Rutland County Council

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Meeting: **CABINET**

Date and Time: **Tuesday, 16 January 2018 at 9.30 am**

Venue: **COUNCIL CHAMBER, CATMOSE, OAKHAM, RUTLAND, LE15 6HP**

Corporate support Officer to contact: **Natasha Taylor 01572 720991 email: corporatesupport@rutland.gov.uk**

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7) TREASURY MANAGEMENT STRATEGY (KEY DECISION)

Report No. 6/2018
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Report No: 06/2018
PUBLIC REPORT

CABINET

16 January 2018

TREASURY MANAGEMENT STRATEGY AND CAPITAL INVESTMENT STRATEGY 2018/19

Report of the Director for Resources

<table>
<tr><td>Strategic Aim:</td><td colspan="3">Sound Financial and Workforce Planning</td></tr>
<tr><td colspan="2">Key Decision: Yes</td><td colspan="2">Forward Plan Reference: FP/180817</td></tr>
<tr><td colspan="2">Cabinet Member(s) Responsible:</td><td colspan="2">Councillor Tony Mathias, Leader and Portfolio Holder for Corporate Finance</td></tr>
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DECISION RECOMMENDATIONS
That Cabinet RECOMMENDS TO COUNCIL to approve: a) the Treasury Management Strategy in Appendix 1 including the Investment Strategy, Borrowing strategy, Minimum Revenue Provision statement and Capital Expenditure Prudential indicators. b) the Capital Investment Strategy in Appendix 2. c) the establishment of a £10m fund for commercial investments to be used in accordance with Commercial Investment Policy in Appendix 2, Annexe B1 d) an increase in the Authorised Borrowing Limit to £33m (previously £28m) and the Operational Boundary to £28m (previously £23m). e) use of £50k as a start-up fund from the Invest to Save reserve (as required) to fund any pre acquisition costs associated with potential investments.

1 PURPOSE OF THE REPORT

1.1 This report sets out the expected treasury and capital investment operations for 2018/19, linked to the Council's Budget, Medium Term Financial Strategy and

Capital Programme. It delivers on key legislative requirements:

- The Treasury Management Strategy (TMS) sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (The Chartered Institute of Public Finance & Accountancy) Codes of Practice.

- The reporting of the prudential indicators for capital, external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice.

- The treasury investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010.

- The Council's Capital Investment Strategy including policy on commercial investments as required by the revised Prudential Code.

- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Updated guidance

2.1.1 As local authorities have seen a significant drop in local government funding, there has been increased investments in assets – often outside the local authority area – in a bid to generate revenue and balance the books.

2.1.2 Some of the deals that local authorities have entered into, often funded by significant borrowing, have raised concerns with the property deals being much bigger than core Council business such that a crash in property markets could effectively render some Council's 'bankrupt'.

2.1.3 On the back of this activity, updated guidance has been produced:

- Prudential Code for Capital Finance in Local Authorities (2011) (Prudential Code) - this has been updated and introduces a formal requirement for a capital strategy to be approved by Council including "the authority's approach to investments and commercial activities including processes, due diligence and defining the authorities risk appetite in respect of these including proportionality in respect of overall resources".

- Treasury Management: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) - this has been updated and again requires more explicit reference to how non treasury investments are managed – "It is critical that due diligence processes and procedures reflect the additional risk an organisation is taking on. Due diligence procedures should ensure effective scrutiny of proposed investments, identification of risk to both capital and returns, any external underwriting of those risks, and the potential impact on the financial sustainability of the organisation if those risks come to pass".

- Minimum Revenue Provision - Guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. This prevents various practices such as spreading the MRP charge over a period longer than 50 years or making retrospective changes which give rise to a credit – "Changing the method used to calculate MRP can never give rise to an overpayment, and should not result in a LA making a charge of £nil for the accounting period in which the change is made".

- Guidance on Local Authority investments - Issued under section 15(1)(a) of the Local Government Act 2003. This guidance is consistent with the Codes described above.

2.2 Both Strategies have been prepared in accordance with the guidance above which is still in draft.

2.3 **Coverage**

2.3.1 The two key strategies cover a range of issues as set out below:

Treasury Management Strategy (TMS)	**Capital Investment Strategy (CIS)**
Treasury Management Requirements	Capital Investment Strategy objectives
Capital Prudential Indicators	Capitalisation policy
Borrowing	Objectives and priorities
Annual Investment Strategy	Resourcing strategy
MRP Statement	Indicative plans and available funding
Investment selection criteria	Appraisal process for Capital Investment
Economic outlook	Commercial Investment Policy (objectives, rules, assessment process, governance and reporting)
	Reporting requirements
	Performance Indicators

2.4 **Treasury Management Strategy**

2.4.1 The TMS outlines that the Council's approach to treasury investment is largely unchanged.

2.4.2 Our focus is on deposits for up to 12 month period given uncertainty in the markets.

2.4.3 The Council will continue to look at longer term options (Government bonds, Property Funds etc) but existing preference is to use available funds to focus on commercial investments as set out in the Commercial Investment Policy.

2.4.4 There are no changes proposed from last year's TMS in terms of the Council's approach to borrowing. The Council will look to repay borrowing if there is a financial business case. It will also only borrow where that borrowing is likely to deliver a positive revenue impact. In order to implement the new Commercial Investment Policy in Appendix A, the Council is asked to approve changes to the following Prudential Indicators:

- increase the Authorised Borrowing Limit from £28m to £33m
- increase the Operational Boundary from £23m to £28m

2.5 **MRP**

2.5.1 In November, Cabinet took a report (192/2017) proposing a change in the calculation of an element of MRP (that relating to historic debt) to make more prudent provision for the repayment of debt in the Revenue Account. The change means that debt will be charged to the Revenue Account on a straight line rather than reducing balance basis over a 50 year period.

2.5.2 MRP consultation is ongoing and the Council is still awaiting the final outcome of the consultation. The Council's proposed policy change is not believed to be effected by any proposed changes so Cabinet is asked to formally recommend that policy to Council as part of approving the TMS.

2.6 **Capital Investment Strategy**

2.6.1 This is required per the guidance set out in 2.1. Much of the content is not new but is presented in a way that brings together different elements of the Council's approach to Capital Investment in one document. The key points to note are:

- The Council incurs capital expenditure/makes capital investment to deliver on its aims and priorities including statutory objectives
- It has indicative plans which are approved as part of the budget and updated throughout the year
- It holds funds which are available to meet spending plans and can supplement these funds with borrowing if required
- Capital appraisal processes are set out in the Financial Procedure Rules
- Capital investment/expenditure has traditionally focused on what are called "service investments" – investment in assets held primarily for the delivery of operational services

- The Council has a priority to be more commercial and the Capital Strategy sets out a policy for “commercial investment” – those taken for mainly financial reasons.

2.7 Commercial Investment Policy

2.7.1 As indicated above, the Council has a priority to be more commercial as one way of meeting the gap in the Medium Term Financial Plan (MTFP). Alongside capital investment to meet statutory and service requirements, the Council therefore wishes to a) get a better return on its treasury investments and b) make commercial capital investments that yield revenue savings for the MTFP.

2.7.2 The TMS allows for treasury investment in property funds, corporate bonds alongside short term deposits. The Commercial Investment Policy allows for capital investments in property etc that yield a positive net return for the Revenue Account to help subsidise the provision of other Council services. The Policy is set out in Appendix 2, Annexe B2 but key elements are summarised below:

	Key principles
Objective	Increase revenue streams (general, council tax, business rates etc) to subsidise other Council services e.g. social care, transport
Governance	
Business Case	Yes, prepared by Strategic Director (Places)
Due diligence	Legal due diligence Valuation of Asset Condition Survey Market assessment
Decision Maker	Cabinet/Council in line with existing Financial Procedure Rules
Reporting performance	Quarterly Finance Reports and Treasury reports
Criteria	
Scope	Maximum £10m total fund
Source of funding	Prudential borrowing
Maximum Individual Purchase	£3m (unless Council approves otherwise)
Target investment	Not restricted but typically property or land for commercial use
Yield	Rental, Council tax, Business rates
Net minimum yield required	5% plus base rate of purchase price/total capital investment Payback period and speed of positive return (i.e. when the investment delivers a net positive impact) also considered
Risk assessment	Yes, Investment appraisal tool covering: i) security of income ii) asset condition iii) location/sector iv) capital appreciation

	Key principles
Location	Areas benefitting Rutland residents
Financial assumptions	
MRP	50 years land and 40 years building or life of asset
Interest costs	New borrowing rates
Stamp duty, other purchase costs and alterations	Part of purchase price

2.7.3 The above policy mirrors the approach adopted by many Council's but all elements can be varied to meet local requirements. The Policy will be subject to annual review so any learning from operating the Policy in Year 1 can feed into any future revisions.

3 CONSULTATION

3.1 No formal consultation is required. However, CIPFA guidance encourages Councils to use Scrutiny to review proposals prior to approval by Council.

4 ALTERNATIVE OPTIONS

4.1 Option 1. To approve the Capital Strategy and Treasury Management Strategy as presented. This is the recommended option.

4.2 Option 2. Not to accept the 2018/19 Treasury Management Strategy and Capital Strategy. This is not recommended as it means that the Council will be in breach of its statutory obligations.

4.3 Option 3. To approve the Strategies with any revisions.

5 FINANCIAL IMPLICATIONS

5.1 The Medium Term Financial Plan includes three amounts for interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). The only changes to the MTFP from any of the decisions arising from this strategy relates to MRP. PWLB loans will be monitored and if it is advantageous for the Council, then repayment or restructuring will be considered.

5.2 The implementation of the Commercial Investment Policy aims to deliver Revenue Income and a net return for the Revenue Account but this is not included in the MTFP at this time. The net target (after costs) from a £10m investment is c£500k per annum. When the Policy is implemented i.e. assets are purchased then the MTFP will be updated accordingly.

5.3 The Council will require an initial fund to be used to meet the costs of pursuing opportunities including undertaken relevant due diligence work. It is proposed that up to £50k is financed from the Invest to Save earmarked reserve.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on

Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. As indicated in 2.1 above, there have been various amendments.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

6.3 The Council's strategies explain how it complies with this legal framework.

6.4 As per Article 4 of the Council's Constitution the Treasury Management Strategy and Capital Strategy form part of the Council's Policy Framework. It therefore requires the approval of Full Council.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / to an existing policy or service that has an impact on any particular group.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE

RECOMMENDATIONS

10.1 The Council is required to approve a Treasury Management Strategy and Capital Strategy.

10.2 Investment interest rates are expected to remain low in the short term and in order to maximise the returns available, various changes have been recommended including approval of a Capital Investment Policy for Non Treasury investments.

10.3 The Council is not planning to repay existing borrowing but is asked to approve increases in borrowing to fund investments which will yield a positive impact on the MTFP.

11 BACKGROUND PAPERS

None

12 APPENDICES

Appendix 1	Treasury Management Strategy
Appendix 2	Capital Investment Strategy

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577

Appendix 1

Rutland
County Council

Treasury Management Strategy
2018 - 19

Contents

1 INTRODUCTION

1.1 Background to Treasury Management

1.1.1 The Council is required to operate a balanced budget, which means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed to meet day-to-day running costs and planned capital expenditure. Any surplus monies are invested in counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

1.1.2 The second main function of the treasury management service is the funding of the Council's capital plans as set out in the Budget and Capital Investment Strategy (CIS). These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.1.3 CIPFA defines treasury management as "…The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 Reporting Requirements

1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

1.2.2 The Treasury Management Strategy should be read in conjunction with the Council's CIS which covers:

- what is capital expenditure/investment and why we incur it;
- the Council's overall capital objectives, priorities and plans;
- how the Council's capital expenditure/investment will be funded/ resourced;
- how the Council's capital expenditure/investment plans will be appraised including the Council's commercial investment policy;
- how capital plans will be approved, monitored and reported upon; and

- the skills and knowledge required to deliver the capital plans.

1.2.3 **Prudential and treasury indicators and treasury strategy** (this report) - The first and most important report covers:

- the capital plans (including prudential indicators) as derived through the budget and CIS;
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy for treasury investments (the parameters on how investments are to be managed).

1.2.4 **A mid-year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive an update on investment returns.

1.2.5 **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.6 **Scrutiny -** The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by Cabinet and reports are also made available to Scrutiny Panels.

1.3 **Treasury Management Strategy for 2018/19**

1.3.1 The strategy for 2018/19 covers two main areas.

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury Management Issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;

- the investment strategy (for treasury investments);
- creditworthiness policy; and
- the policy on use of external service providers.

1.3.2 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 **Training**

1.4.1 The CIPFA Code requires the s151 Officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Training from the Council's external treasury advisors was offered previously to Scrutiny when the Strategy was discussed in 2015/16. Further training will be arranged as required.

1.4.2 The training needs of treasury management officers and members are periodically reviewed.

1.5 **Treasury Management Consultants**

1.5.1 The Council uses Link Asset Services Treasury Solutions (during the current planning period Capita Asset Service has been transferred to The Link Group) as its external treasury management advisors.

1.5.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

1.5.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2018/19 – 2020/21

2.1 Capital Expenditure

2.1.1 The Council's capital expenditure plans as set out in the budget are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. As at 1 April 2018 the Council estimates that it will have capital projects approved of £30.938m. The details of this are shown in Budget Report (Report No: 214/2017)

2.1.3 The table below shows the indicative spend profile of approved capital projects, completed capital projects in 2016/17 and projects included in the 2018/19 Budget. Whilst the Council may have approved a project in 18/19 spending may not occur until 19/20. Members are asked to approve the capital expenditure forecasts:

Estimated Capital Programme	Actuals 2016/17	Projects 2017/18	Projects 2018/19	Projects 2019/20	Projects 2020/21
	£000	£000	£000	£000	£000
Total Projects	**5,338**	**10,924**	**14,252**	**5,713**	**2,806**

2.1.4 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Estimated Capital Programme	Actuals 2016/17	Projects 2017/18	Projects 2018/19	Projects 2019/20	Projects 2020/21
	£000	£000	£000	£000	£000
Grant	(3,781)	(8,983)	(1,948)	(3,497)	(2,041)
Prudential Borrowing	(508)	(602)	(11,600)	0	0
Salix Loan	(420)	0	0	0	0
Capital Receipts	(274)	(438)	(504)	(872)	(306)
RCCO	(186)	0	0	0	0
Oakham North	(1)	(256)	(200)	0	0
S106/CIL	(168)	(645)	0	(1,344)	(459)
Total Funding	**(5,338)**	**(10,924)**	**(14,252)**	**(5,713)**	**(2,806)**

2.2 The Council's Borrowing Need (the Capital Financing Requirement)

2.2.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.2.2 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.2.3 The Council is asked to approve the CFR projections below:

	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Capital Financing Requirement					
CFR – 1 Apr	22,723	22,335	22,040	33,011	32,382
Movement in Year	(388)	(295)	10,971	(629)	(629)
CFR – 31Mar	22,335	22,040	33,011	32,382	31,753
Movement in CFR represented by					
Net financing need for the year (above)	928	602	11,600	-	-
Less MRP/VRP and other financing movements	(1,316)	(897)	(629)	(629)	(629)
Movement in CFR	**(388)**	**(295)**	**10,971**	**(629)**	**(629)**

2.3 Core Funds and Expected Investment Balances

2.3.1 The application of resources (capital receipts, reserves etc) to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of the year-end balances for each resource and anticipated cash flow balances.

Year End Resources	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Fund balances / reserves	25,241	23,989	20,685	18,347	17,294
Capital receipts	1,570	1,346	1,011	295	38
Provisions	265	265	265	265	265
Total core funds	**27,076**	**25,600**	**21,961**	**18,907**	**17,597**
Working capital*	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
New external borrowing**	-	-	(5,000)		
Expected investments	**25,076**	**23,600**	**14,961**	**16,907**	**15,597**

*Working capital balances shown are estimated year-end; these may be higher mid-year
**Prudential borrowing in line with CIS.

3 BORROWING

3.1 Borrowing objectives

3.1.1 Councils borrow to fund capital expenditure or refinance/reschedule existing borrowing e.g. replace one loan with one at a lower rate. There are 7 types of borrowing that may be considered under this strategy.

- Borrowing to fund a scheme that will reduce the Council's ongoing revenue costs in future years, or avoid increased costs in future years.
- Borrowing to fund the purchase of essential vehicles plant and equipment in order to maintain Council functions.
- Borrowing in advance of anticipated receipts to enable the Council to invest in capital expenditure before it has the income to fund the investment.
- Borrowing to enable the Council to fund a larger capital programme than it is able to do using Government grant and self-financed borrowing.
- Borrowing to fund an overspend on a large-scale capital scheme that would otherwise have to be funded from a revenue contribution to capital outlay, with major impact on the Council's revenue budget.
- Borrowing to fund a capital development which the Council believes is so essential to the transformation of Rutland, and able, within the context of setting a robust budget and medium term financial strategy, to allocate to the development a specific, ongoing, relatively secure source of funding that can clearly be seen to be able to cover the cost of debt financing for the project over its expected life.
- Borrowing to reschedule existing borrowing i.e. replace existing loans with others.

3.1.2 Effectively, the Council works out its capital expenditure plans and then calculates how much it needs to borrow having considered whether it should fund capital expenditure using other options. The Council's objectives are to:

- avoid external borrowing as far as possible (i.e. use other sources of funding first where possible) unless that borrowing yields income or deliver savings beyond the cost of borrowing;
- repay borrowing early if this is financially prudent and viable;
- reduce its borrowing charge if this represents value for money;
- ensure any new borrowing is affordable; and
- work within prudential indicator limits.

3.2 Current borrowing portfolio

3.2.1 The Council currently has loans outstanding of £22.436m of which £21.386m are long term loans with the Public Works Loans Board (PWLB). PWLB is managed as part of the UK Debt Management Office, which is a HM Treasury Executive Agency. The remainder is a £630k Local Enterprise Partnership interest free loan which matures in 2023, and an interest free Salix loan of £420k repayable in 2020. Included within the £21.386m is £8.232m of debt that was inherited from Leicestershire in the Local Government Re-organisation in 1997.

3.2.2 The last time the Council actually borrowed from the PWLB was in 2008 to contribute towards funding the Oakham bypass, the value of this loan was £4m.

3.2.3 All PWLB loans have been borrowed on a maturity basis. Interest payments will be made every six months on equal instalments throughout the term of the loan, with the principal being re-paid on the maturity date.

3.2.4 The external debt projections are shown below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Year End Resources	**2016/17 Actual £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**
External Debt					
Debt - 1 April	22,016	22,436	22,394	27,310	27,226
Expected Change in Debt	420	(42)	4,916	(84)	(84)
Actual Gross Debt 31 March	22,436	22,394	27,310	27,226	27,142
Capital Financing Requirement	22,335	22,040	32,571	31,942	31,313
Under / (Over) Borrowing*	(101)	(354)	5,261	4,716	4,171

*Under Borrowing Position explained in Treasury Management Strategy 2017/18 (41/2017)

3.2.5 A key prudential indicator is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR. This indicator compares debt to the underlying need to borrow (measured by the CFR) to show that the borrowing is being used only to finance capital expenditure.

3.2.6 The s151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.3 **Treasury Indicators: Limits to Borrowing Activity**

3.3.1 ***The operational boundary*** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Debt	23,000	28,000	28,000	28,000
Other long term liabilities	-	-	-	-
Total	23,000	28,000	28,000	28,000

3.3.2 The table above shows that Council are being asked to approve an operational boundary of £28.0m. This has been calculated by taking the existing debt level (£22m) and allowing head room for additional borrowing in line with the CIS.

3.3.3 ***The authorised limit for external debt***. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

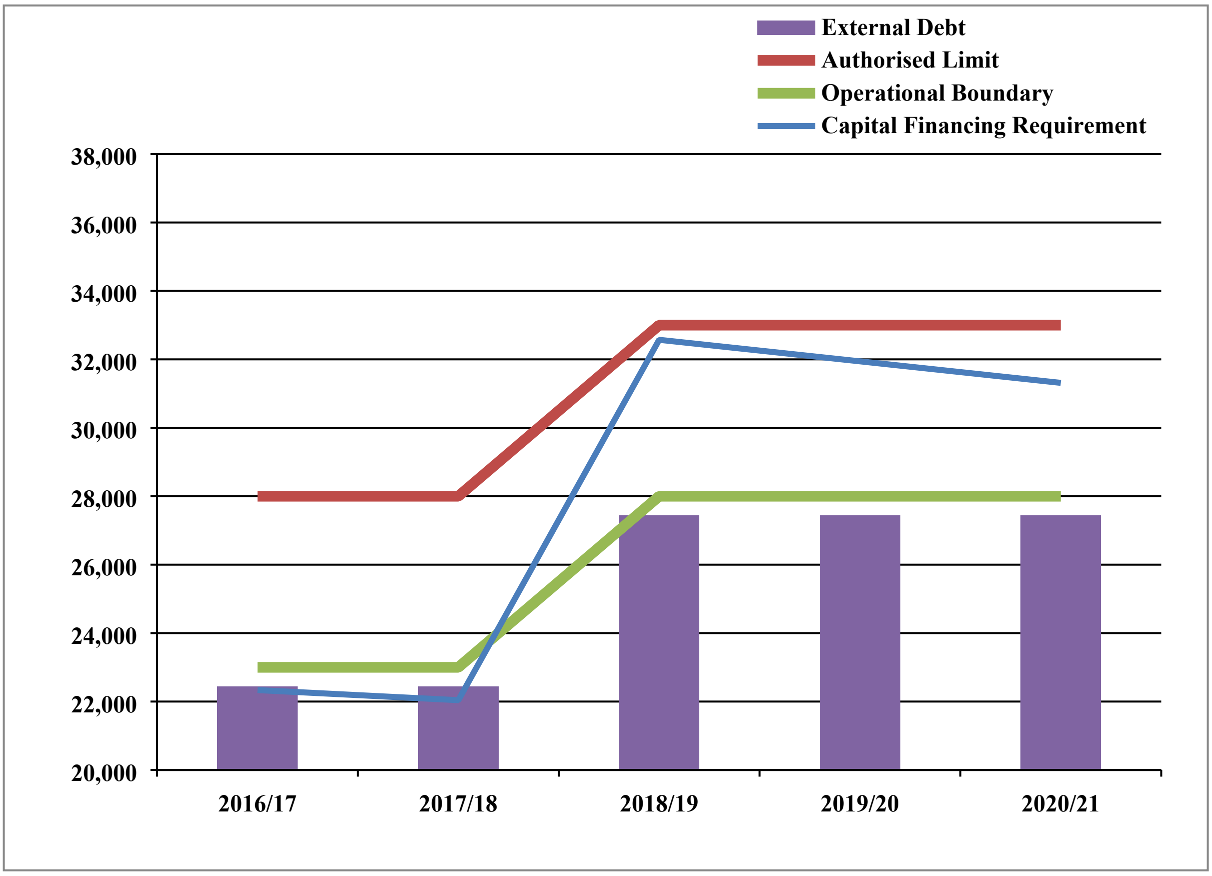
3.3.4 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

3.3.5 The Council is asked to approve the following authorised limit:

Authorised limit	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Debt	28,000	33,000	33,000	33,000
Other long term liabilities	-	-	-	-
Total	28,000	33,000	33,000	33,000

3.3.6 The authorised limit has been increased to facilitate delivery of the CIS and other major projects in the pipeline and to support temporary cash flows which may, in the short term, push the Council above the operational boundary.

3.3.7 The graph below shows where we currently are against all of the borrowing prudential indicators.



3.4 Prospects for Interest Rates – Commentary By Link Asset Services

3.4.1 Link Asset Services have provided a view on interest rates as per the table below.

	Dec 2017 %	Mar 2018 %	Jun 2018 %	Sep 2018 %	Dec 2018 %	Mar 2019 %	Jun 2019 %	Sep 2019 %	Dec 2019 %	Mar 2020 %
Bank Rate	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00
3 Month LIBID	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90
6 Month LIBID	0.45	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00
12 Month LIBID	0.65	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30
5 Yr PWLB	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10
10 Yr PWLB	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70
25 Yr PWLB	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40
50 Yr PWLB	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20

Interest rate forecast provided by Link Asset Services on 8 November 2017

3.4.2 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2018, November 2019 and August 2020.

3.4.3 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected, that at some point, there would be a more protracted move from bonds to equities after a historic long-term trend, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

3.4.4 Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, the degree of that upward pressure is likely to be dampened by how strong or weak the prospects for economic growth and rising inflation are in each country, and on the degree of progress towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

3.4.5 From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

3.4.6 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts (and MPC decisions) will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

3.4.7 The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.

- Weak capitalisation of some European banks.

- The result of the October 2017 Austrian general election is likely to result in a strongly anti-immigrant coalition government. In addition, the new Czech prime minister is expected to be Andrej Babis who is strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.

- Rising protectionism under President Trump

- A sharp Chinese downturn and its impact on emerging market countries

3.4.8 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

3.4.9 Investment and borrowing rates

- Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Apart from that, there has been little general trend in rates during the current financial year. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

3.5 **Borrowing Strategy**

3.5.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2018/19 treasury operations. The Assistant Director - Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

3.5.3 If the Council were to borrow then the Assistant Director – Finance would monitor the market to ensure that the borrowing was undertaken at the optimum time for the Council. If the Assistant Director thought rates would fall then they may choose to hold off long term borrowing. If they thought rates would rise then they may choose to borrow in advance of need (see section 3.6) to ensure borrowing is secured at a lower rate.

3.5.4 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.6 **Policy on Borrowing in Advance of Need**

3.6.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. The Council has some flexibility to borrow funds in advance of need for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.

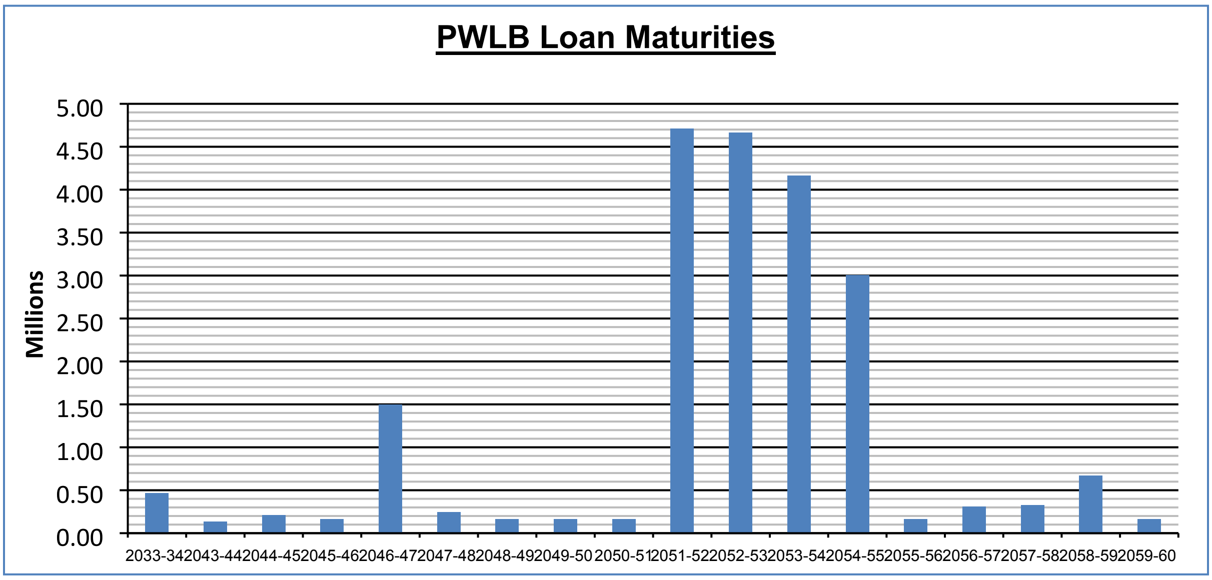
3.6.2 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 18 months in advance of need.

3.6.3 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.7 Debt Repayment and rescheduling

3.7.1 The table below demonstrates when PWLB debt is due to be repaid.



3.7.2 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long-term debt to short-term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

3.7.3 The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;

- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

3.7.4 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

3.7.5 All rescheduling will be reported to the Cabinet at the earliest meeting following its action.

3.8 **Municipal Bond Agency**

3.8.1 It is possible that the Municipal Bond Agency will be offering loans to local authorities in the future. The Agency hopes that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). The Council may make use of this new source of borrowing as and when appropriate.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment overview

4.1.1 The Council receives substantial income from council tax, business rates and central government. The majority of council tax and business rates payments are received between April and January, with expenditure being fairly static throughout the year.

4.1.2 At any point of time in the year, the Council can have between £19m - £32m available to invest. The estimated level of investments at year end based on the current cash flow calculations and for the next few years is shown below. The Total investments at Quarter 2 show the estimated level of investment at the mid-point during the financial year.

	2017/18 Actual £000	2017/18 Forecast £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Total Investments at Quarter 2	31,014		18,000	12,100	8,500
Total Investments at 31 March		25,000	13,500	8,200	6,100

4.1.3 The Council will invest surplus money in various ways to get a return on balances thus generating extra income.

4.2 Investment policy objectives

4.2.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

4.2.2 This policy only covers treasury investments. The objectives of non-treasury investments are covered in the CIS.

4.2.3 The Council's investment strategy primary objectives, in order of importance are:

- safeguarding the re-payment of the principal and interest of its investments on time – losing any funds like in the case of Icelandic banks would be very significant in this financial climate;
- adequate liquidity – the Council does not want to run short of money so it cannot pay its bills or does not have money available to make investments in capital expenditure;
- maximising the investment return – this is clearly important but the Council does not want to maximise returns at the expense of the first two objectives.

4.2.4 These objectives filter through this strategy.

4.3 **Investment rules**

4.3.1 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

4.3.2 The Council engages with its advisors to monitor markets to support the ratings systems which ensures the Council is aware of the standing of the bank / building society.

4.3.3 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4.4 **Creditworthiness policy**

4.4.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.4.2 The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it provides an overall pool of counterparties considered high quality the Council may use rather than defining what its investments are.

4.4.3 The rating criteria use the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria. This is in compliance with a CIPFA Treasury Management Panel recommendation in March 2009.

4.4.4 Credit rating information is supplied by our treasury consultants daily on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance a negative rating watch applying to counterparty will be suspended from use, with all others being reviewed in light of market.

4.4.5 The criteria for providing a pool of high quality investment counterparties (both Specified and Non-specified investments) is shown in the table below.

	Money and / or % Limit	**Time Limit**
Banks & Rated Building Societies (Upper Limit)	£5m	3 yrs
Banks & Rated Building Societies (Middle)	£5m	364 Days
Banks (Council Banker)	£5m*	3 yrs*
Debt Management Account Deposit Facility managed by the DMO (Debt Management Office)	£5m	364 Days
Local authorities	£5m	364 Days
Central Government Issued Gilts & Bonds	£5m	3 years
Building Societies (not on rating list)	£1m	6 months
Money Market Funds	£5m	364 Days
Property Funds	£2m	**

*Limits will align to those of the banks
** No time limit as investment would need to be left to mature to ensure no loss on investments.

4.4.6 **Country and Sector Considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part the country selection will be chosen by the credit rating of the Sovereign state in the table above. In addition to this:

- no more than 10% (of the total investment portfolio) will be placed with any non-UK country at any time;
- limits in place above will apply to Group companies;
- Capita Asset Services limits will be monitored regularly for appropriateness.

4.4.7 **Economic Investment Considerations** - Expectations on shorter-term interest rates, on which investment decisions are based, show likelihood of the current 0.50% Bank Rate remaining for the near future. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts.

4.4.8 The criteria for choosing counterparties set out above provide a sound approach to investment in “normal” market circumstances. Whilst Members are asked to approve this base criteria above, under the exceptional current market conditions the Section 151 Officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly the time periods for investments will be restricted.

4.5 Investment approach

4.5.1 As per our overall objectives, we ensure that these surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

4.5.2 The Council’s approach is influenced by numerous issues:

- Cash flow – when will the Council need the funds to pay general running costs of the Council or fund capital investment activity
- The vehicles allowed for investment as outlined in this strategy
- The rate of return on offer - Bank Rate is forecast to stay flat at 0.50% until quarter 4 2018 and not to rise above 1.25% by Quarter 1 2021.

4.5.3 Our focus is on traditional investments e.g. deposits for up to 12 month period – this is in line with the advice from our consultants (Link Asset Services). We will also consider longer term options (Government bonds, Property Funds etc) once the position on Commercial Investments is clear. For example, placing funds in long term investments may not be an option depending on capital expenditure and investment plans.

4.6 Investment returns expectations and benchmarking

4.6.1 Over the medium term, the Council expects to make returns as shown in the table below. The investment interest income forecast is:

2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
220	210	170	155	155

4.6.2 Security - The Council’s maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.10% historic risk of default when compared to the whole portfolio.

4.6.3 Liquidity – in respect of this area the Council seeks to maintain:

- Bank overdraft - £0m

- Liquid short term deposits of at least £1m available with a week's notice.

4.6.4 Yield - local measures of yield benchmarks

- Investments – internal returns above the 6 month LIBOR rate

4.7 **End of Year Investment Report**

4.7.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2018/19 – 2020/21 AND MRP STATEMENT

5.1 Capital Expenditure

5.1.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Total	5,338	10,924	14,252	5,713	2,806

5.2 Minimum Revenue Provision Policy

5.2.1 Minimum revenue provision (MRP) policy statement - The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

5.2.2 CLG regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement

- For capital expenditure incurred before 1 April 2008 The Council will reduce on a straight line basis over 50 years.

- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be (either / and):

  a) Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

  b) Depreciation method – MRP will follow standard depreciation accounting procedures.

5.2.3 These options provide for a reduction in the borrowing need over approximately the asset's life.

5.3 Affordability Prudential Indicators

5.3.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the

Council's overall finances. The Council is asked to approve the following indicators:

5.3.2 **Ratio of Financing Costs to Net Revenue Stream** - This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	£000	
Capital Financing Costs	1.644	
Interest Receivable	(0.210)	
	1.434	A
Revenue Stream		
Government Grants	4.269	
Retained Business Rates	4.958	
Council Tax	24.563	
	33.791	B
Ratio (A divided by B as a percentage)	4.24%	

5.3.3 The estimates of financing costs include current commitments and the proposals in the budget report.

5.3.4 **Incremental Impact of Capital Investment Decisions on Band D Council Tax**. This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period

	2016/17 Actual £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
Council Tax - Band D	0.10%	0.34%	0.21%	3.84%	0.00%

5.3.5 **Treasury Indicators for Debt.** There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;

- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;

- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits

5.3.6 The Council is asked to approve the following treasury indicators and limits:

	2018/19	2020/21	2021/22
Interest rate exposures			
	Upper	**Upper**	**Upper**
Limits on fixed interest rates	£25.000m	£25.000m	£25.000m
Limits on variable interest rates	£7.500m	£7.500m	£7.500m
Maturity structure of fixed interest rate borrowing 2018/19			
		Upper	**Lower**
Under 12 months		25%	0%
12 months to 2 years		25%	0%
2 years to 5 years		20%	0%
5 years to 10 years		20%	0%
10 years and above		100%	0%
Maximum principal sums invested > 364 days		25%	

ANNEXE A1 - PUBLIC WORKS LOAN BOARD (PWLB) DEBT ANALYSIS

The table below shows the number of outstanding loans with the PWLB, the maturity date, Principal outstanding, interest rate and the premium payable if the council was to settle the outstanding loan.

PWLB 2017-18 Loan Repayment Premiums as at 12-Dec-2017					
Loan Reference	Start Date	Maturity Date	Principal Balance	Interest Rate %	Premium
461697	27-Mar-1987	31-Dec-2043	132,529.13	9.000	201,316
461698	27-Mar-1987	31-Dec-2044	212,550.13	9.000	332,610
461699	27-Mar-1987	31-Dec-2045	163,500.10	9.000	264,632
461700	27-Mar-1987	31-Dec-2046	196,200.12	9.000	327,207
476645	30-Nov-1995	28-Jul-2053	163,500.10	8.000	284,175
476646	30-Nov-1995	28-Jul-2054	163,500.10	8.000	291,943
476647	30-Nov-1995	28-Jul-2055	163,500.10	8.000	298,778
476842	21-Dec-1995	13-Dec-2052	163,500.10	7.875	273,245
476843	21-Dec-1995	13-Dec-2051	163,500.10	7.875	265,695
476844	21-Dec-1995	13-Dec-2050	163,500.10	7.875	258,982
477672	05-Aug-1996	08-May-2048	163,500.10	8.375	259,006
477673	05-Aug-1996	08-May-2049	163,500.10	8.375	267,042
478210	26-Sep-1996	25-Sep-2047	217,138.76	8.125	325,907
478211	26-Sep-1996	25-Sep-2056	163,500.10	8.125	313,485
478214	26-Sep-1996	25-Sep-2047	28,111.39	8.125	42,193
479404	21-May-1997	08-May-2057	327,000.20	7.125	539,884
479405	21-May-1997	08-May-2056	147,150.09	7.125	236,735
481709	13-Oct-1998	25-Sep-2058	163,500.10	4.625	153,876
482002	14-Jan-1999	25-Sep-2058	320,460.20	4.375	277,314
482386	30-Mar-1999	25-Mar-2059	23,271.98	4.625	22,208
482875	08-Nov-1999	25-Mar-2059	163,500.10	4.500	149,764
483562	18-Nov-1999	25-Sep-2059	163,500.10	4.250	139,204
491043	19-Jan-2006	19-Jan-2034	465,521.00	4.000	161,903
491501	05-Mar-2006	03-Nov-2051	2,689,694.00	4.400	1,934,019
491580	19-May-2006	19-Nov-2046	1,303,000.00	4.250	752,847
492151	20-Sep-2006	20-Mar-2052	1,856,434.00	4.200	1,255,676
492927	19-Feb-2007	19-Aug-2052	2,000,000.00	4.400	1,478,377
492928	19-Feb-2007	19-Aug-2053	2,000,000.00	4.400	1,525,777
492929	19-Feb-2007	19-Aug-2054	1,427,410.00	4.400	1,123,138
493087	03-Aug-2007	19-Aug-2052	2,500,000.00	4.250	1,748,618
493088	03-Aug-2007	19-Aug-2053	2,000,000.00	4.250	1,444,330
493089	03-Aug-2007	19-Aug-2054	1,414,351.00	4.250	1,053,877
			21,386,323.30		**18,003,763**

ANNEXE A2 TREASURY MANAGEMENT GLOSSARY OF TERMS

Authorised Limit (Also known as the Affordable Limit): A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).
Balances and Reserves: Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate: The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point: A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. If rates were at 2.50%, and rose by 0.25%, or 25 basis points, the new interest rate would be 2.75%.
Bond: A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital Receipts: Money obtained on the sale of a capital asset.
Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Counterparty List: List of approved financial institutions with which the Council can place investments with.
Debt Management Office (DMO):

The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the DMADF. All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. Being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

LIBOR:

The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to be more fluid in the marketplace to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

Maturity:

The date when an investment or borrowing is repaid.

Money Market Funds (MMF):

Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Non Specified Investment:

Investments which fall outside the CLG Guidance for Specified investments (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear,

affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators: Prudential indicators are a set of financial indicators and limits that are calculated in order to demonstrate that councils' capital investment plans are affordable, prudent and sustainable. They are outlined in the CIPFA Prudential Code of Practice. They are indicators that must be used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management. They take the form of limits, ratios or targets which are approved by Council before 1 April each year and are monitored throughout the year on an on-going basis. A council may also choose to use additional voluntary indicators.
Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
(Short) Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).
Specified Investments: Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing: Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.
Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield: The measure of the return on an investment.

A large print version of this document is available on request

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Appendix 2

Capital Investment Strategy
2018 - 19

Contents

1 OVERVIEW OF STRATEGY

1.1 Background

1.1.1 The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment and the Prudential Code was developed by CIPFA to support local authorities in taking their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

1.1.2 The overall aim of the Council, with respect to capital expenditure and investment, is to achieve council objectives and priorities whilst ensuring that capital plans are affordable, prudent and sustainable.

1.2 Aims and Principles

1.2.1 The Capital Investment Strategy (CIS) provides a framework that allows that objective to be achieved. It sets out:

- what is capital expenditure/investment and why we incur it (section 2);
- the Council's overall capital objectives, priorities and plans (section 3);
- how the Council's capital expenditure/investment will be funded/ resourced (section 4);
- how the Council's capital expenditure/investment plans will be appraised (section 5) including the Council's commercial investment policy (Annexe B1);
- how capital plans will be approved (section 6), monitored and reported upon (Section 7); and
- the skills and knowledge required to deliver the capital plans (section 8).

1.2.2 The CIS should be read in conjunction with the Council's Treasury Management Strategy which covers the Council's treasury investment policy, debt and borrowing policies and MRP policy. The Council's debt and MRP policy are directly impacted by capital plans.

1.2.3 The key principles of the CIS are as follows:

Principle 1 – Focus capital investment on delivery of council objectives and priorities
We will do this by:
• Being clear on objectives and priorities
• Appraising all investments in the context of objectives/priorities

• Ensuring decision-makers are clear on the positive contribution capital investment makes to objectives
Principle 2 – Maximise and promote best use of available funds
We will do this by:
• Bidding for external funds where possible
• Taking advantage of increased freedom and flexibility afforded by the removal of ring fencing from funding allocations
• Generate funding, where possible, from the rationalisation of existing assets
Principle 3 – Ensure strong governance over decision-making
We will do this by:
• Ensuring that all projects have an officer and lead member sponsor
• Ensuring that proposals demonstrate that a rigorous process of options appraisal has been followed, requiring evidence of need, cost, risk, outcomes and methods of financing.
• Ensuring all decisions are approved in line with the Constitution and the CIS
Principle 4 – Ensure plans are affordable, prudent and sustainable
We will do this by:
• Ensuring capital investment decisions do not place additional pressure on Council Tax or our Medium Term Financial Plan
• Promoting capital investment which allows either invest to save outcomes or generates a revenue and/or capital return and/or generates additional New Homes Bonus or Business Rates income
• Minimizing borrowing requirements by putting the first call on grants/internal resources

2 CAPITAL EXPENDITURE AND INVESTMENT

2.1 Capital expenditure and investment

2.1.1 The Local Government Act 2003, which includes the legislation for the capital finance system, does not specify what precisely constitutes capital expenditure. Instead it:

- Refers to “expenditure of the authority which falls to be capitalised in accordance with proper practices”;
- Enables the Secretary of State to prescribe by regulation which local authority expenditure shall be treated as capital expenditure and which shall not be treated as capital expenditure; and
- Enables the Secretary of State to prescribe by regulation that the spending of a particular local authority shall, or shall not, be treated as capital expenditure.

2.1.2 We define capital expenditure/investment as “Expenditure on the acquisition, creation, or enhancement of non-current assets’”. Non-current assets include those items of land, property and plant/equipment which have a useful life of more than one year.

2.1.3 The Council will set a de-minimis limit of £10,000 for expenditure to be considered for capitalisation. The following categories of expenditure will require capital resources to fund their purposes:

- The acquisition, reclamation, enhancement or laying out of land exclusive of roads, buildings or other structures
- The acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
- The acquisition, installation or replacement of movable or immovable plant, machinery and apparatus and vehicles and vessels
- The making of advances, grants or other financial assistance towards expenditure or on the acquisition of investments
- The acquisition of share capital or loan capital
- The issue of loan instruments in respect of which not all repayments by the authority are due within 1 year of issue
- Works to increase substantially the thermal insulation of a building
- Works to increase substantially the extent to which a building can be used by a disabled or elderly person
- The acquisition of computer software, plus the in-house preparation of it, provided that the intention is to use the software for at least 1 year

2.1.4 The Council incurs capital expenditure for a number of reasons:

- to repair and maintain existing assets e.g. boiler at the Museum
- to deliver on council priorities e.g. Digital Rutland
- to meet statutory requirements/service priorities e.g. issuing disabilities facilities grants so householders can adapt homes and “stay put”
- to avoid unnecessary revenue costs e.g. investment in roads reducing reactive repairs

2.1.5 The Councils’ capital expenditure plans are therefore all linked to the Corporate Plan, priorities and service delivery aims.

3 THE COUNCIL'S CAPITAL PLANS

3.1 There are three key drivers of the Council's capital plans:

- Strategic aims and priorities
- Asset management requirements
- Commercialisation

3.2 Aims and priorities

3.2.1 The vision for Rutland is that "Rutland is a great place to live, learn, work, play and visit". This vision is supported by the following strategic aims:

- Delivering **sustainable growth** in our County supported by appropriate – housing, employment, learning opportunities & supporting infrastructure (including other Public Services).
- **Safeguarding** the most vulnerable and support the health and well-being needs of our community
- Plan and support future population and economic growth in Rutland to allow our businesses, individuals, families and communities in **reaching their full potential**
- Ensuring we have a balanced **Medium Term Financial Plan** based on delivering the best possible value for the Rutland pound

3.2.2 These aims translate into a number of key relevant priorities:

- Ensuring there are adequate school places supported by appropriate transport and modern infrastructure
- Continue to maintain our road network as cost effectively as possible
- Review the Council's property portfolio to ensure we are making best use of our assets – this will include our Libraries, Rutland County Museum, Catmose, Oakham Enterprise Park and all other properties
- Work with Health colleagues to create Health and Social Care Hub for Rutland providing enhanced medical facilities and services for the Rutland Community
- Develop infrastructure to support growth in population
- Ensure our Market Towns are vibrant and attractive to both residents and visitors
- Drive efficiencies in back office support through improved use of technology

3.2.3 These priorities are a key driver for capital expenditure.

3.3 Asset Management requirements

3.3.1 The Council owns a small amount of land and property assets that make an important and positive contribution to achieving corporate objectives. The quality, condition, suitability and sustainability of our operational assets have a direct bearing on the quality and deliverability of front line services. It is therefore extremely important that these assets continue to be managed in a proactive and efficient way.

3.3.2 As at 31st March 2017, the Council had 51 'Operational Assets' including 29 'Operational assets with buildings', including primary and secondary schools. These are the assets that the council uses for service delivery purposes.

3.3.3 In addition, the Council has a range of Non-Operational assets; the assets within this category could be surplus, vacant or awaiting for disposal. The total number of 'Non-Operational Assets' at 31st March 2017 was 4.

3.3.4 The Council's aim is to manage the council's land and property assets effectively by providing:

- buildings that are fit for purpose, sustainable, providing access for all, meeting service needs and community expectations

- assets that support economic and environmental regeneration of Rutland

- real estate management, generating income, underpinning corporate priorities and delivering value for money.

3.3.5 The Council does have some assets that generate income and a positive return on the MTFP albeit none of these assets are run solely for commercial reasons. The table below shows the contribution made by these assets.

Asset	Based on Historical Cost		
	Capital cost GBV	Net returns 16/17	Return (%)
	£000	£000	
OEP	£3,549	£111	3
Pit Lane	£469	£41	9
Ashwell Business Units	£103	£11	11
Residential garages	£433	£21	5
No 7 Church Passage	£21	£4	19

3.3.6 The Council's Asset Management Plan (AMP) is being updated but the key asset management priorities are to:

- rationalise the current portfolio and to dispose of surplus assets where possible;

- help deliver sustainable social, environmental and economic outcomes for local communities;

- reduce running costs and maximise income; and

- ensure all assets meet health and safety and other regulatory requirements.

3.3.7 Each of the Council's key assets has an investment schedule which estimates future capital investment required giving consideration to expected building life and service requirements. This is being updated.

3.4 Commercialisation

3.4.1 In its efficiency plan (Report 151/2016) approved by Council in September 2016, the Council noted that one of its strategies for reducing the gap in the MTFP was to make better use of assets/capital resources: "The Council recognises that investing in new assets or enhancing/making better use of existing assets can have a beneficial impact in terms of a revenue payback or reducing revenue costs. Officers have been asked to bring forward proposals to be considered".

3.4.2 Continued reductions in Government funding and reduced investment income from traditional Treasury Management investments are still anticipated reinforcing the need for the Council to maximise income from other sources or reduce costs where appropriate to support delivery of services.

3.4.3 Many Councils are now acquiring capital assets (property or other assets) to generate revenue income thereby reducing net costs or avoiding costs or making better use of existing assets as part of a commercialisation agenda. There are lots of examples including:

- Cheltenham – buying commercial property, leasing it out for a revenue return
- Chorley – bought a shopping centre which it has re-generated and gets an income stream from
- Mansfield – investing in rental properties in and out of district
- Medway – buying investment properties again in and out of district
- Portsmouth – invested in 10 commercial assets bringing in £m of rent pa

3.4.4 Activity aimed at "making money" is not without risk. The House of Commons "Committee of Public Accounts" undertook a review of the "Financial sustainability of local authorities" (published November 2016) and made various comments:

- *"There is growing activity among local authorities aimed at generating revenue income from capital investment in properties and businesses."*
- *"New and additional risks come from authorities purchasing properties to lease to businesses or developing houses for market rent, as authorities themselves recognise".*
- *"We are also concerned that some authorities might lack the necessary commercial skills and experience amongst both members and officers. If commercial decisions go wrong, council tax payers will end up footing the bill and other services will be under threat".*

3.4.5 The Council acknowledges these risks and, in line with the revised Prudential Code and Treasury Management Code, has developed a framework for the appraisal of commercial investment projects (set out in this Strategy) that will allow these risks to be identified, assessed and minimised as far as possible.

4 RESOURCING STRATEGY

4.1 Financial context

4.1.1 Whilst the aims and priorities will shape decisions around capital expenditure, there is recognition that the financial resources available to meet priorities are constrained in the current economic and political climate. The context for capital expenditure decisions is as follows:

- The Council does have capital resources and expects to receive more resources in the future (from Government, existing s106 agreements and CIL)
- The Council has limited capital assets which it could sell and use receipts to reinvest
- The Council expects housing growth – as set out in the Local Plan – and this growth will yield CIL which can be used to invest in infrastructure
- The Council is currently servicing debt of c£22m which has to be repaid in the future
- The Council's MTFP shows a funding gap of up to c£1.1m. At present, the Council is working to close the gap. Any additional capital expenditure which is not funded through capital resources will increase this gap unless that expenditure delivers revenue savings or income.

4.1.2 In light of the above context, it is imperative that capital expenditure plans are affordable, prudent and sustainable. Given the Council's MTFP position, the Council's aim is to minimise any impact on the Councils General Fund. Typically, the most expensive option for financing capital expenditure is externally borrowing so the Council will do what it can to avoid that **unless** that borrowing yields income or deliver savings beyond the cost of borrowing. This is a key objective for the Council.

4.2 Available resources

4.2.1 There are a range of potential funding sources which can be generated locally either by the Council itself or in partnership with others. The Council continues to seek new levels of external investment to match against its capital programme, this may be additional capital receipts from asset sales, funding from the LEP or other external bodies.

4.2.2 The Council current holds a number of resources that are not allocated to a capital project and also expects to receive other resources over the next 5 years. These are detailed in the table below:

4.2.3 The table below shows the estimated income that is likely to be received over the next 5 years.

	Est Closing balance 31/03/18	Income 2018/19	Income 2019/20	Income 2020/21	Income 2021/22	Total Expected Income
	£000	£000	£000	£000	£000	£000
Total Grant	(2,012)	(2,752)	(2,584)	(2,490)	(2,179)	(12,017)
Section 106	(2,415)	(470)	(470)	(178)	(50)	(3,583)
Capital Receipts	(1,347)	(168)	(155)	(50)	(50)	(1,770)
CIL	(525)	(508)	(536)	(696)	(697)	(2,962)
Oakham North Agreement	(2,286)	(551)	(551)	0	0	(3,388)
Prudential Borrowing	0	(5,000)	0	0	0	(5,000)
Total	(8,585)	(9,449)	(4,296)	(3,414)	(2,976)	(28,720)

4.2.4 The Council has a number of options currently available for funding capital projects, including;

- Government Grants - Capital resources from Central Government can be split into two categories:

a) Non-ring fenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose). This now encompasses the vast majority of Government funding and the Council will initially allocate these resources to a general pool from which prioritised schemes can be financed.

b) Ring-fenced – resources which are ring fenced to particular areas and therefore have restricted uses.

- Non-Government Contributions - Where there is a requirement to make an application to an external agency to receive external funding, which could also commit Council resources as matched funding to any bid for external resources.

- Prudential Borrowing - Councils can borrow money to pay for capital assets. This can take the form of the Council running down its own cash balances or undertaking a loan from another organisation such as Public Works Loan Board (PWLB) but there may be restrictions imposed by the Treasury on what loans can be used for.

- Capital Receipts – Capital Receipts come from the sale of the Council's assets. Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the capital programme as a corporate resource. Where the asset has been funded from prudential borrowing a review will be undertaken to determine whether the most cost effective option is to utilise the receipt to repay debt, considering the balance sheet position of the authority.

- Revenue Contributions - Councils are free to make a contribution from their revenue budget to fund capital schemes - this is known as direct revenue financing. There are no limits on this. Funding from revenue means the Council gets one-off revenue “hit” to the value of the contribution / asset.

- Section 106 / Community Infrastructure Levy (CIL) – Use of section 106 / CIL funds from planning developments can be used for capital or revenue. As the purpose of these receipts is to invest in infrastructure to support development then they tend to be used for capital purposes.

- Oakham North agreement – The Council has an agreement with a developer in lieu of receiving S106/CIL. This funding can be used for capital or revenue but has been earmarked for capital purposes.

4.3 Existing and indicative capital investment plans and funding

4.3.1 The Council’s illustrative capital expenditure plans are summarised below. Projects that make up the £30.938m are shown in Annexe A1. Plans include already approved projects or recurring projects such as investment in highways, disabled facilities grants etc.

Estimated Capital Programme	**Projects 2018/19**	**Projects 2019/20**	**Projects 2020/21**	**Projects 2021/22**	**Projects 2022/23**	**Total Projects**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Education	4,088	18	18	0	0	4,124
Social Services	1,473	186	186	186	186	2,217
Highways & Transport	888	2,655	0	0	0	3,543
Culture & Leisure	3,697	0	0	0	0	3,697
Economic Development	5,489	0	0	0	0	5,489
Miscellaneous	304	450	0	0	0	754
Strategic Aims and Priorities	15,938	3,309	204	186	186	19,823
Investments	10,200	0	0	0	0	10,200
Commercialisation	10,200	0	0	0	0	10,200
Education	455	206	206	206	0	1,073
Highways & Transport	3,356	1,631	1,631	1,535	1,535	9,688
Culture & Leisure	989	0	0	0	0	989
Asset Maintenance	0	567	765	195	49	1,576
Asset Management Requirements	4,800	2,404	2,602	1,936	1,584	13,326
Total Projects	**30,938**	**5,713**	**2,806**	**2,122**	**1,770**	**43,350**

Estimated Capital Programme	Projects 2018/19	Projects 2019/20	Projects 2020/21	Projects 2021/22	Projects 2022/23	Total Projects
	£000	£000	£000	£000	£000	£000
Grant	(14,901)	(3,497)	(2,041)	(1,927)	(1,722)	(24,088)
Prudential Borrowing	(12,784)	0	0	0	0	(12,784)
Capital Receipts	(1,216)	(872)	(306)	(78)	(41)	(2,513)
RCCO	(274)	0	0	0	0	(274)
Oakham North	(586)	0	0	0	0	(586)
S106/CIL	(1,177)	(1,344)	(459)	(117)	(7)	(3,104)
Total Funding	**(30,938)**	**(5,713)**	**(2,806)**	**(2,122)**	**(1,770)**	**(43,350)**

4.3.2 The following table shows what capital funds available if the projects above are approved.

Unallocated Funding	Balance 31st March 2019	Balance 31st March 2020	Balance 31st March 2021	Balance 31st March 2022	Balance 31st March 2023
	£000	£000	£000	£000	£000
Grant	(2,816)	(1,903)	(2,351)	(2,603)	(3,061)
Capital Receipts	(1,011)	(295)	(38)	(10)	(19)
Oakham North Agreement	(2,637)	(3,187)	(3,188)	(3,188)	(3,188)
S106/CIL	(3,814)	(3,580)	(3,996)	(4,626)	(5,418)
Total	(10,278)	(8,965)	(9,573)	(10,427)	(11,686)

5 CAPITAL INVESTMENT APPRAISAL

5.1 Types of capital investment

5.1.1 The definition of an **investment** covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily to generate financial returns, such as investment property portfolios. This Strategy deals with non-financial assets only. Financial assets investments are covered in the Treasury Management Strategy.

5.1.2 There are various different types of capital investment projects. The Council has categorised them, in line with CIPFA guidance, as follows:

Type	Example(s)	How we will appraise
Commercial investments project where the primary objective is to "make a financial surplus for the organisation" and where capital expenditure would meet the test of an "investment asset"	Buying a hotel Acquiring land for development Buying a rental property	Commercial Investment Policy
Service investments are those made clearly and explicitly in the course of the provision, and for the purposes, of operational services	Development of business park Moving out of Council office to another site Provision of office space for start-up businesses Replacing a boiler Expanding an existing school Building new SEN provision Giving disabled facilities grant so people can "stay put"	Capital programme pro-forma as required by Financial Procedure Rules

5.2 Evaluation approach

5.2.1 Each type of Capital investment project carries with it different risks and the evaluation process must be tailored accordingly. The evaluation process has been designed to ensure that:

- The risks associated with each project are understood and assessed (and that independent expert advice is sourced where necessary)

- The legal basis for decisions is clear

- Projects are affordable in the context of available resources and the Medium Term Financial Plan

- Projects are deliverable and will achieve their intended outcomes (financial or otherwise)

5.2.2 It is proposed that Commercial Investments are made in accordance with the Commercial Investment Policy as set out in Annexe B1.

5.2.3 For service investments then Officers should following existing Finance Procedure Rules (para 5.7) whereby details of projects including cost, ongoing revenue implications, rationale for expenditure should be presented in the budget for approval by Cabinet/Council. Alternatively, Officers may submit separate reports as is currently the case for example for the Highways Capital programme. This is also the case where funding is ring fenced.

5.2.4 There will be some types of service investment e.g. development of Oakham Enterprise Park where financial return will be one of the drivers. Whilst no financial return target is set in these cases, the Council will still aim to be “commercial” and maximise returns wherever possible.

5.2.5 The commercial investment portfolio will be held separate from the Council’s operational property. There is potential for cross-over and operational assets could be reclassified as investment properties and will follow the same rules as set out in Annexe B1.

5.2.6 The Council can also make Treasury investments including overnight deposits, fixed term investment, money market funds, property funds and government bonds. These investments are made in accordance with the Treasury Management Strategy and are not covered by the CIS.

6 GOVERNANCE AND DECISION-MAKING

6.1 Strategy

6.1.1 The Prudential Code sets out a clear governance procedure for the setting and revising of a capital strategy and prudential indicators i.e. this should be done by the same body that takes the decisions for the local authority's budget – i.e. Full Council.

6.1.2 The Chief Finance Officer is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration.

6.2 Capital expenditure/investment decisions

6.2.1 The Prudential Code states that decisions around capital expenditure, investment and borrowing should align with the processes established for the setting and revising of the budget.

6.2.2 The Financial Procedure Rules (FPR) set out clear procedures for the approval of capital expenditure, including:

- approval of the capital programme – Full Council (FPRs para 5.5)
- additions/changes to the capital programme – Cabinet/Council (FPRs para 5.7)
- borrowing – Full Council (FPRs 5.5 – 5.7) with borrowing sourced by Chief Finance Officer.

6.2.3 The programme of meeting sets out the dates of Cabinet and Council meetings. Should the Council require decisions to be made quickly to respond to opportunities then the Constitution includes provision for emergency meetings.

6.2.4 The Capital Investment Strategy includes specific provisions for the approval of these type of investments.

6.3 Performance reporting

6.3.1 Progress against delivery of the Capital Strategy/Programme will be reported quarterly in Finance Reports.

6.3.2 Performance against the Prudential indicators and other indicators (set out in Section 7) will be reported Mid-Year in the Treasury mid-year report and annual report.

7 PERFORMANCE MONITORING AND INDICATORS

7.1 Prudential Code requirements

7.1.1 The Prudential Code requires Councils to think about six things when it agrees its capital programme:

- Service objectives – are spending plans consistent with our aims and plans?
- Stewardship of assets – is capital investment being made on new assets at the cost of maintaining existing assets?
- Value for money – do benefits outweigh the cost?
- Prudence and sustainability – can the Council afford the borrowing now and in the future?
- Affordability – what are the implications for council tax?
- Practicality – can the Council deliver the programme?

7.1.2 Councils need to prove that they are complying with the Code and this is done through a series of prudential indicators that are set locally and approved at the same time the Council sets its budget for the following year.

7.1.3 These indicators are included in the Treasury Management Strategy but are based on the capital plans derived in accordance with this Strategy.

7.2 Prudential Indicators

7.2.1 The Prudential Code sets out various indicators which help answer some of the questions above.

Indicator	What it tells us
Capital Prudential Indicators	
Capital Expenditure Plans	Capital expenditure plans and how these plans are being financed by capital or revenue resources. It identifies shortfall of resources resulting in a borrowing need.
Capital Financing Requirements (CFR)	The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

Expected investment balances	Shows the amount available for Treasury investments over time. Reducing balances are indicative of Council's spending plans (revenue and capital) exceeding available resources hence using balances and reducing the amount available for investment.
Borrowing indicator	
Debt compared to Capital Financing Requirement (CFR)	Councils can only borrow to finance capital expenditure. This indicator compares debt to the underlying need to borrow (measured by the CFR) to show that the borrowing is being used only to finance capital expenditure.
Operational boundary	The maximum amount of money the Council expects to have in borrowings during the year. If it is breached during the year, net spending may be higher than budgeted.
Authorised Limit	The maximum amount a Council can borrow. This can be changed by Full Council.

7.2.2 CIPFA has removed the requirement for certain affordability prudential indicators but the Council is keeping these indicators as set our below.

Indicator	**What it tells us**
Affordability local Indicators	
Borrowing costs as a % of Net Revenue costs	It tells us how much of our key revenue streams we use to pay debt in the Revenue account. If that % is increasing then it could indicate that borrowing is not generating additional income to cover the cost of borrowing or that our revenue streams are falling.
Incremental impact of capital investment decisions on council tax	The amount we would have to increase Council tax by to finance the capital investment decisions made (e.g. additional borrowing).

7.3 Commercial Investment portfolio

7.3.1 Indicators to be used for the commercial investment portfolio are covered in Annexe B1.

9 SKILLS AND KNOWLEDGE

9.1 In house resources

9.1.1 The successful implementation of the Capital Strategy necessitates the availability of people with the necessary experience of:

- developing capital projects
- acquiring and selling properties
- commissioning partners to deliver the capital programme
- managing properties as a landlord
- sourcing suitable opportunities that match the criteria set under the adopted strategy.

9.1.2 The Council currently has in place a team in the Places Directorate which manages the current operational and non-operational asset portfolio. This team comprises:

- Head of Property Services
- Estates Surveyor x 2
- Building Surveyors, Inspectors and Estate Officers

9.1.3 The Council is reviewing the Places Structure and the new structure will include a new Director and a Head of Service with a commercial portfolio. The Director will be given responsibility to lead on the commercial investment strategy on a day to day basis.

9.2 Externally available resources

9.2.1 The Council also makes use of external advice in developing projects or undertaking due diligence including external valuers, property condition experts, market appraisers etc. Other advice will be commissioned as and when required.

9.3 Members

9.3.1 Members are familiar with the budget process and approve the Treasury Management Strategy and Budget. Any additional training requirements will be discussed with the Scrutiny Commission.

Annexe A1: Long Term Capital Plans

Project Description	Budget at Q2	Approval since Q2	With-drawn Projects Since Q2	Approval Sought		Total Project Budget	Estimate Outturn			Project Over (Under) Spend
				Ring Fenced Grants	Non-Ring Fenced Grant		Up to 31st March 2018	2018/19 onwards	Total Projects	
Devolved Formula	32	0	0	18	0	50	32	18	50	0
Disabled Facilities Grants	210	0	0	221	0	431	210	221	431	0
SEND	0	0	0	0	500	500	0	500	500	0
Autism Innovation	19	0	0	0	0	19	19	0	19	0
ASC System Replace	590	0	0	0	0	590	596	0	596	6
Transforming Care Grant	0	395	0	0	0	395	0	395	395	0
Rutland Hub – Feasibility Study	0	40	0	0	0	40	40	0	40	0
Catmose College – Phase 2	130	0	0	0	0	130	0	130	130	0
Catmose College – Phase 3	1,950	0	0	0	0	1,950	0	1,950	1,950	0
Barleythorpe Primary (Cont)	200	0	0	0	0	200	0	200	200	0
Oakham C of E	651	0	0	0	0	651	33	618	651	0
Uppingham C of E	200	0	0	0	0	200	0	200	200	0
SEN – Increase Capacity	200	0	0	0	0	200	0	200	200	0
English Martyrs Primary	133	0	0	0	0	133	133	0	133	0
Uppingham College	74	0	0	0	0	74	74	0	74	0
Integrated Transport Block	360	0	0	0	0	360	360	0	360	0
Oakham Castle Restoration	2,400	0	0	0	0	2,400	2,160	240	2,400	0
Digital Rutland	2,378	0	0	0	0	2,378	2,378	0	2,378	0
Digital Rutland Phase 3	905	0	0	0	0	905	0	905	905	0
Greetham Play Area	28	0	0	0	0	28	28	0	28	0
Sports Grants	500	0	0	0	0	500	348	152	500	0
Planning Software (IDOX)	50	0	0	0	0	50	50	0	50	0
IT Project - Smart Boards	9	0	0	0	0	9	9	0	9	0

Project Description	Budget at Q2	Approval since Q2	With-drawn Projects Since Q2	Approval Sought		Total Project Budget	Estimate Outturn			Project Over (Under) Spend
				Ring Fenced Grants	Non-Ring Fenced Grant		Up to 31st March 2018	2018/19 onwards	Total Projects	
IT Project - Disaster Recovery	25	0	0	0	0	25	25	0	25	0
IT Project - Office 365 Migration	12	0	0	0	0	12	0	12	12	0
IT Project - Idox Data Migration	8	0	0	0	0	8	0	8	5	0
IT Project – Wireless	15	0	0	0	0	15	15	0	15	0
IT Project – Chamber AV	20	0	0	0	0	20	20	0	20	0
IT Project – DIP (Revs & Bens)	15	0	0	0	104	150	15	0	15	0
IT Project	46	0	0	0	34	150	46	104	150	0
Active Rutland Hub	769	0	0	0	0	769	769	0	768	(1)
Oakham Enterprise Park	6	0	0	0	0	6	6	0	6	0
Oakham Enterprise Park- P2	0	0	0	0	2,200	2,200	0	2,200	2,200	0
Oakham Town Centre	528	0	0	0	0	528	328	200	528	0
Total Strategic Aims and Priorities	12,461	434	0	239	2,804	15,938	7,711	8,232	15,943	5
King Centre	200	0	0	0	0	200	200	0	200	0
Investment Properties	0	0	0	0	10,000	10,000	0	10,000	10,000	0
Total Commercialisation	200	0	0	0	10,000	10,200	200	10,000	10,200	0
Schools Maintenance	455	0	0	0	0	455	114	341	455	0
Highways Capital Projects	2,147	0	0	0	1,209	3,356	2,147	1,209	3,356	0
Oakham Library & Children C	989	0	0	0	0	989	997	0	997	8
Total Asset Management Requirements	3,591	0	0	0	1,209	4,800	3,258	1,550	4,808	8
Total Capital Programme	16,252	434	0	239	14,013	30,938	11,169	19,783	30,952	13

Annexe B1: Commercial Investment Policy

1. BACKGROUND

The core function of the Council is to deliver statutory and other services to local residents. Reductions in government funding and reduced investment income from traditional Treasury Management investments, as detailed in the Medium Term Financial Plan (MTFP), reinforce the need for the Council to make better use of its available assets (land/property/cash) to deliver a financial return which will reduce the MTFP gap and allow the Council to meet the costs of service delivery. This can be achieved from investing in capital assets (property or other assets) to generate revenue income thereby reducing net costs or avoiding costs in the MTFP.

Under this policy, the Council may:
- purchase tenanted property and carry out landlord functions;
- build or develop property to be let to interested parties;
- acquire land to be develop or make available for development;
- undertake any other investments for which it has legal powers.

Activity aimed at “making money” is not without risk. The House of Commons “Committee of Public Accounts” undertook a review of the “Financial sustainability of local authorities” (published November 2016). It looked into the increasing commercial activity of local authorities and warned that authorities must understand the risks involved. CIPFA has, since that review, advised that a policy on non-treasury investments should be put in place that sets out a framework for investments and commercial activities.

Investments made in property funds, share capital, fixed term deposit, government bonds are classified as treasury investments and are not covered as part of this policy.

2. OBJECTIVES

CIPFA recommends that the security and liquidity of investments should take priority over yield. This is reflected in policy objectives below and is reflected in the Council’s approach. The Council’s objectives are to:

- acquire investments that provide long term investment in line with corporate objectives re commercialism

- maximise return whilst minimising risk through prudential management processes as described in this document

- prioritise investments that yield optimal revenue streams and stable income to reduce the Council’s financial gap

- protect capital invested

3. FUNDING

An initial fund of £10m will be set aside for investments.

The Council has access to various funding sources – government grants, CIL, s106, revenue and borrowing. The underlying assumption of this policy is that commercial investments will be funded from Prudential Borrowing (£5m external borrowing and £5m from existing funds). The Council's borrowing strategy (approved as part of the Treasury management strategy) allows the Council "to borrow to fund a scheme that will reduce the Council's ongoing revenue costs in future years, or avoid increased costs in future years".

The rationale for the use of borrowing is that:

- Some funds received are ring fenced so must be used for an agreed purpose
- CIL and s106 must be used to mitigate the infrastructure needs arising from development
- Government grants will be reserved primarily for service investments, corporate priorities, statutory requirements and/or asset management requirements
- The Council does not hold and is not expecting significant capital receipts from the sale of assets

Fundamentally, if the Council was to tie up resources to deliver commercial investments it may compromise its ability to deliver on service and other corporate objectives hence the strategy to use borrowing.

While borrowing say from PWLB is relatively low cost, it should be noted that investments funded through externally borrowing will incur a greater cost than using balances and this will need to be considered as part of the rate of return calculation.

With a £10m investment, the Council will aim to surpass the rate of interest currently achieved on its balances and generate net income which will contribute towards the MTFP gap and help the Council sustain the current level of service delivery.

Investment	**Gap at 2020/21 £000**	**Net return £000**	**%**	**Revised gap £000**
£10m	£1,500	£500	5	1,000

On the basis that funding is undertaken through Prudential borrowing, the impact would be as follows assuming a net rate of return of 5%. Should investments yield no return then the maximum loss is estimated at £600k pa.

Impact on revenue budget	**£**	**Comment**
Interest costs	300,000	Based on existing rates of 1%. Rates are expected to increase over time. If external borrowing is undertaken then interest costs will be incurred.
Minimum Revenue Provision (MRP)	200,000	Represents the cost of borrowing over a 50 year period. There is no MRP cost if existing resources are used

Impact on revenue budget	£	Comment
Net income from investments	(£1,000,000)	Gross yield less running costs
MTFP benefit	**(£500,000)**	Represents 5% on initial investment
MTFP loss if no income generated	**£600,000**	Assumes interest and MRP costs plus 10% residual costs for maintaining assets (and no assets sold)

4. APPROACH/SCOPE

The Policy adopted should reflect a suitable balance between the risks inherent in the types of assets to be acquired/developed or projects to be undertaken and the financial rewards obtainable from those investments, limiting such risks appropriately.

Whilst each investment will be subject to a business case driven by a risk assessment tool (this is detailed in Annexe B5), the Council will ensure that the investment portfolio being acquired/developed will be diversified in order to spread risks via a balanced portfolio, such diversification principally being across geographical location, sectors and the type of assets held.

The key aspects of the Council's approach will be as follows:

- Capital investments to be appraised in line with criteria set out in Section 6;
- Capital investments that do not meet agreed criteria must be submitted to Full Council for approval;
- Capital investments to be approved in line with arrangements set out in Section 7;
- The investment portfolio is separate from the Council's operational asset portfolio and will be subject to annual review (i.e. to determine whether performance can be improved or whether investments should be sold or other action taken and any risks associated with each investment)
- The limit on any particular investment will be £3m. Any investments above this value, including any that take the total investment above £10m, will require Full Council approval.
- Investment activity will be delivered in Rutland or in neighbouring authorities where Rutland residents will benefit.
- Legal basis of all investments to be verified as part of the approval process as per Section 5.

- In assessing the merits of an investment, Officers will specifically exclude investments that involve the following activities:

    - Alcohol or tobacco production or sale
    - Animal exploitation
    - Armaments and nuclear weapons production or sale
    - Environmentally damaging practices
    - Gambling
    - Human Rights Abuse / Oppressive regimes

5. LEGAL

The Council can make funds available for investments. The Council has the power to invest for the purpose of the prudent management of its financial affairs under the Local Government Act 2003.

In applying this policy, the Council is relying on the following legal powers:

- Section 120 of the Local Government Act 1972 gives councils the power to acquire property by agreement for the purpose of any of its functions or for the benefit, improvement or development of the area.

- Section 1 of the Localism Act 2011, known as the general power of competence, enables a local authority to do anything that an individual generally may do (subject to prohibitions, restrictions, and limitations in existing statute which are not applicable in the circumstances set out in the report). Further, that power enables the authority to do it anywhere in the United Kingdom or elsewhere, for a commercial purpose or otherwise for a charge, or without charge, and to do it for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.

The strategy proposes new investment acquisitions inside of Rutland if the supply or quality of investments. In accordance with the Localism Act 2011 the Council has the power to acquire property or land investments outside the county boundaries.

DCLG issued guidance under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018 stating that borrowing solely to invest in a yield bearing opportunity is borrowing in advance of need and not allowable. The Council's policy is to invest in Rutland so is never solely about yield returns given the additional benefits that will accrue.

As part of the evaluation of any potential capital investment, Officers must understand and present the legal basis for decisions prior to approval.

6. APPRAISING POTENTIAL INVESTMENTS - CRTIERA AND MINIMUM REQUIREMENTS (BUSINESS CASE AND RISK ASSESSMENT)

An investment appraisal tool has been developed to facilitate an assessment of potential investments and derive a financial business case and risk assessment. The tool has been developed around the most likely type of investments – purchase of land/properties but can be tailored for other types as required.

Investments must generally pass two tests which are inextricably linked:

Yield test - Investments must demonstrate the best use of Council money: this is to be measured typically by generating a suitable rate of return (net savings/income) of at least the Bank of England base rate plus %.

The rate of return takes into account the gross yield/revenue/savings generated and deducts relevant costs (including capital financing and borrowing costs) to arrive at net income/savings.

The Council achieves less than 1% on its treasury investments e.g. cash deposits. Therefore, the net return from any commercial investment should exceed the comparable investment returns available on cash deposits, and be sufficiently greater to allow for any difference in risk between the two forms of investment, hence a target of Bank of England base rate plus 5%.

Whilst rate of return is the primary measure of whether an investment is viable, other factors that will be considered include:

- Payback - the period over which the initial outlay will be recouped. The shorter the payback the more attractive the investment.

- Expected date of positive net return - whilst an investment can have a rate of return over the life of an asset, it may not yield a positive net return in the early years. Given the MTFP objectives of reducing net costs, it is desirable for investments to generate a “surplus” sooner rather than later

- Capital appreciation - investments in assets may lead to a significant increase in asset value thereby making an investment attractive even if the rate of return is less than the target.

Risk test – investments must not expose the Council to an inappropriate level of risk and in particular the security and liquidity risks must be adequately managed as a priority.

Asset/property related investments invariably carry risks that treasury investments do not in relation to the property itself or the economy (e.g. risk that the Council will not get its investment back, that the rate of return is not guaranteed, that the Council will be faced with unknown costs, that asset values will decrease rather than increase).

The typical risks are shown in Annexe B2 with a description of how they are assessed through the Investment tool. The tool sets a “pass” mark of 40%. In order to complete the tests, various pieces of information will be needed as noted in Annexe B4. A summary version of the investment appraisal tool is included in Annexe B5.

7. GOVERNANCE

Full Council agrees the Capital Strategy including this Commercial Investment Policy.

The Policy framework includes:

- A maximum fund of £10m investments;
- A framework for appraising investments; and
- A framework for decision-making.

A typical timetable for the purchase of commercial property could be a two to three weeks marketing period, followed by a week for submission of offers and confirmation by the seller of the preferred buyer and preparation of Heads of Terms, followed by a 4-6 weeks' period for due diligence investigations by the buyer and the buyer's solicitor prior to exchange of binding unconditional contracts on the purchase. Completion would usually follow within a further four weeks. Annexe B3 details a typical process.

It is therefore proposed that the following decision making process be agreed:

- The Chief Executive may enter discussions regarding prospective acquisitions without formally committing the Council to any agreement
- The maximum purchase/project commitment of the Council will not exceed £10m and no single project will exceed £3m
- Each development project or property being considered would be assessed the Head of Property Services in conjunction with Finance and the Lead Director
- A Business case, including all costs, the risk assessment and recommendation to be prepared by Head of Property Services and Director presented to the Panel
- Business case to be reviewed by Cabinet and/or Council in accordance with existing Finance Procedure Rules.

For acquisitions:

i) when a recommendation is accepted, a formal offer will be confirmed by Head of Property Services; property placed under offer, solicitors instructed and due diligence carried out.
ii) Head of Property Services advises Board of results of due diligence and, if satisfactory, final approval for sale/purchase given by the Board.
iii) Head of Property Services advised of decision and, if appropriate, contracts exchange.

- NB: For properties sold at Auction, Head of Property Services recommendation will take into consideration the "information pack" provided by the sellers.
- For development projects, Head of Property Services will proceed to commission works.
- Cabinet will be advised of developments or progress as part of the Finance quarterly update.

8. STAFFING

The successful implementation of the proposal necessitates the availability of people with the necessary experience of acquiring and selling properties, developing capital projects and managing properties in order to source suitable opportunities that match the criteria set under the policy.

The new Director for Places, supported by the Property and Finance team, will lead the day to day delivery of the Policy including:

- Sourcing new opportunities;
- Undertaking an evaluation and developing a business case for investment;
- Presenting opportunities for approval; and
- Undertaking a review and risk assessment of the portfolio and advising on any changes.

The Council will also make use of external advice including external valuers, property condition experts, market appraisers etc. Other advice will be commissioned as and when required.

9. PERFORMANCE INDICATORS

Any analysis of the portfolio is in the context of the need to increase net revenue income to the Council. Indicators will therefore include:

- annual income for each asset/portfolio
- net yield (£ and %) for each asset/portfolio
- capital value (e.g. fair value) and liquidity assessment of each asset/portfolio
- expected v actual payback for each asset/portfolio
- risk assessment of each asset/portfolio

Ongoing review will consider:

- any measures required to improve performance and to protect/enhance existing assets
- the strategy for acquiring new assets
- whether changes need to be made including disposals.

Changes to poor performing assets will either improve performance or release reserves (through sales) for reuse to invest in other held assets or for acquiring new assets.

<u>Annexe B2 – Typical investment risks and how they can be mitigated</u>

Risk	How addressed through risk assessment	Details	Residual risk score
Council purchases or develops property that cannot be leased	SECURITY OF INCOME	Council will aim to buy tenanted properties or will require a pre-let agreement in the event that it develops properties for let	Low
Council purchases a tenanted property but tenant leaves	SECURITY OF INCOME/ LOCATION AND SECTOR/ THE PROPERTY	Council will undertake due diligence around tenants. It will also try and acquire properties that are flexible (i.e. not bespoke) and in locations where there is demand	Low
Tenants default on payments	SECURITY OF INCOME	Provisions built into leases (as with OEP) to provide protection Rent deposits considered as appropriate. Parent company guarantees may also be sought if applicable.	Low
Rental income dips in light of market conditions	SECURITY OF CAPITAL	For tenanted properties, Council will review lease length, rent review clauses etc to understand what protection is built in. For new developments or new lets, financial assessment to reflect the risk of lower rents	Medium
Value of capital investment reduces because of market conditions	LOCATION AND SECTOR/ SECURITY OF CAPITAL	Council is not exempt from the impact of the wider economy but a) will commission market appraisal information b) will consider the location and sector and c) aims to hold assets for the long term so that it can “ride” out short term market impacts	Medium
Council purchases property requiring substantial repairs and maintenance	PROPERTY RISK	Property condition survey undertaken by qualified surveyors as part of due diligence and costs can be factored into financial assessment.	Low

Risk	**How addressed through risk assessment**	**Details**	**Residual risk score**
		Council will seek to agree a Full Repairing and Insuring (FRI) lease where appropriate - a lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.	

Annexe B3 - Summary of the process for Property Acquisitions and Development

Property Acquisition

Acquisition of Property		
Heads of Terms	Opportunity Identified	• Approval of Business Case by Cabinet if under £1m • Approval of Business Case by Council if over £1m or over allocation of £10m • Approval by Council if Investment fund allocation of £10m exceeded.
	Appraisal with Investment Tool	
	Conditional Offer	
	Price Negotiation	
	Terms Negotiation	
	Agreement of Conditional Offer	
	Agree Heads of Terms	
Pre-Contract	Instruct Legal	
	Due Diligence which will include: • Title Searches • Security of Covenant • Market Assessment/demand • Asset Condition • Future Liabilities and Costs • Access Issues	
	Appraisal with Investment Tool	This is a final check to ensure taking into account anything identified during due diligence that the acquisition complies with the requirements of the investment policy
	Finalise Legal Agreement and obtain any necessary approvals	
Commitment to Purchase		
Contract Exchange	Pay a deposit if required	
Pre-Completion	Finalise drawdown of funds	
Completion	Transfer Funds	
	Assume Liability for the asset	
	Activate the necessary Insurances	
Post Completion	Land Registry	
	Portfolio Management	

Advanced Let – Council Owned Land		
Heads of Terms	Opportunity Identified	• Approval of Business Case by Cabinet if under £1m • Approval of Business Case by Council if over £1m or over allocation of £10m • Approval by Council if Investment fund allocation of £10m exceeded.
	Appraisal with Investment Tool	
	Conditional Offer	
	Price Negotiation	
	Terms Negotiation	
	Agreement of Conditional Offer	
	Agree Heads of Terms	
	Initial design work undertaken to inform the cost of the project. This will include design works and all statutory approvals	
Pre-Contract	Instruct Legal	
	Due Diligence which will include: • Security of Covenant Assessment/demand • Future Liabilities and Costs	
	Appraisal with Investment Tool	This is a final check to ensure taking into account anything identified during due diligence that the outcome complies with the requirements of the investment policy
	Finalise Legal Agreement and obtain any necessary approvals	
	Agreement to lease finalised and approvals obtained (this will include the lease when all parties comply with the conditions imposed by the agreement to lease).	
Commitment to Lease		
Agreement to Lease Exchange	Other party pay deposit and transfer funds to RCC	
Completion		
Completion of agreement to lease	RCC undertakes works as required by the agreement to lease, Future tenants undertakes works as required by Agreement to lease	
Development works commence	This will consist of 'on-site' construction works by RCC and/or Tenant	
Completion of the lease	When works required by the agreement to lease are completed by both parties the lease is completed	

Speculative Development		
Justification	Opportunity Identified	• Approval of Business Case by Cabinet if under £1m • Approval of Business Case by Council if over £1m or over allocation of £10m • Approval by Council if Investment fund allocation of £10m exceeded.
	Appraisal with Investment Tool	
	Market Assessment	
	Active marketing	
	Initial design work undertaken to inform the cost of the project. This will include design works and all statutory approvals	
	Appraisal with Investment Tool	
Physical Delivery	Works contracted and physically delivered.	

Annexe B4 - Information needed

Summary
Outcome of review of lease conditions/clauses etc
Property condition survey
Tenant due diligence
Market appraisal
Valuation

Details for cost purposes
Cost of investment
- Acquisition cost (land/buildings)
- Stamp duty/other levys
- Solicitors/legal fees
- Other costs
- Development costs (e.g. refurbishment, construction)

Income
- Rental
- Other income e.g. service charges
- Sales
- Demand

Running costs
- Utilities (gas/electric/water)
- Business rates
- Staffing
- Repairs and maintenance
- Insurances
- Security
- Rent/lease costs

Building/Land
- Valuation
- Age/useful life
- Building condition information
- Maintenance profile
- Remediation costs
- Lease agreement
- Clawback clauses
- Land/building restrictions

Annexe B5 – Financial and Risk Assessment

Criteria	Metrics	Detail	Value
Measurement of Investment Performance	**Cost of Investment**	Capital cost of investment (initial outlay and any further outlay required)	£67,000.00
	Gross Yield	Average income per annum	£7,700.00
	Costs	Average running costs including capital financing costs per annum	£1,670.00
	Savings	Annual savings generated through investment (savings may be cost already in MTFP or not included e.g. investment necessary to avoid cost)	
	Year in surplus	Year by which the investment will yield a positive MTFP impact i.e a surplus	**1**
	Payback period	Year by which any capital outlay will be recouped	**12**
	Net yield	Average net income/saving per annum	**£6,030.00**
		Rate of Return %	**9%**
		Pass or Fail?	**Pass**

Risk Category and weighting	Description	Investment Risk Indicators	
Security of Income 50%	The income (or revenue savings) which are likely to be generated by the investment is the most important element. The security of the income will be governed by lots of factors – lease length/terms, rent review, quality of tenants, demand, vacancy risk, management cost etc	High Risk	No existing tenant or income source, savings not secured, no obvious market or demand, high turnover or tenant, lease lengths likely to be short, tenants financial standing unstable, void risk is high, management supervision is intense, limited capacity for rent increases/reviews, break clauses frequent
		Low Risk	Savings guaranteed and quantifiable, existing tenant or tenants, high demand, low turnover of tenants, long leases, good quality tenant with secure financial standing, void risk is low, limited management supervisions, lease obligations not onerous, rent reviews built in, limited break clauses.
Location of sector 15%	The investment should be in an area which is economically buoyant and has the potential for sustainable financial and economic growth. The quality of the location may depend on the sector. Office space in Oakham may score higher than office space in Lyddington for example	High Risk	Undesirable area with limited growth potential, niche sector
		Low Risk	Economically buoyant area and sector
The Property/Asset 20%	The tenure, age and construction of a building should be considered including the potential for alternative use, obsolescence, requirement for repairs/improvements. On the whole a modern, well constructed, energy efficient building with flexibility will score more. If the Council buys leasehold then fewer covenants are preferable	High Risk	Old building, high risk or repairs, high potential for obsolescence, inefficient and high cost, not adaptable for alternative use if needed
		Low Risk	New or modern building, low maintenance, well designed, flexible space for alternative uses

<table>
<tr><th>Risk Category and weighting</th><th>Description</th><th colspan="2">Investment Risk Indicators</th></tr>
<tr><td rowspan="2">Security of Capital

/Scope for capital appreciation

15%</td><td rowspan="2">An assessment should be made on the security of capital and the scope for capital appreciation in respect of the investment. Properties worth far more than their current value in x years time (e.g. a reversionary investment) will score higher than one likely to be worth less than their current value</td><td>High Risk</td><td>Value of Property / investment is likely to decrease</td></tr>
<tr><td>Low Risk</td><td>Value of Property / investment is likely to increase</td></tr>
</table>

A large print version of this document is available on request

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