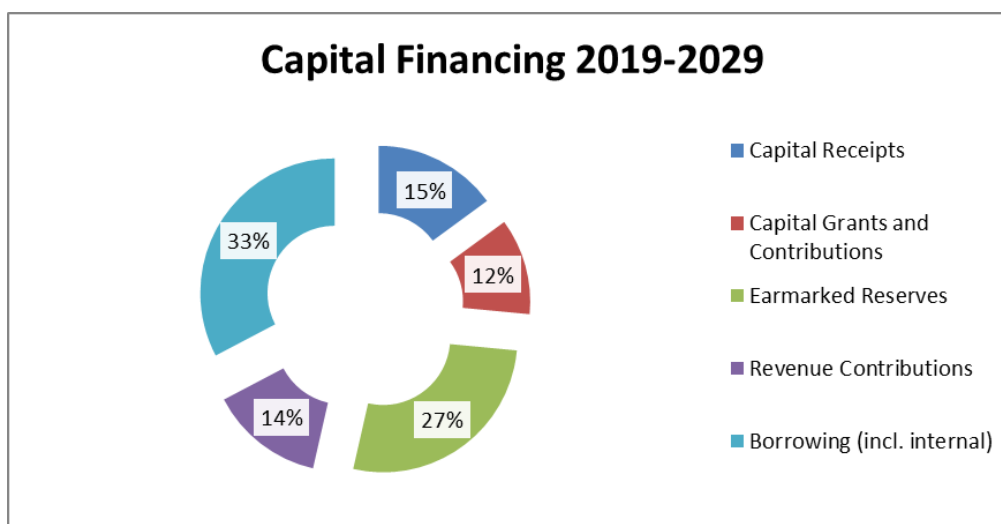
### 11.3. Financing the Capital Programme

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
<b>Total</b>	<b>1.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>1.4</b>

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. CFR is estimated to increase by £53.5m during 2019/20 subject to full delivery of the Capital Programme.

*Estimates of Capital Financing Requirement (CFR) in £ millions*

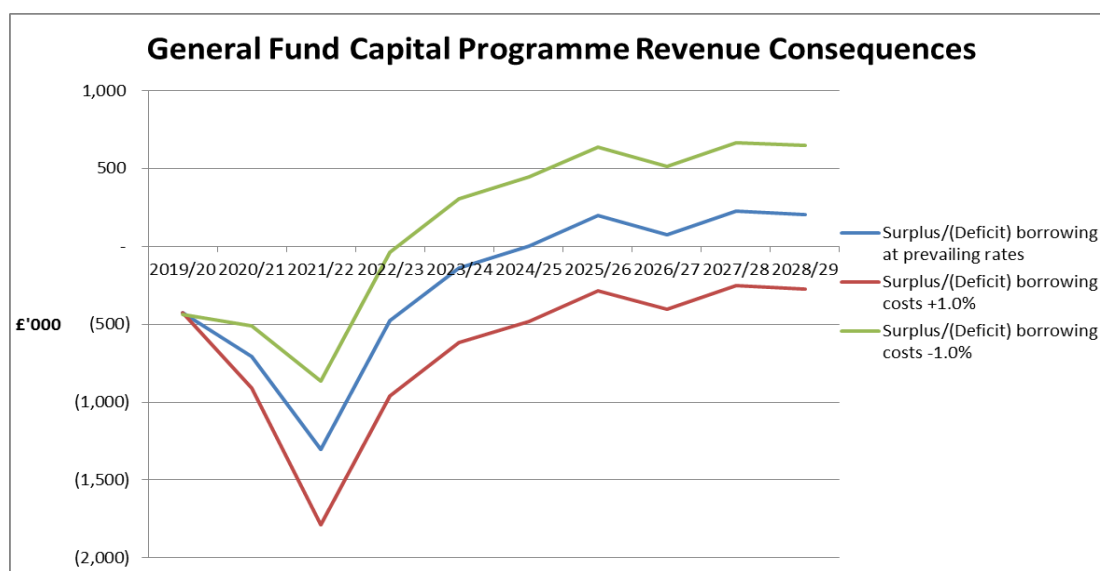
	31.3.2018 actual	31.3.2019 forecast	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund	13.2	32.1	77.6	105.3	108.5
Housing Revenue Account	164.0	164.0	172.0	187.5	196.5
<b>TOTAL CFR</b>	<b>177.2</b>	<b>196.1</b>	<b>249.6</b>	<b>292.8</b>	<b>305.0</b>

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

#### 11.4. Revenue Consequences of the Capital Programme on the General Fund

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%	17.8%
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 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:

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

#### 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 as 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**)

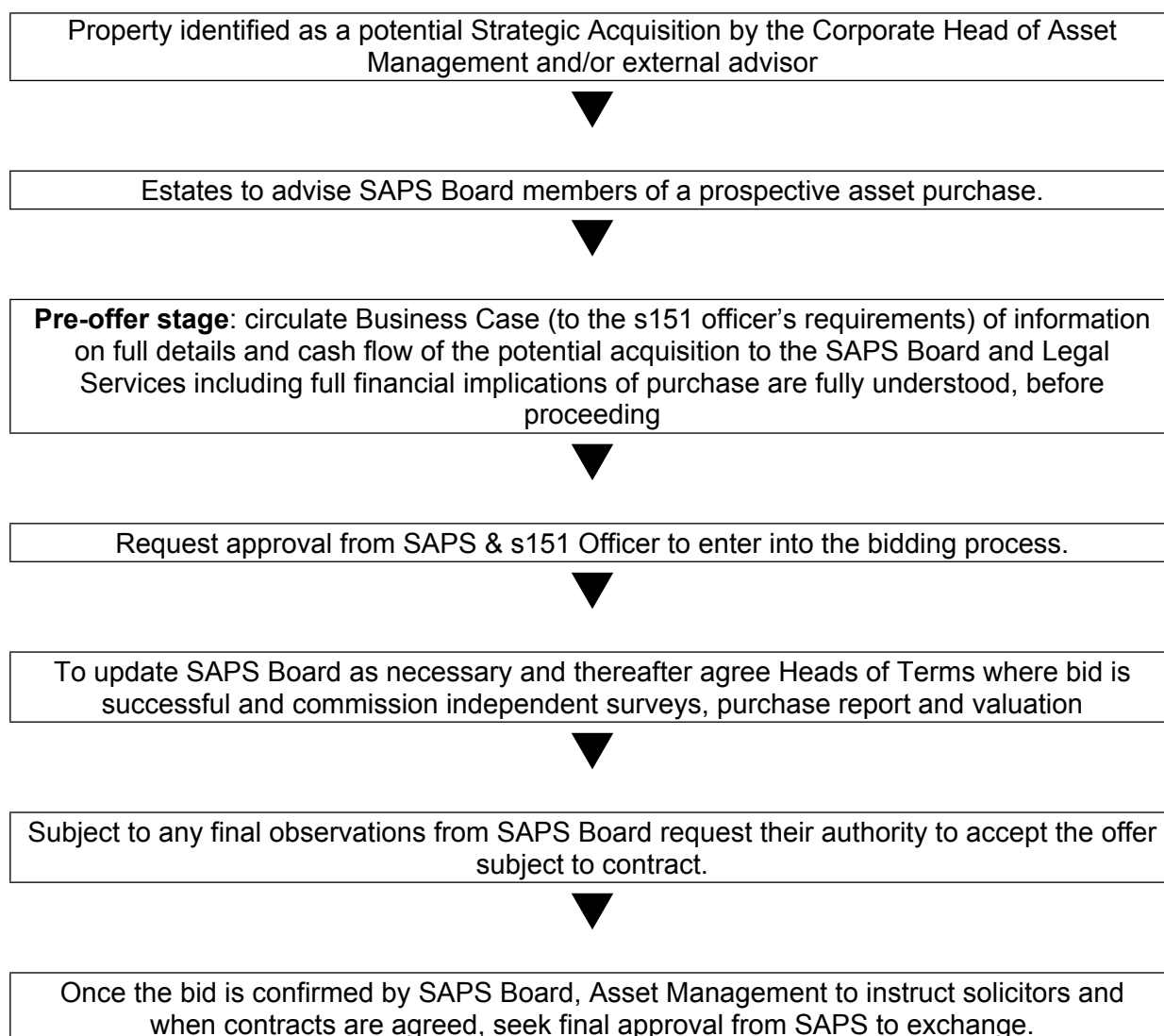
11.10.2. The Council's Treasury Management Strategy, and associated limits and indicators, is reported in CAB3133. Further detail on service and commercial investments including total investment indicators is provided in Appendix F.

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:



## 11.11. Risk Appetite

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
<b>Financial/VFM</b>	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	<b>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</b> 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
<b>Exposure to Challenge</b>	Be very sure we would win challenges	Limited tolerance for sticking neck out Reasonably sure we would win challenges	<b>Challenge is problematic, but takes the necessary steps to manage and win this. Gain outweighs adverse consequences</b>	Chances of losing challenge are real with significant consequences
<b>Innovation, Quality, Outcomes</b>	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.	<b>Innovation pursued</b> <b>Actively seek new ways of working or using new technology</b>
<b>Reputation</b>	No chance for significant repercussions Avoid exposure to attention	Little chance of significant repercussions Mitigation in place for undue interest	<b>Will expose to scrutiny and interest</b> <b>Management of reputation through actively listening and talking</b>	New ideas experimented at the risk of damage to reputation
<b>Appetite</b>	<b>Low</b>	<b>Moderate</b>	<b>High</b>	<b>Significant</b>

## 11.12. Knowledge, capacity, and skills

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