

**TELFORD & WREKIN COUNCIL**

**CABINET – 14 FEBRUARY 2019  
COUNCIL – 28 FEBRUARY 2019**

**2018/19 & 2019/20 CAPITAL STRATEGY**

**REPORT OF THE ASSISTANT DIRECTOR: FINANCE & HR (CHIEF FINANCIAL OFFICER)**

**LEAD CABINET MEMBER: CLLR LEE CARTER**

**PART A) – SUMMARY REPORT**

**1.0 SUMMARY OF KEY ISSUES**

The Capital Strategy is a new requirement of the Prudential Code for Capital Finance in Local Authorities. The aim of the strategy is to give an overview of the long-term context in which capital expenditure and investment decisions are made and to highlight the consideration given to risks and rewards as well as the achievement of Council priorities.

**1.1 SUMMARY**

The Capital Strategy forms part of the suite of Service & Financial Planning Strategy Reports to be approved by Council. The strategy aims to provide an overview of total investments and borrowing undertaken by the Council, providing context and showing how these meet the Council's overall objectives. The detailed capital strategy is attached at Appendix 1.

**2.0 RECOMMENDATION**

Members are asked to approve the Capital Strategy for 2018/19 and 2019/20.

**3.0 SUMMARY IMPACT ASSESSMENT**

<b>COMMUNITY IMPACT</b>	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	Delivery of all priority objectives depend on the effective use of available resources.

	Will the proposals impact on specific groups of people?	
	No	
<b>TARGET COMPLETION/DELIVERY DATE</b>	The strategy is for 2018/19 and 2019/20.	
<b>FINANCIAL/VALUE FOR MONEY IMPACT</b>	Yes	The financial implications arising from the Capital Strategy are included in the 2018/19 and 2019/20 Service & Financial Planning Strategies.
<b>LEGAL ISSUES</b>	No	The Capital Strategy is required to meet the requirements of the Prudential Code for Capital Finance.
<b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b>	No	Risks and opportunities are considered throughout the report.
<b>IMPACT ON SPECIFIC WARDS</b>	No	Borough Wide

#### 4.0 **PREVIOUS MINUTES**

None

#### **PART B) – ADDITIONAL INFORMATION**

There is no additional information.

#### 5.0 **BACKGROUND PAPERS**

Treasury Strategy Report  
Prudential Indicators Report  
Investment Strategy  
Service & Financial Planning Strategy

Report Prepared by:

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CAPITAL STRATEGY OVERVIEW

2018/19 & 2019/20

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**1.0 INTRODUCTION**

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1.1 The Prudential Code for Capital Finance in Local Authorities was updated in December 2017 and includes the requirement for authorities to produce a Capital Strategy. The aim of the Capital Strategy is to give an overview of the long-term context in which capital expenditure and investment decisions are made and to highlight that due consideration is given to both risk and reward together with the impact on the achievement of priority outcomes in the decision-making process. To do this, the Capital Strategy brings together information from a number of key areas which form its structure, with the clear acknowledgement that investments can be made for policy reasons outside of Treasury Management:

**The strategy is structured as follows:-**

Strategic Overview

Balance Sheet Position

Capital Expenditure & Financing

Debt, Borrowing and Treasury Management

Investments for Service Purpose Including Those with  
Commercial Benefits

Other Long-Term Liabilities

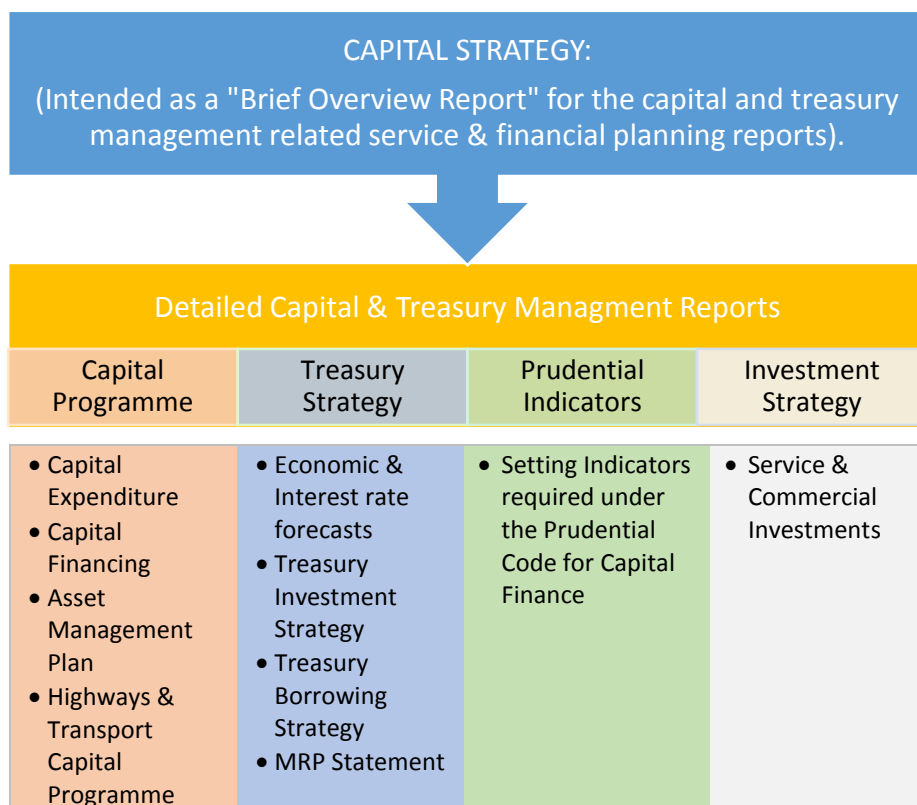
Revenue Budget Implications

Knowledge & Skills

Chief Financial Officer Comment

We have sought to draft the Strategy in an accessible style to assist understanding of some technical issues.

1.2 The Capital Strategy forms part of the Council's suite of Service & Financial Planning Strategy Reports to be approved by Council prior to the start of the financial year:



Due to the lateness of the publication of the requirements and the lack of guidance available it was not possible to prepare a Capital Strategy report earlier for 2018/19 and the Strategy for 2018/19 and 2019/20 are therefore combined.

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## 2.0 STRATEGIC OVERVIEW

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2.1 In the short to medium term, Telford & Wrekin Council continues to be in a period of significant transformation. The drivers of this are:

- The Government's prolonged austerity programme - the Council has faced the challenge of making significant savings, totalling £117m since 2010 whilst trying to protect front-line services as far as possible. Our Service and Financial Planning Strategy sets out our response to this challenge and how these savings are being identified and delivered.

Service & Financial Planning Strategy Including: Revenue Budget Strategy; Capital Strategy; Capital Programme; Treasury Strategy; Prudential Indicators	<a href="http://www.telford.gov.uk/info/20262/the_councils_budget/56/council_budget_-_2018">http://www.telford.gov.uk/info/20262/the_councils_budget/56/council_budget_-_2018</a>
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- Being a Cooperative Council and reshaping the relationship between the Council, its employees, the community and partners to:
  - Improve and bring public services together;
  - Involve local people and our employees more in planning and running our services;
  - Strengthen and develop our communities and encourage people to do more to help their own communities.

2.2 As a Cooperative Council, we will work with our communities to create:

***‘Telford & Wrekin – the Place to live, learn, work and do business’***

**We will:**

- **put our children and young people first**
- **protect and create jobs as a ‘Business Supporting, Business Winning Council’**
- **improve local people’s prospects through education and skills training**
- **protect and support our vulnerable-children and adults**
- **ensure that neighbourhoods are safe, clean and well maintained**
- **improve the health and wellbeing of our communities and address health inequalities**
- **support neighbourhoods most in need, ensure that local people can access to suitable housing**

2.3 Capital investment clearly plays a key role in the achievement of our local priorities. Through our Capital Strategy we seek to maximise the value and opportunities of our assets to take forward the delivery of emerging strategic priorities whilst being mindful of stewardship, prudence, sustainability and affordability.

2.4 Our Capital Strategy is not, however, just about ‘concrete, tarmac, buildings etc.’, it is about making a positive difference to the quality of local people’s lives through specific projects, services, technology and facilities. In recent years, key initiatives have been progressed/delivered through targeted capital investment. Further information can be found in the Council Plan

Council Plan	<a href="http://www.telford.gov.uk/downloads/file/1604/council_plan">http://www.telford.gov.uk/downloads/file/1604/council_plan</a>
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2.5 Reducing dependency on Government Grants is an essential part of our financial strategy and we have actively sought out opportunities that deliver

commercial as well as service objectives to achieve this. All such proposals are subject to a business case approval process.

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### 3.0 BALANCE SHEET POSITION

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3.1 An extract from the Council's balance sheet 31 March 2018 is shown below

	£m
<b>Long Term Assets</b>	
Property, Plant & Equipment	471.531
Investment Properties (Property Investment Portfolio)	95.657
Intangible Assets	2.081
Long Term Investments (of which Equity in Nuplace is £8.950m)	9.265
Long Term Debtors (of which the loan to Nuplace is £25.476m)	25.917
<b>Total Long Term Assets</b>	<b>604.451</b>
<b>Investments</b>	
Short Term Investments – call accounts/bank account	19.622
Short Term Investments – cash	0.124
<b>Total Investments</b>	<b>19.746</b>

<b>Borrowing</b>	
Long-Term Borrowing	(154.526)
Short-Term Borrowing	(102.176)
<b>Total Borrowing</b>	<b>(256.702)</b>

Total borrowing at 31 March 2018 was £257m which was an increase of £37m compared to 31 March 2018, due to capital expenditure. After adjusting for changes due to the conversion of former Local Authority schools to academy status, the value of the Council's fixed assets increased by £47.8m during 2017/18.

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### 4.0 CAPITAL EXPENDITURE & FINANCING

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4.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. Capital expenditure is defined in regulation.

4.2 In 2018/19, the Council has planned capital expenditure of £71.778m , (Originally £85m prior to rescheduling) and in 2019/20 there is planned capital expenditure of £77m as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

	<b>2018/19 Budget</b>	<b>2019/20 Budget</b>	<b>2020/21 Budget</b>	<b>2021/22 Budget</b>
General Fund services	52.237	54.220	20.800	5.857
Housing Investment Programme	7.012	10.713	11.008	0
Property Investment Portfolio	10.326	8.513	0	0
Telford Land Deal	2.203	4.012	2.517	0
<b>TOTAL</b>	<b>71.778</b>	<b>77.458</b>	<b>34.325</b>	<b>5.857</b>

- 4.3 Over the medium term, the main General Fund capital projects are:
- Over £50m for road and transport improvements and infrastructure schemes which includes
    - £4.1m to improve street lighting by continuing to install LED lighting
    - £21.8m to improve highways and roads,
    - £1.0m for estate car parking improvements
  - £34m for Education and School improvement schemes, mainly funded from Government Grant
  - £9.1m for the Newport Innovation and Enterprise package which is mainly funded from Local Growth Fund via the Marches LEP
  - £1.7m on a 3G pitch for South Telford

Other Investments, 2018/19 onwards, covered later in this report and included in the Investment Strategy, are:

- In the Housing Investment Programme, Nuplace (£28.7m),
- Through the Telford Growth Fund/Property Investment Portfolio (£18.8m)
- As part of the HCA Land Deal (£8.7m)

The detailed capital programme can be accessed via the Service & Financial Planning link above.

- 4.4 **Governance:** capital budgets are approved as part of the Service & Financial Planning Strategy presented to Cabinet in February and then Full Council. Additions to the capital programme are either considered by the Council's Service & Financial Planning Officer Group (consisting of the Managing Director, Directors and Chief Financial Officer) and when agreed fed into the overall budget strategy to be approved at Full Council; or may be subject of a separate report to Cabinet/Full Council and incorporated into the budget at that point. The route depends on the phasing of the spend and the value of investment. The financial implications, including the associated debt charges and risks, are included in any separate reports taken forward and in the overall budget strategy report. Capital allocations are considered against the Council priorities, funding and payback, dependent on the nature of the scheme.
- 4.5 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing, Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

	<b>2018/19 Budget</b>	<b>2019/20 Budget</b>	<b>2020/21 Budget</b>	<b>2021/22 Budget</b>
Capital Receipts	11.015	6.490	8.340	3.410
Government Grants	19.104	26.879	9.447	
Revenue/External Contributions	11.008	9.698	3.162	
Borrowing	30.651	34.391	13.376	2.397
<b>TOTAL</b>	<b>71.778</b>	<b>77.458</b>	<b>34.325</b>	<b>5.857</b>

- 4.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2019/20 budget	2020/21 budget	2021/22 budget
MRP	3.764	3.836	3.832

- The Council’s minimum revenue provision policy can be found in the Treasury Strategy which can be accessed via the Service & Financial Planning link above.

4.7 The Council’s cumulative “capital financing requirement” (CFR) is equal to external debt financing plus the Council’s own funding from reserves/provisions and our positive working capital position. The CFR increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. Based on current plans, the CFR is expected to increase in the short term to fund the capital programme as shown in the table below. Based on the above figures for expenditure and financing, the Council’s estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2019 budget	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
General Fund services	357.483	370.784	371.102	373.590
Housing Investment Programme	38.684	49.397	60.405	60.405
PIP	50.980	58.065	58.065	58.065
Solar Farm	3.787	3.787	3.787	3.787
<b>TOTAL CFR</b>	450.934	482.033	493.359	495.847

4.8 **Asset management:** To ensure that capital assets continue to be used over the long-term, the Council has an Asset Management Plan which can be accessed via the Service & Financial Planning link above (Capital Strategy Annex III). The Asset Management Plan sets out the proposals to effectively manage our assets with its key objectives being to:

- Ensure assets are fit for purpose
- Maximise the use of assets

- Ensure assets are located in appropriate locations for service delivery
- Deliver an integrated approach to Asset Management across the Authority
- Reinforce a corporate approach for holding property and outline objectives
- Ensure Asset Management decisions are co-ordinated and consistent with council priorities
- Manage a simple and robust performance measurement system
- Provide comprehensive and accurate data to assess property performance and to support and facilitate the changing patterns of service delivery
- Use land and buildings to facilitate the “growth” agenda and be the enabler of regeneration
- Optimise and prioritise the level of property investment, to meet the Council’s current and future service needs
- Promote the innovative use of property together with partners and stakeholders

4.9 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22 please see section 4.10 for further information. Repayments of capital grants, loans and investments also generate capital receipts. The Council expects to receive capital receipts in the medium terms as follows:

*Table 5: Capital receipts in £ millions*

	<b>2018/19 forecast</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
Asset sales	11.015	6.490	8.340	3.410
<b>TOTAL</b>	<b>11.015</b>	<b>6.490</b>	<b>8.340</b>	<b>3.410</b>

4.10 **Flexible Use of Capital Receipts :** The Government have offered Councils the ability to fund the one-off costs of service reform projects from new capital receipts generated during a six year period commencing from 1st April 2016. This has enabled some funds previously committed to fund one-off invest to save initiatives and severance costs etc. to be released but will result in higher levels of debt than would have otherwise been the case and therefore higher debt charges than would otherwise have been the case as all capital receipts would otherwise be used to fund planned capital projects. However, whilst the debt charges are ongoing they will be more than offset by the ongoing savings generated from the invest to save

measures. The Council's approach to using this flexibility is explained in the Service & Financial Planning Strategy approved by Full Council.

## 5.0 DEBT, BORROWING AND TREASURY MANAGEMENT

- 5.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 5.2 Due to decisions taken in the past, the Council currently has £275.6m borrowing at an average interest rate of 2.42% and £31.313m treasury investments at an average rate of 0.47%.
- 5.3 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).
- 5.4 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement (see above).

*Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

	<b>31.3.2019 revised</b>	<b>31.3.2020 budget</b>	<b>31.3.2021 budget</b>	<b>31.3.2022 budget</b>
Debt (incl. PFI & leases)	341.8	373.9	386.0	389.3
Capital Financing Requirement	450.9	482.0	493.4	495.8

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this requirement by a significant margin.

5.5 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

*Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

	2018/19 limit	2019/20 limit	2020/21 limit	2021/22 limit
Authorised limit – borrowing	440	440	450	450
Authorised limit – PFI and leases	61	63	63	63
Authorised limit – total external debt	501	503	513	513
Operational boundary – borrowing	420	420	430	430
Operational boundary – PFI and leases	59	60	60	60
Operational boundary – total external debt	479	480	490	490

The Council expects to operate well within both the authorised and operational limits as it has successfully done for many years. Further details on borrowing are can be found in the Treasury Strategy which can be accessed via the Service & Financial Planning Link above.

5.6 **Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or that provide an element of financial gain in addition to service related benefits are not generally considered to be part of treasury management.

The Council’s policy on treasury investments is to prioritise security and liquidity over yield, i.e. to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. External specialist Treasury management Advisors advise the council on the credit worthiness of banks. Money that will be held for longer terms can be invested more widely, including in bonds, Nuplace shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2018 actual	31.3.2019 budget	31.3.2020 budget	31.3.2021 budget	31.3.2022 budget
Short-term investments	20	20	20	20	20
Longer-term investments	0	0	0	0	0
<b>TOTAL</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>

Further details on treasury investments can be found in the Treasury Strategy which can be accessed via the Service & Financial Planning link above.

- 5.7 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Financial Officer and staff designated by him, who must always act in line with the treasury management strategy approved by Full Council. Reports on treasury management activity are presented to the Audit Committee twice a year. The Audit Committee is responsible for scrutinising treasury management decisions and receive training direct from the Council's specialist external treasury management advisors.

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## 6.0 KEY ACTIVITIES WITH COMMERCIAL BENEFITS

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- 6.1 With central government financial support for local public services declining, the Council seeks a commercial return from some capital spending that also delivers service benefits such as retention and creation of jobs or increasing the supply of good quality private rented accommodation which would not otherwise be available. However, because this council is seeking to deliver service benefits as well as some commercial return from these projects it does not make direct investment in any such initiatives outside of the Borough. These investments include commercial property, Nuplace, our wholly owned Housing Company (through both a loan and equity), and the Solar Farm which deliver a net financial gain as well as meeting the other objectives, outlined below.
- 6.2 There are risks associated with all investments. The Council must accept that there are risks associated with projects with commercial elements which are different to the risks associated with treasury investments. The principal risk exposures are outlined below and are monitored and managed by the relevant Service Area.

- 6.3 A key focus of the budget strategy is on income generation. All projects with a commercial element are subject to a rigorous business case process to manage and mitigate risks as far as possible and are funded in accordance with the Council's approved Treasury Strategy and included in the Capital Programme, after taking advice from professional advisors as required. The Chief Financial Officer and Managing Director, together with the wider Senior Management Team, will seek to ensure the proportionality of all investments with a commercial element so that the Council does not undertake a level of investment which exposes itself to an excessive level of risk compared to its financial resources. However, it has to be accepted that there is a degree of risk to such initiatives and that not all will be successful.
- 6.4 Sections 7, 8 and 9 provide more detail on the Property Investment Portfolio, Nuplace and the Solar Farm.

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## **7.0 PROPERTY INVESTMENT PORTFOLIO (PIP)**

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- 7.1 The Authority holds a number of individual sites for investment, regeneration and economic development purposes: the Property Investment Portfolio. The PIP was valued at £95.7m at 31 March 2018 and generated £7.3m rental income during 2017/18 which supports the overall revenue budget and therefore the delivery of front-line services.
- 7.2 As part of the 'Enterprise Telford: Driving Growth and Prosperity' strategy the Council established a £50m Growth Fund as continued investment to strengthen and grow the Property Investment Portfolio. This is being used to invest directly into land and property enabling local businesses to expand and attracting new investors which boosts jobs, the economy and generates additional income for the Council both directly through rental income but also through income from business rates which is retained by the Council between system resets. Over 3 years £44m has been committed into a range of investments which are anticipated to help deliver approximately 1000 new jobs and safeguard a further 250 jobs. These investments are forecast to generate an average ongoing gross return on investment, including additional retained business rates income of 7.5%, (3.5% net of borrowing costs, at an assumed rate of 4%). Through the investment of the full £50m the Council is on target to generate over £3m in additional gross income, assuming a 6% return on the unallocated capital, £1m net of borrowing costs which will be used to support front-line services such as the provision of care to vulnerable children and adults. The investment is also delivering growth in business rates income estimated to be £1.2m (with £0.6m retained by the Council) subject to system resets.

### 7.3 Governance

The Assistant Director: Business, Development & Employment has delegated authority to manage the Property Investment Portfolio and to make decisions in relation to PIP property investments and disposals.

Delegated authority has also been granted to the Assistant Director: Business, Development & Employment, after consultation with the Assistant Director: Finance & Human Resources and the Cabinet Lead: Council Finance, Commercial Services and Economic Development to approve individual business cases in relation to the Growth Fund.

Specific factors considered as part of the decision making process are:

- Sustaining revenue rental income
- generating additional rental income / business rates (between system resets)
- Maintaining or increasing capital value of assets
- Return on Capital
- Running Costs
- Regeneration opportunities
- Local market needs/demand for properties
- Future proofing the local economy by attracting new investment
- Job creation for local people

### 7.4 Risks

Risks in relation to the PIP include: voids and consequential service and business related changes and bad debt. The market for inward investment opportunities is also competitive although the offer of the £50m growth fund has proved to be a considerable incentive for investors and existing businesses expansion. At a macro level risk exists linked with changes in the commercial market and Telford's heavy reliance on the manufacturing sector. The economic strategy aims to address this including supporting diversification into new sectors including Agri Technology whilst exposure to particularly large single investments, sectors or retail properties has been limited unlike at a small number of other councils.

The risks associated with each individual investment are considered as part of the business case approval process. Where proactive (i.e. where no specific end-user has been identified) industrial unit development is proposed in order to respond quickly to enquiries and be able to maximise opportunities the level of risk associated with void periods increases and to minimise such exposure a cap on revenue liability from new build proactive investments has been set at £350,000 per annum. The ability to exceed this limit would be on the basis of a specific business case to be approved by the AD: Business, Development & Employment after consultation with the AD: Finance & Human Resources and the Lead Cabinet Member for Council Finance, Commercial Services and Economic Development.

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## 8.0 NUPLACE LIMITED / HOUSING INVESTMENT PROGRAMME

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- 8.1 Nuplace Limited, the Council's wholly owned housing company, was incorporated in April 2015. Its purpose is :
- the construction and management of around 420 private and affordable, quality residential properties for rent responding to the housing needs in the Borough
  - increasing the quality of the private rented sector
  - the generation of income streams for the Council, both short term and long term, which will protect frontline services, otherwise affected by budgetary constraints
  - the regeneration of brownfield land sites
  - to stimulate economic growth through job creation during construction and afterwards
- 8.2 A detailed business case was presented to Cabinet in 2015.
- 8.3 The Council has invested in Nuplace through a combination of equity, in the form of share capital and debt finance, in the form of a 30 year loan facility of up to £40m – both of which will generate a commercial return. At 31 March 2018 the Council had £8.95m equity invested in Nuplace and the loan totalled £25.5m. In the long term, Nuplace will generate a surplus to the Council over the 30 year period of the project due to the expectation that the value of the assets will increase over the long-term as well as the development gain usually made when the properties are completed.
- 8.4 In 2017/18 Nuplace made a net profit of £0.343m before taxation and had net assets of £11.95m at 31 March 2018 (re-valued investment assets appreciated by 14.6% over the cost of construction during 2017/18). Since 2015/16, the Council has received net income totalling £2.071m from services supplied and interest on debt finance. Further, there are benefits from Council Tax (between system resets) and New Homes Bonus which is estimated to have generated and additional £0.4m since 2016/17 and will rise to £0.7m per annum. To-date, the programme has resulted in over 20 acres of brownfield land being regenerated and Lovell, the Council's competitively procured contractor, has helped deliver a range of community initiatives and supported apprenticeship training with a growing proportion of the workforce coming from the local area and significant spending in the local supply chain.
- 8.5 Capital allocations for the Housing Investment Programme, totalling £63.67m are contained within the Council's Service and Financial Planning Strategy, of

which £35m had been spent as at 31 March 2018, with a further £7.0m allocated to sites in development. Therefore, £21.67m remains unallocated for future schemes. Capital is allocated to sites based upon feasibility criteria. The rate of return for each investment is dependent upon a range of parameters and is reviewed by the Council's finance department on a case by case basis. The rate of return on debt finance is currently 5.29% and the hurdle rate for the long term rate of return on equity finance is set at 6%. The governance arrangements are set out in the detailed business case and consist of 3 directors, with clear lines of reporting and monitoring procedures and a Housing Investment Programme Board is in place which is made up of Council Officers and Elected Members.

8.6 **Risks** and Governance are managed through the Housing Investment Programme Board

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## 9.0 SOLAR FARM

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9.1 Following a business case appraisal and approval by Cabinet in September 2013, the Council invested in developing a new solar farm within the Borough which became operational in 2015/16. The total capital investment was £3.7m.

9.2 The aims of the solar farm were:

- Generation of renewable energy to provide an inflation linked income stream guaranteed by the Government for the council
- Environmental benefits - reducing greenhouse gas emissions and generating more electricity from renewable energy.

The solar farm is delivering £0.2m net annual income; and is projected to generate a net cumulative operating surplus of £4.4m over the 25 year project life.

In terms of risk management, a risk register is in place for the solar farm which is monitored and updated on a regular basis by the Council's Commercial Projects Team.

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## 10.0 INVESTMENTS FOR SERVICE PURPOSES

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### HCA Land Deal

- 10.1 The Telford Land Deal is a uniquely negotiated deal between the Council, Homes England (formerly HCA) and MHCLG through which Homes England/MHCLG have committed to invest £44.5m from the sale of Government owned land in Telford to invest in the local area supporting the delivery of new homes, jobs and commercial floor space.
- 10.2 The deal is based on a risk-reward model which requires the Council to make investment into site preparation up front, at risk, with this investment recouped from land receipts. The Council manages the delivery programme and is able to influence investment decisions through the Land Deal Board.
- 10.3 Since the Deal was established gross land sales of £25.1m have been secured, enabling the delivery of 614 new homes and over 953 new jobs. The Council has spent £15.1m in bringing forward sites for development recouped from land sales and the total profit share delivered to the local area to date is £3.9m.
- 10.4 There is a 3 year rolling Investment and Disposal Plan which is updated annually and agreed by the Land Deal Board.

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## 11.0 OTHER LIABILITIES

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- 11.1 In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £258m on 31 March 2018) and has agreed a long-term arrangement with the Pension Fund which is reviewed every three years to ensure that the deficit is fully repaid within a timeframe acceptable to the Pension Fund and its actuaries.

The Council created provisions totalling £20.2m in the 2017/18 Statement of Accounts, which includes a provision for Single Status and NDR Appeal costs. At 31 March 2018 the Council had no major contingent liabilities.

- 11.2 **Governance:** Decisions on incurring new discretionary liabilities are taken by Assistant Directors in consultation with the Chief Financial Officer. New liabilities are reported to Members for approval/notification as appropriate.

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## 12.0 REVENUE BUDGET IMPLICATIONS

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- 12.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

*Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream*

	<b>2018/19 budget</b>	<b>2019/20 budget</b>	<b>2020/21 budget</b>	<b>2021/22 budget</b>
Financing costs (£m)	5.863	9.511	10.839	11.098
Proportion of net revenue stream	4.84%	7.89%	9.47%	10.0%

- 12.2 The increase in cost between 2018/19 and 2019/20 is largely due to temporary benefits from a revised approach to calculating MRP ending in accordance with the approved MRP policy and previously approved service and financial planning strategies and the 2018/19 budget being revised to include the impact of temporary borrowing at low interest rates.

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## 13.0 KNOWLEDGE AND SKILLS

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- 13.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant with over 30 years' post qualification experience, the Assistant Director: Business, Development & Employment and the Assistant Director: Commercial Services are both highly experienced senior officers with extensive relevant experience. The Council pays for junior staff to study towards relevant professional qualifications including AAT and specific specialist technical training.
- 13.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The

Council currently employs Arlingclose Limited as treasury management advisers, a range of property consultants and PWC as taxation advisors. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

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## **14.0 CHIEF FINANCIAL OFFICER COMMENT**

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- 14.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable due to the continued track record of delivering revenue budget outturn within budget, delivering annual budget savings which now total £117m, the extensive restructuring programme and process developed over recent years, long-term service redesign, particularly in relation to Adults services, the increasingly commercial approach being adopted, where appropriate, including consideration of business cases for proposals with a commercial element, the adequacy of reserves and provisions and the investments being made in the borough.