# WARRINGTON BOROUGH COUNCIL

## FULL COUNCIL - 25 February 2019

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| **Report of Executive Board Member:** | Councillor R Bowden, Leader of the Council |
| **Executive Directors:** | Lynton Green, Deputy Chief Executive & Director Corporate Services |
| **Senior Responsible Officer:** | Danny Mather – Head of Corporate Finance |


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**Key Decision No.**

**Ward Members:** All

**TITLE OF REPORT: CAPITAL STRATEGY**

**1. PURPOSE**

1.1 To seek Executive Board approval of the Council's 2019 Capital Strategy which incorporates the 2019 – 2022 Capital Programme and to recommend it to Full Council for approval.

**2. CONFIDENTIAL OR EXEMPT**

2.1 This report is not confidential or exempt.

**3. INTRODUCTION AND BACKGROUND**

3.1 The Capital Strategy is a new requirement for Councils to produce from April 2018 following the publication of the revised Prudential Code for Capital Finance in Local Authorities 2018.

3.2 The Capital Strategy focuses on core principles that underpin the Council's three year capital programme as presented in this strategy. It gives a position statement with regards to capital expenditure and the resources available in terms of funding. The Strategy projects where the Council will be in three years' time and how it will get there. It also focuses on the key issues and risks that will impact on the delivery of the Capital Investment Strategy and the governance framework required to ensure the Strategy is delivered.

3.3 The Strategy maintains a strong and current link to the Council's priorities and to its key strategy documents notably the Treasury Management Strategy, Asset Management Strategy, Property Investment Strategy, Medium Term Financial Strategy and the Corporate Plan.

## 4. 2019-2022 CAPITAL PROGRAMME

4.1 The Council's 2019-2022 Capital Programme, associated financing and Capital Flexibilities Polices is attached at Annexe 1 to this report.

## 5. 2019 ASSET MANAGEMENT PLANNING

5.1 The Council has a typical local authority property portfolio. This consists of operational property, investment property and property held for specific community or regeneration purposes. The Council has specific reasons for owning and retaining property:

- Operational – supporting core business and service delivery
- Investment – to provide a financial return to the Council
- Community – to support specific local community projects
- Regeneration – enabling strategic place shaping and economic growth

**PROPERTY INVESTMENT STRATEGY**

5.2 In the context of the Capital Strategy, the Council is using capital to invest in property to produce a revenue return.

5.3 In July 2017, the Council adopted a Property Investment Strategy. This proposed a formal approach to invest in property that provides a positive surplus/financial return. This is done by buying property that has a tenant who pays rent to the owner of the property – the landlord. The tenant needs to be of good financial standing and the property and lease must meet certain standards such as being in a commercially popular location and have a number of years left on the lease providing a certain and contractually secure rental income into the future.

5.4 The Council funds the purchase of the property by borrowing money – potentially from the Public Works Loans Board (itself funded by the Government). The rental income paid by the tenant must exceed the cost of repaying the borrowed money each year. The annual surplus then supports the Council's budget position, and enables the Council to continue to provide services for local people.

5.5 Historically, property has proved to be one of, if not the best, investment in terms of capital growth over the last 50 years. If the Council owns the property for 20 years plus, and the property is managed and maintained appropriately, the Council can expect to see an increase in the value of the property as well as a net annual surplus of revenue.

5.6 The formal Property Investment Strategy:

- Sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily financial gain.
- Identifies the issues of the economy, the general property market and the possible risks for the Council in acquiring investment property.
- Clarifies the legal powers used to operate the Strategy and ensure continued compliance.
- Identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
- Includes an outline of the process involved in acquiring property assets for investment purposes.
- Is part of a wider policy framework supporting what the Council does and why.

5.7 Acquisition for investment and treasury management purposes, to generate an income stream is a natural progression from acquisition for regeneration purposes. The two can also be combined – a good example of this is the Council's acquisition of DW Sport on Academy Way in September 2016, which offers a secure income stream and the option for future regeneration of a site adjacent to the Time Square development.

5.8 The reasons for buying and owning property investments are primarily in this order:

- Financial gain to fund our services to local people
- Market and economic opportunity – the time is right
- Economic development, growth and regeneration activity in Warrington

**OPERATING IN THE PROPERTY INVESTMENT MARKET**

5.9 Investment property will usually have a commercial occupier, paying a rent to the landlord. The better the covenant of the occupier, the more secure the rental income, the better the investment value and the yield obtainable in the open market. A tenant with a strong covenant and a long lease (10 years plus) with no break clause and with responsibility for repairing and maintaining the property, is the best type of investment.

5.10 The UK commercial property investment market is very well established, attracts global investors and is defined as a 'mature asset class'. It has a wide range of new and established investors including institutions, pension funds, specialist property companies, charities, family trusts and individuals.

5.11 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "…used solely to earn rentals or for capital appreciation or both…". Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

5.12 Property prices and returns are a function of the property type, condition, use and location, together with the lease structure and covenant strength of the tenant (in the case of a let property). Lease contracts will reflect all liability and outgoings being the responsibility of the tenant.

5.13 What should be sought by the Council are property investments which produce the best returns possible, whilst carrying an acceptable level of risk. The main mitigation measure in managing risk is to target investments which are let to 'blue chip' tenants, on relatively long leases with little or no landlord management involvement – typically the tenant is responsible for all property costs such as repair, maintenance and outgoings. In this way, the Council will be primarily buying a secure income stream and the buildings themselves become almost secondary considerations.

5.14 Any property asset coming onto the market could be for a number of reasons. Investors seek to buy and sell in many different circumstances - rebalancing their portfolio, seeking cash to influence balance sheet or share price, requirement for a more "liquid" asset, short term investment taking advantage of small capital growth, moving into different property classes, etc.

**PRIORITIES & RISK IN PROPERTY INVESTMENT**

5.15 The Priorities for the Council when acquiring property interests for investment purposes are (in order of importance):

- **Covenant Strength** - in the case of a let property, the quality of the tenant and, more importantly, their ability to pay the rent on time and in full. The Council's primary reason and objective for this strategy is financial gain. The underlying principles of a Property Investment Strategy imply, assume and default to nothing taking higher priority than financial gain. It is however worth noting that the Council, as a public body, may not wish to invest in properties where the occupiers are generally seen to be undertaking a business which is contrary to its corporate values.

- **Lease length** - in the case of a let property, the unexpired length of the term of the lease or a tenant's break clause is of key importance in ensuring that the landlord's revenue stream is uninterrupted. The Council will take into consideration the risks associated with a tenant vacating and the potential to attract good quality replacements tenants at acceptable rental levels. Generally occupiers are moving away from 25 year leases which were more common back in the late twentieth century with 10 to 15 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.

- **Rate of return** - the rate of return from the property (for example through annual rental incomes) will need to be equivalent or better to the returns that could be earned from alternate investments, such as placing monies on deposit, following adjustment for risks and potential growth. The property will also need to produce an annual return in excess of the cost of PWLB borrowing (interest only).

- **Risk** – rate of return is one side of the coin; risk is the other. In general, the higher the sought level of return from an investment, the higher level of risk that it carries. For example, if a property is let at an attractive rent which would create a good return, it could still be risky if the tenant does not possess good covenant strength and could default at any time.

- **Lease Terms** – The terms of leases vary and even those held on an “Institutionally acceptable basis” can be very different in nature particularly as such leases have developed over time. The Council is seeking to invest in modern leases with full repairing and insuring obligations on the Tenant and a full Service Charge recovery to include any management fees where applicable. This will ensure a certain income/return to the Council.

- **Growth** - property has the potential for both revenue and capital growth. The Council will take into account that potential when assessing the strength of the investment opportunity. Property values can fall as well as rise and mechanisms to minimise revenue reductions should be identified. Generally the nature of standard, institutional leases is that rent review clauses are upward only which protects landlords from any downward pressure on rental income giving some security as to the level of income.

- **Location** - should a tenant default or vacate, the location of the property is the key factor in influencing the ability to re-let and find another tenant. Location is also important when considering future redevelopment or regeneration opportunities. Ideally the Council will be able to undertake inspections and to deal with any management issues without the need to employ specialists or agents. Preference should be given to properties located within Warrington or in the wider north west of England. This does not prevent investment outside of Warrington, subject to the appropriate justification and business case and correct governance procedure.

- **Sector** - information as to the sector of use of the property (e.g. office, retail, industrial, leisure) will assist in deciding on the risks associated with specific properties and the mix of sectors within the portfolio.

- **Building Age and Specification** - in the case of a let property, whilst the Council, as an investor, may be principally concerned with the characteristics of the tenant and lease, the age and specification of the property will also affect the ability of the Council to let or sell the property in the future. It must also be taken into consideration in respect of the cost of protecting the investment. An example of this would be the undertaking of repairs and refurbishment if the cost cannot be fully recovered from the tenant.

5.16 In summary, the strategy for acquiring investment property assets is therefore to:

- Seek property let to tenants who are of strong covenant strength and sound financial standing with at least more than five years remaining on an FRI lease.
- Minimise risk.
- Maximise rental income and minimise management costs to ensure the best return is generated.
- Identify opportunities for future growth, redevelopment or regeneration via property in commercially popular or development areas.
- Prioritise Warrington and the North West.
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

5.17 The Council has invested in a number of investment property assets, as well as a Business Bank and a Property Holding Unit Trust. A fair value assessment was conducted on purchase and provides sufficient security for the underlying capital invested. These assets will be revalued per the Council's revaluation programme and appropriate provision will be made if there is a fall in the value of the assets.

**Building Asset Maintenance Programme**

5.18 The Council has historical data on the property portfolio to assess building condition and backlog maintenance. Although this data collection is not done on a rolling annual basis of survey due to revenue cuts in recent years, the Council retains an annual building maintenance programme of revenue funding. This is primarily a response repairs budget with a specific statutory compliance budget alongside. There is no significant element of planned and structured maintenance as part of this budget.

**Building Maintenance Programme Revenue Funding 2019:**

5.19 The Council's Building Maintenance Programme (BMP) is an annually revised programme of typically around £1.2 million per year. It is primarily directed at operational buildings (non-Housing) and excludes ring fenced funding. The BMP is structured to fund the following scope of work over the next three years with approximate allocations of funding typically:

| | Servicing and statutory | Response repairs | Total |
|---|---|---|---|
| Operational business portfolio | £300,000 per year | £900,000 per year | £1,200,000 |
| Schools portfolio | Funded through client directorate where local authority | Funded through client directorate where local authority | |

**Building Maintenance Programme Capital Funding 2019:**

5.20 Allocation of capital to invest in and improve the operational business portfolio is prioritised through the corporate CIPG meetings. Bids and applications are made through a directorate process to approval at CIPG and then Executive Board. The schools that remain under jurisdiction of the local authority and not academy programme, are similarly prioritised for capital investment through a structured professional assessment of condition and need. The capital programme of spend on buildings is structured as follows:

| | Capital improvement | Total |
|---|---|---|
| Operational business portfolio | £2,500,000 | £2,500,000 |
| Schools portfolio | £660,000 | £660,000 |
| **Total** | **£3,160,000** | **£3,160,000** |

**Property Disposal Capital Receipts**

5.21 Traditionally local authorities have maintained a property review and disposal programme to rationalise property holdings and raise capital. This traditional approach has changed significantly in recent years for many Councils. Warrington reflects this national trend.

5.22 In Warrington, property review and disposal programmes from 2006 onwards identified surplus or under used property. Our property disposal programme has resulted in capital receipts exceeding £13 million. This also enabled revenue savings (from the costs associated with empty or underused property) of around £1.5 million per year.

5.23 This process of review and disposal continues. However, the disposal element is now much more focused on revenue rather than capital in line with financial requirements.

5.24 Any surplus properties are prioritised to be used to generate revenue wherever possible. This can be done in a number of ways. For example rather than a freehold disposal, if there is an opportunity to improve Council services and generate revenue, this may be considered better value for the Council. This also means the Council retains ownership of the asset, ultimate control and long terms benefit for the town.

5.25 All such decisions are ultimately taken by Executive Board or the Executive Member for Corporate Property in line with the Constitution and appropriate audit and governance structure.

5.26 Based on recent years, future capital receipts will be formed around residential leasehold disposals (typically less than £1,000 each) and occasional windfalls from property where disposal is enabling of regeneration or last resort.

| | **Capital Receipt Forecast 2019-2022** | **Total** |
|---|---|---|
| Property Disposal General | £2,250,000 | £2,250,000 |
| Other Receipts | £4,430,000 | £4,430,000 |
| **Total** | **£6,680,000** | **£6,680,000** |

## 6. GOVERNANCE FRAMEWORK

6.1 It is important given the risks surrounding Capital Projects that the appropriate Governance framework is in place hence the following processes are in place:

- The Capital Strategy itself to be presented annually alongside the Medium Term Financial Strategy at Council
- All schemes and the overall Capital Programme are subject to approval by the Executive Board
- Portfolio holders are assigned projects in line with their responsibilities
- A senior officer group exists known as the Capital Investment Planning Group which is chaired by the Chief Executive. The group monitors the delivery of the capital programme on an ongoing basis. The group reports to the Executive Board on a quarterly basis
- The CIPG will receive post project completion reports to ensure that its limited resources have been used effectively
- Directorate Departmental Management Teams must agree all deletions and additions to their directorate capital programme before they go to CIPG. Each Departmental Management Team has a Capital Group that meets to review the Capital Programme on a monthly basis
- The Capital Programme is guided by the Council's Capitalisation Policy and Financial Procedure Rules of the Council
- The Capital Programme is subject to Internal and External Audit Review
- Scrutiny Committee can call in Executive Board Reports
- A Birchwood Park Panel of professional officers across the Council meets bi monthly to manage the Council's large £211m investment in Birchwood Park. An independent financial advisors also attends the panel
- A Corporate Loans Group consisting of professional officers across the Council meets monthly to manage the risks associated with the corporate loans programme
- A Investment Project team consisting of professional officers from across the Council

meets monthly to review the Council's property investment portfolio and to assess potential new investments

## 7. COMMERCIAL ACTIVITY

7.1 The Council has a strong reputation throughout Local Government for its commercial approach to service delivery and have also advised other authorities in this this area. In 2017 the Council was also used as a case study in the Local Government Association (LGA Publication) ''Enterprising Councils: Supporting Councils Income Generation Activity.

7.2 The Council has a strong governance framework that goes beyond the regulatory codes. We have a Treasury Management Board (TMB) in addition to the common local government audit and corporate governance committees. The TMB is made up of leading councillors from across the political divide, members have been integral in translating vision into delivery, and senior council officers who meet to discuss new investment products in detail.

7.3 Due diligence is of paramount importance. All of our commercial investments have individual business cases that are subject to thorough risk assessment and stress testing and we also stress test the whole investment portfolio to ensure all risks are captured and properly controlled. Where appropriate to the size and scale of the project we also commission independent technical, legal, accounting, risk management, property, taxation advice.

7.4 Project Groups are set up for all commercial schemes and on-going performance monitoring takes place after the scheme is completed and is reported to members and senior officers on an ongoing basis.

7.5 Financial and social audits are carried out during the life cycle of investments.

7.6 The Council follows a beyond prudence approach to governance of commercial activities. We ensure that all our commercial schemes are fully aligned with priority outcomes.

7.7 Our innovative schemes form part of our Outcomes Based MTFP planning process, are subject to audit and assurance, stakeholder engagement and ongoing performance monitoring.

7.8 The strength of our Governance Framework is best evidence by the fact that Council was one of a few Councils to introduce the Revised Prudential Code and Treasury Management Code into our budget and strategies from 1st April 2018.

7.9 The Council's commercial approach is covered in the Council's Commercial Strategy ''Enterprising Warrington 2017 -20.'' The strategy makes it clear that we will continue to invest wisely on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

## 8. RISK APPETITE STATEMENT 2019

8.1 This outlines Warrington Borough Council's risk appetite with regard to its investment and commercial activities.

8.2 For the purpose of this statement, we have adopted the Orange Book (UK government publication on the strategic management of risk within government) definition of Risk Appetite, namely "the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time." It is important to note that risk will always exist in some measure and cannot be removed in its entirety. Additionally, in order to realise investment and commercial gains, one has to take some measure of risk. Therefore, risks need to be considered both in terms of threats to the Council as well as positive opportunities. It is worth noting that the Public Accounts Committee supports well-managed risk taking across government, recognising that innovation and opportunities to improve public services requires risk taking, providing that the ability, skills, knowledge and training to manage those risks well exist within the organisation or can be brought to bear.

8.3 Our risk appetite statement sets out how we balance risk and return in pursuit of achieving our objectives. It is intended to aid careful decision-making, such that the Council takes well thought through risks to aid successful delivery of its services and obligations, while also understanding the adverse aspects of risk undertaken and taking appropriate measures to mitigate these in line with its stated goals. Thereby, the Council's risk judgements are more explicit, transparent and consistent over time.

8.4 The risk appetite statement forms a key element of the Council's governance and reporting framework and is set by full Council, which also reviews the statement annually. In addition, the risk appetite will be considered annually and monitored on an ongoing basis by senior management, external risk advisors, Corporate Governance Group and the Audit & Corporate Governance Committee as appropriate.

### Relationship to Other Aspects of Risk Management

8.5 It is important to note that the risk appetite is a high level view on the key areas of risk and the qualitative quantum therein that the Council is willing to accept in pursuit of its objectives. In this, it is different to other key aspects of risk management, primarily:

- The risk universe – a detailed list of all the potential risks the Council is exposed to.
- Risk capacity – the maximum level of risk the Council can run given its reserves, revenues, and access to funding, liquidity, regulatory and legal constraints, and any other restrictions.

- Risk tolerance – the maximum amount and type of risk that the Council is willing to tolerate on a prudent assessment.

8.6 The latter two are usually quantified and given as a series of limits and analyses.

8.7 The risk appetite is also supported by the following:

- The Council's risk management framework
- The governance structure and responsibilities
- Risk reporting
- Monitoring and escalation procedures

8.8 It should be noted that aspects of these will be bespoke to individual areas where risk is undertaken, e.g. the treasury portfolio, loans made, housing etc.

**Risk Appetite**

8.9 In general, the Council's risk appetite is expressed through its tolerance to risk in respect of capital preservation, meaningful liquidity and income volatility. The Council seeks to minimise its exposure to risks that are unwanted and unrewarded. Capital is managed centrally on an ongoing basis to ensure that there is sufficient liquidity in the short and medium term to meet costs and support front line services, as well as meeting long-term solvency and funding requirements.

8.10 The Council is exposed to a range of broad areas of risks:

- **Financial risks** related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- **Macroeconomic risks** related to the growth or decline of the local economy, interest rates, inflation and to a lesser degree, the wider national and global economy amongst others.
- **Credit and counterparty risks** related to investments, loans to institutions and individuals and counterparties in business transactions.
- **Operational risks** related to operational exposures within its organisation, its counterparties, partners and commercial interests.
- **Strategic risks** related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its goals.
- **Reputational risks** related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.

- **Environmental and social risks** related to the environmental and social impact of the Council's strategy and interests.
- **Governance risks** related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

8.11 Managing the Council's risks is an area of significant focus for senior management and members, and the Council adopts an integrated view to the management and qualitative assessment of risk.

8.12 The Council aims to minimise its exposure to unwanted risks – those risks that are not actively sought and which carry no commensurate reward for the Council – through a range of mitigation strategies to the extent that it is cost-effective to do so. Specifically, the Council has no appetite for reputational risk, governance risk and currency risk.

8.13 For other risks, the Council's appetite is as follows:

| **Risk** | **Appetite** |
|---|---|
| Financial | Moderate appetite for a range of asset classes, property and longer-term investments, subject to careful due diligence and an emphasis on security as well as matching with the Council's required liquidity profile. Low appetite for capital growth oriented investments versus income generating investments.<br><br>No appetite for currency risk, emerging markets and high volatility investments. |
| Macroeconomic | High appetite for exposure to local economic growth. Moderate appetite for exposure to national and global growth. Low appetite for interest rate risk, and inflation risk. No appetite for geopolitical risks and tail risk events. |

| Risk | Appetite |
|---|---|
| Credit and counterparty | High appetite for investment grade or secured credit risk, as well as exposure to highly rated counterparties and financial institutions with strong balance sheets. Low appetite for unsecured non-investment grade debt. All subject to careful due diligence and an assessment of the transaction versus the Council's resources, capacity, funding needs, broader goals and cash flow requirements. |
| Operational | Low appetite for BAU (Business as Usual) operational risks such as pricing errors, errors in administration, IT, cybersecurity etc. The Council maintains Risk Registers for key initiatives and significant investments to assess and mitigate specific risks on a more granular level. Business continuity plans have also been established to mitigate external occurrences. No appetite for fraud, regulatory breaches and exceeding risk tolerances. |
| Strategic | High appetite for strategic initiatives, where there is a direct gain to the Council's revenues or the ability to deliver its statutory duties more effectively and efficiently. |
| Environmental and Social | No appetite for environmentally negative risks. Low appetite for social risks, especially in the local region and always subject to full due diligence. |

**Relationship with other processes**

8.14 Risk management is not a stand-alone discipline. In order to maximize risk management benefits and opportunities, it is integrated with existing business processes.

8.15 Some of the key business processes with which risk alignment exists are:

- Capital strategy
- Corporate Plan
- Medium Term Financial Plan
- Internal Audit
- Business Planning (including budget)
- Performance Management
- Treasury management
- Council owned subsidiaries and joint ventures
- External Audit Review
- Credit Rating

8.16 The Council is one of a handful of authorities to have a Moody's (one of the world's leading credit rating agencies) credit rating. The Council's credit rating is Aa2, which is one of the highest possible credit rating and the same as Saudi Arabia and the Czech Republic. The rating is reviewed on an annual basis and acts as a barometer check of the risk of the Council's policies.

## 9. OTHER LONG-TERM LIABILITIES

### Pension Guarantees

9.1 The Council has entered into a number of long-term contracts for services that have been outsourced to service providers. These often involve the transfer of Council employees to the new service provider. Employee's rights are protected under the provision in Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). However, pension rights are not fully covered within TUPE regulations. The Council have thus given pension guarantees to the following organisations, Livewire, Culture Warrington, Catalyst, Lafarge and Your Housing Group. This guarantee means that if an admitted body fails to pay its pension obligations then the Council will be responsible for taking on those obligations.

9.2 All guarantees entered into need the approval of the Executive Board. The guarantees are reviewed annually as part of the closure of accounts process. The pension balance is assessed on an annual basis by the Cheshire Pension fund and is subject to change due to the underlying assets. This is rebalanced on a three year basis, formerly known as a triennial review.

9.3 The table below shows the pension position as at 31st December 2018 for all of the companies the Council guarantees. Of the five companies guaranteed only the pension for Lafarge is currently in deficit. The guarantees are monitored by the Corporate Services Departmental Management Team on a quarterly basis as part of the budget monitoring process.

| Employer Name | Surplus/ Deficit £'000 | Funding Level % |
|---|---|---|
| Catalyst Choices | 2,515 | 112 |
| LaFarge | -57 | 93 |
| LiveWire | 3,735 | 118 |
| Warrington Cultural Trust | 739 | 117 |
| Your Housing | 19 | 103 |

## 10. KNOWLEDGE AND SKILLS

10.1 The Capital Programme and Treasury Management Strategy are managed by a team of professionally qualified accountants with extensive Local Government finance experience between them. They all follow a Continuous Professional Development Plan (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The Council's Section 151 Officer is the officer with overall responsibility for Capital and Treasury activities. He too is a professionally qualified accountant and follows an ongoing CPD programme together with his deputy. Treasury Management and Capital training is undertaken on an ongoing basis by members of the Corporate Loans Group and the Capital Investment Planning Group. The head of Corporate Finance is Vice Chair of CIPFA'S Treasury Management Network and is a respected expert in the area of Treasury Management and Capital Accounting. The Council's Property Investment Strategy is supported by an internal Council team of professionally qualified (Royal Institution of Chartered Surveyors RICS) staff who also have extensive Local Government experience. This team also follows a CPD plan in accordance with their RICS membership.

10.2 All the Council's commercial projects have project teams from all the professional disciplines from across the Council and when required external professional advice is taken usually in the areas of legal, accounting, property, risk and taxation. When external advice is taken advisors are advised in the importance of the nature of local government via the tendering process, being supplied with policies and ongoing communication.

10.3 Internal and external training is offered to members on an annual basis to ensure they have up to date skills to make capital and treasury decisions. A register is also kept on member attendance. The Council also involves members at a very early stage of a projects life cycle. Independent Treasury Management Training is carried out for members once a year in Warrington by CIPFA. The Council's Democratic Services Department is consulted when organising all training who keep training and development plans for Councillors.

10.4 The Council's Treasury Management Board (cross party and senior officer group) reviews all commercial and investment deals from inception right through to project completion and ongoing performance management. Regular presentations ate given to the Treasury Management Board setting out the risks and opportunities of new material investment schemes.

10.5 Directors for Council owned companies are chosen for their professional skills and undertake ongoing director training.

10.6 The knowledge and skills of officers and members are commensurate with the Council's risk appetite.

## 11. TREASURY MANAGEMENT

11.1 The Council also produces a Treasury Management Strategy which is approved by full Council annually as part of the budget setting process.

11.2 There are close links between the Capital Strategy and Treasury Management Strategy. This capital programme determines 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 any debt previously drawn may be restructured to meet Council risk or cost objectives.

11.3 At the end of 2021/2022 it is forecast that the Council's debt will be £1.596bn.

11.4 The Council's Authorised Borrowing limit for 2019/20 which is £ 1.733bn represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.

11.5 The Council's Operational Boundary debt forecast for 2019/20 is £1.633bn. This represents the limit beyond which external debt is not normally expected to exceed.

11.6 The Council makes provision for the repayment of debt over the life of the asset that the borrowing is funding. Over the period 2019/2020 – 2021/2022 the Council has made provision of £44.075m for the repayment of debt. The bulk of Council borrowing is linked to the Invest to Save Programme, which generates a financial return to the Council above the borrowing cost and a lot of the schemes are asset backed. The Council's Minimum Revenue Provision Policy is published in the Council's Treasury Management Strategy.

11.7 In assessing the Council's debt position it needs to be borne in mind that the Council is a very large organisation. It has been identified by CIPFA that if it were a company we would be a FT 250 Company. Also all the Council's main commercial borrowing and regeneration borrowing is asset back. All our investments properties can be sold to repay borrowing, our loans programme is covered by security covenants in excess of the amounts loaned and secured on property and land. The Council's 33% shareholding in Redwood Bank could be sold. It's a successful challenger bank with a banking licence of value. The Time Square scheme will create a valuable Council owned asset that could be sold to repay its borrowing cost in the future. The Council is pursuing an ambitious borrowing policy because it offers the best VFM option. Many Councils are funding their regeneration by previous PFI schemes, Income Strip deals and other private sector funding mechanism. These schemes while Councils do not record borrowing in their accounts make them liable for large revenue charges for long periods into the future. The driving objective for Council borrowing is to deliver social impact for the residents of Warrington.

**Treasury Management Governance**

11.8 The Council follows the requirements of The Local Government Act 2003 (the Act) and supporting regulations in managing its Treasury Management activities.

11.9 The Audit & Corporate Governance Committee are the body responsible for the Governance of Treasury Management within the Council. They recommend an annual Treasury Management Strategy to Council for approval as part of the annual approval of the budget. They also receive quarterly monitoring reports a Mid-year Review Report and an Outturn report which is also reported to full Council.

11.10 Once a year they receive and agree a Treasury Management Practices Report which sets out in detail the Governance and Responsibilities of Treasury Management and the responsibilities of all those who are involved in the process.

11.11 The Council also operates a Treasury Management Board which is made up of cross party member representation and senior officers of the Council. The Group meets to allow the detailed evaluation of Treasury Management and future proposal.

11.12 The Council also employ Link Asset Services as its Treasury Management Advisors. Other specialist advice is taken on an ad/hoc basis driven by using organisations with the best experience linked to a particular project,

11.13 Treasury Management is also subject to regular Internal and External Audit Review.

**Loans**

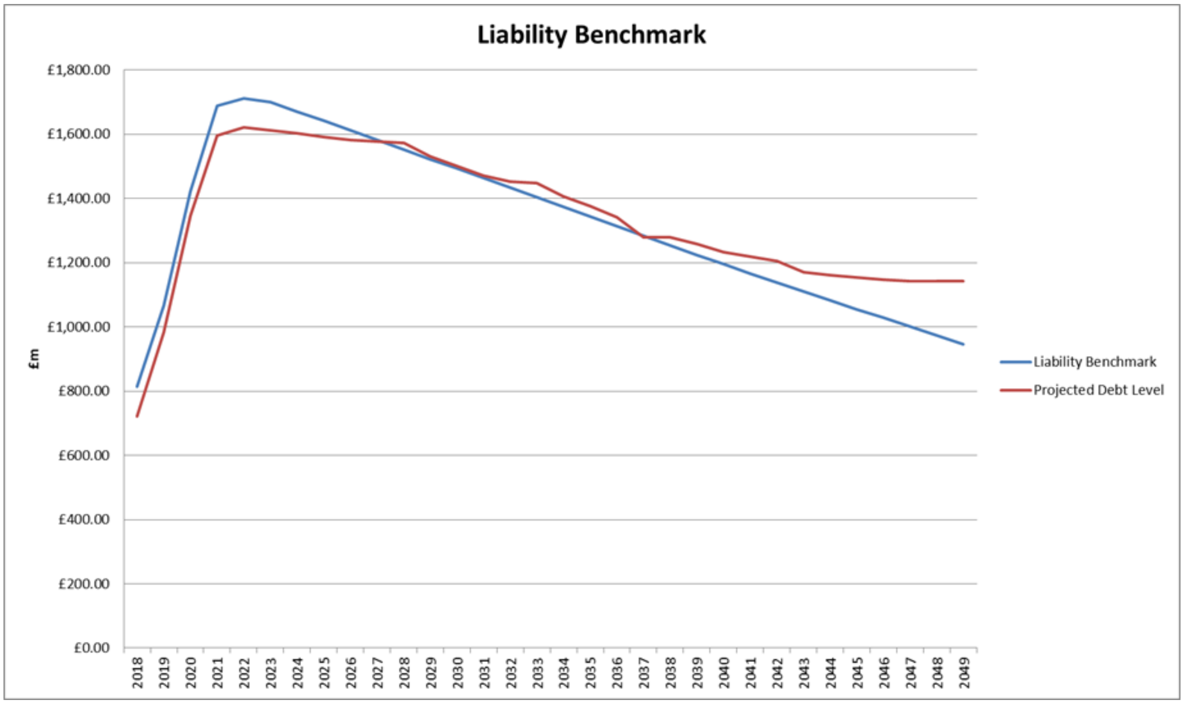
11.14 The Council make loans for a number of reasons primarily economic development and investment objectives.

11.15 The Council in making these loans ensure they are prudent and secured by:

- Carrying out a full independent due diligence exercise
- Using an expected loss model to assess the impact on the balance budget requirement if the loan was at risk
- On-going monitoring of the loans
- Ensuring adequate security is in place
- The financial exposure of the Council is proportionate to its size. This is set at £1.25 billion. This limit has been independently set following an independent review of the Council's Balance Sheet and risk exposure of the loans
- All loans are agreed by the Council's Executive Board

11.16 The Prudential Code requires the production of a liability benchmark which is shown in the graph below. The liability benchmark is the level of expected debt given current projections for capital expenditure up to year 2021/22. The projected debt levels show what the Council expects its debt level to be. Where the debt level is below the benchmark, the Council will be in an under-borrowed position, and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates and this can be used as a tool for scheduling future borrowing requirements.

**Liability Benchmark**




## 12. PREVAILING GUIDANCE

12.1 Under this Strategy and others, the Council have due regard to prevailing Guidance and the Prudential Code. In certain instances, notably in giving loans to London Housing Associations and purchasing assets outside its area for investment purposes, the Council have decided not to have full regard to the Guidance or the Prudential Code in these instances. This consideration is undertaken on a case by case basis following detailed due diligence, risk assessment and legal advice. Paragraph 42 of Guidance allows departure from guidance as long as the reasons are stated. Thus the reasons for the Council's departure are:

- The investment power, under Section 12 of LGA 2003, applies irrespective of the location of the investment. It applies equally inside or outside an authority's area.
- The investment return earned on these investments is invested in the Council's Capital Programme and leads to economic development in Warrington.
- Guidance does not define Borrowing in Advance of Need. Paragraph 41 of Guidance states: ''Where a local authority borrows to invest in yield bearing opportunities the strategy should explain:''. The draft Guidance therefore seems to acknowledge that

local authorities do and can borrow in advance of need, and that what is required is not prohibition but rather greater transparency.

- Borrowing in Advance of Need is not the same concept as borrowing in order to invest. There is a need to invest in order to make a return. Where both the financial pressure and the investment opportunity currently exist the borrowing in our mind is not borrowing in advance of need.
- All these investments are fully secured.
- A thorough Due Diligence process is followed.
- The borrowing is undertaken and advanced at the same time the investment is undertaken.
- Borrowing in Advance of Need is only applicable to the Investment Power and not expenditure powers.

## 13. PROPORTIONALITY

13.1 The table shows the proportion of the Council's budget that is funded from Commercial Income over the MTFP period. The table also shows the current limit on commercial income as a percentage of budget has been set at 23.3%. This represents the Council's real term cut in government funding since 2010. A full assessment of the risks and opportunities of commercial income schemes is incorporated into Executive Board business cases when the schemes are approved. The risks are also assessed on an on-going basis via the Council's risk management framework.

| | **19/20** | **20/21** | **21/22** | **22/23** |
|---|---|---|---|---|
| **Cumulative Commercial Income in Base Budget** | 20,551 | 21,826 | 21,826 | 21,826 |
| **% of Base Budget** | 15.45 | 16.42 | 16.07 | 15.69 |
| **Limit of Commercial Income as a % of Base Budget** | 23.30 | 23.30 | 23.30 | 23.30 |

13.2 The Council's Non Treasury Management Investments (commercial investment) is summarised in the table below:

| **Investments in Group Entities** | | **£'000** |
|---|---|---|
| | Investment in Warrington Borough Transport Shares | 888 |
| | Investment in Wire Regeneration (JV) | 3,790 |
| | Investment in Warrington Wolves Rugby League Club Shares | 1,650 |
| | Investment in Redwood Financial Partners Ltd Shares | 20,059 |
| **Total Investments in Group Entities** | | **26,387** |
| Loans to Housing Associations & Commercial Loans | | 116,770 |
| Purchase of Investment Properties | | 274,780 |
| **Total Non-Treasury Investments** | | **417,937** |

13.3 The Non treasury Management investment portfolio makes the following contribution to the Council:

- Social Impact - all yield / profit is re-invested in front line services
- Regeneration
- Economic Benefit / business rate growth
- Responding to market failure
- Environmental
- Value for Money
- Delivery of United Nations Policy (Green Energy Programme)
- Asset Backed Security

13.4 The Council has a treasury management reserve and MTFP reserve that it contributes to on an annual basis from returns made from its Invest to Save Programme. Failure to meet budgeted returns would be met by drawings from these reserves and the strategic reserve.

## 14. INDICATORS

14.1 Annexe 2 to this report presents a range of indicators that enable greater understanding to the Council's total exposure from borrowing and investment decisions.

## 15. SECTION 151 OFFICER ASSURANCE

15.1 This capital strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and 2018 Treasury Management Code.

15.2 The Section 151 Officer views the strategy to be prudent and affordable and it is fully integrated with the Council's 2018 Medium Term Financial Plan, Treasury Management Strategy and other Strategic Plans.

15.3 The risk associated with the strategy is covered by the Council Risk Appetite Statement above.

## 16. FINANCIAL CONSIDERATIONS

16.1 Dealt with in the body of the report.

## 17. RISK ASSESMENT

17.1 Contained within the body of the report. All schemes entering the programme are subject to a full risk assessment and on-going monitoring.

## 18. EQUALITY AND DIVERSITY / EQUALITY IMPACT ASSESSMENT

18.1 These are fully integrated into the Capital Programme.

## 19. CONSULTATION

19.1 A full officer and member consultation has taken place in developing the Capital Strategy.

## 20. BACKGROUND PAPERS

Capital Programme Model

Annexe 1

## 1 2019/20 – 2021/22 CAPITAL PROGRAMME

1.1 The Council has a statutory responsibility to set a fully funded 3 year capital programme each year when agreeing the budget. There are largely two main funding streams to finance capital schemes, capital grants received from the government and direct funding from the Council (which is made up of Prudential Borrowing, Capital Receipts and Revenue Contributions).

1.2 Capital expenditure mainly includes spending on the acquisition or improvement of physical assets.

1.3 In agreeing the 2019/20 – 2021/22 capital programme it is proposed to follow the previous years practice of ring fencing government capital grants to the service that they are allocated to. The bulk of the capital grant allocation is accounted for by the Local Transport Plan and Children's Services allocations, which are all priority service areas.

1.4 The Council's strategic management of the capital programme allows new schemes to be added to the programme quarterly by agreement with the Executive Board.

1.5 The proposed 2019/20 – 2021/22 capital programme is £735.357m. As part of the budget process the programme has been reviewed to ensure it continues to meet Council priorities and remains affordable within the level of resources available.

1.6 The table below provides a summary of the 2019/20 – 2021/22 capital programme. A full copy of the draft capital programme on a scheme by scheme basis can be found at pages 25 – 27.

**2019/20 – 2021/22 Capital Programme**

| **Capital Programme Directorate Budgets** | **2019/20 £m** | **2020/21 £m** | **2021/22 £m** | **Total £m** |
|---|---|---|---|---|
| Families & Wellbeing | 14.893 | 3.954 | 0.537 | **19.384** |
| Corporate Services | 5.395 | 2.120 | 6.000 | **13.515** |
| Economic Regeneration, Growth & Environment | 52.224 | 30.890 | 2.148 | **85.262** |
| Invest to Save Programme | 331.786 | 250.349 | 35.061 | **617.196** |
| **Total - Capital Spending Plans** | **404.298** | **287.313** | **43.746** | **735.357** |

## Financing the Capital Programme

1.7 The level and availability of capital funding determines the size of the overall capital programme and is heavily reliant on external funding, mainly in the form of capital grants from the Government. The programme is also reliant on internal funding to deliver more local priorities like town regeneration, Housing, Highways, Parks and Schools. These internal funds are largely in the form of prudential borrowing but can also include capital receipts and earmarked reserves. There are significant constraints on the availability of internal funds due to a finite asset base which puts pressure on delivering capital receipts from the sale of surplus assets.

1.8 Borrowing tends to pay for major Invest to Save schemes, for example the Time Square Scheme and Housing Schemes. All borrowing is done within agreed prudential limits and needs to be affordable and sustainable. A range of indicators are maintained to demonstrate this. These indicators are contained within the Council's Treasury Management Strategy and monitored and reported to the Audit & Corporate Governance Committee on a quarterly basis.

1.9 All Invest to Save schemes require the production of a detailed business case which is subject to stringent internal challenge before recommending to the Executive Board for approval. The Council's Invest to Save Programme has proved very successful. This can be evidenced by the positive financial return the schemes have generated to the Council and the increase in Balance Sheet worth to the Council that they have created.

1.10 The table below provides a summary of the funding of the 2019/20 – 2021/22 Capital Programme and pages 25 – 27 provides a breakdown of funding on a scheme by scheme basis.

**Funding the 2019/20 – 2021/22 Capital Programme**

| Capital Programme Funding | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|
| Unsupported Borrowing - Corporate | 39.976 | 24.038 | 2.073 | **66.087** |
| Unsupported Borrowing - Invest to Save | 331.786 | 250.349 | 35.061 | **617.196** |
| Capital Grants & Reserves | 17.545 | 6.546 | 0.537 | **24.628** |
| Capital Receipts | 3.350 | 2.000 | 6.000 | **11.350** |
| External Funding | 11.641 | 4.380 | 0.075 | **16.096** |
| **Total - Capital Funding Plans** | **404.298** | **287.313** | **43.746** | **735.357** |

1.11 It can be seen from the table above that the Council borrows for two types of schemes. Corporate borrowing, this is borrowing for schemes that generate a borrowing cost to the Council and do not generate additional revenue e.g. parks, highway schemes, building maintenance. Invest to Save borrowing is for schemes that generate a financial return to the Council after the repayment of borrowing costs. The largest allocation is for the Council's potential future loans programme. All loans entering the programme must be approved by the Executive Board.

1.12 The 2019/20 – 2021/22 Capital Programme generates an additional revenue borrowing cost to the Council of £4.682m a breakdown of which is given below:

- 2019/20 - £3.469m
- 2020/21 - £1.213m

These costs relate to schemes previously agreed by the Council the bulk of which can be accounted for by 3 schemes - Major Transport Projects, Highways Investment Strategy and Warrington Priority Infrastructure Schemes – and the new schemes contained within the New Corporate Schemes section.

**FAMILIES & WELLBEING - CAPITAL PROGRAMME**

| Project Description | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|
| **Families & Wellbeing** | | | | |
| Warrington Youth Zone | 2.999 | - | - | 2.999 |
| **Total** | **2.999** | **-** | **-** | **2.999** |
| **Education and Early Help** | | | | |
| New School Project at Chapelford | 0.015 | - | - | 0.015 |
| Additional primary places - Barrowhall Primary | 0.125 | - | - | 0.125 |
| Additional primary places Grappenhall Heyes | 2.925 | 0.075 | - | 3.000 |
| Grappenhall Heyes - New Roofing | 0.230 | 0.010 | - | 0.240 |
| Alderman Bolton Primary - Heating | 0.011 | - | - | 0.011 |
| Dallam Primary - External Improvements | 0.021 | - | - | 0.021 |
| Ravenbank Primary - Heating | 0.008 | - | - | 0.008 |
| Culcheth Primary - Roof Works | 0.018 | - | - | 0.018 |
| Croft Primary - Roof Works | 0.029 | - | - | 0.029 |
| Brook Acre Primary - Heating | 0.008 | - | - | 0.008 |
| Oughtrington Primary - replacement roof | 0.261 | - | - | 0.261 |
| Twiss Green Primary - replacement roof | 0.234 | - | - | 0.234 |
| Newchurch Primary - replacement roof | 0.202 | - | - | 0.202 |
| The Cobbs Infant - Heating & Pipework | 0.005 | - | - | 0.005 |
| The Cobbs Infant - Flat Roof | - | 0.221 | 0.010 | 0.231 |
| Oughtrington Primary - Electrics | - | 0.200 | 0.007 | 0.207 |
| The Cobbs Infant - Electrics | - | 0.217 | 0.010 | 0.227 |
| Appleton Thorn - Flat Roof | - | 0.121 | 0.010 | 0.131 |
| Secondary Places St Gregory's High | 0.068 | - | - | 0.068 |
| Additional secondary places - South Warrington | 3.000 | 2.500 | - | 5.500 |
| Great Sankey High - School Expansion | 1.200 | - | - | 1.200 |
| Replacement of ICS Case Management for Children's Social Work | 0.032 | - | - | 0.032 |
| SEND - Oakwood CP KS1 | 0.180 | 0.010 | - | 0.190 |
| SEND - Bridgewater High ASD | 0.042 | - | - | 0.042 |
| SEND - Sandy Lane Early Years Centre | 0.167 | - | - | 0.167 |
| SEND - Bridgewater High Key Stage 3&4 | 0.112 | - | - | 0.112 |
| Children's Residences Maintenance Works | 0.039 | - | - | 0.039 |
| Children Centres Works | 0.051 | - | - | 0.051 |
| Healthy Pupil Capital - Kitchens | 0.088 | - | - | 0.088 |
| **Total Education and Early Help** | **9.071** | **3.354** | **0.037** | **12.462** |
| **Public Health** | | | | |
| S106 Culcheth Bungalows | 0.375 | - | - | 0.375 |
| S106 Supported Housing Project | 0.700 | 0.600 | 0.500 | 1.800 |
| Refurbishment of Fearnhead Cross Community Centre | 0.005 | - | - | 0.005 |
| CCTV Procurement | 0.250 | - | - | 0.250 |
| Warrington Public Libraries Improvement Programme | 0.970 | - | - | 0.970 |
| Broomfields Leisure Centre Artificial Grass Pitch | 0.523 | - | - | 0.523 |
| **Total Public Health** | **2.823** | **0.600** | **0.500** | **3.923** |
| **TOTAL FAMILIES & WELLBEING** | **14.893** | **3.954** | **0.537** | **19.384** |

## CORPORATE SERVICES - CAPITAL PROGRAMME

| Project Description | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|
| **Finance** | | | | |
| Corporate Redundancy Costs | 2.000 | 2.000 | 6.000 | 10.000 |
| **Total Finance** | **2.000** | **2.000** | **6.000** | **10.000** |
| **Customer and Business Transformation** | | | | |
| Warrington 20:20 Transformation Programme | 1.245 | - | - | 1.245 |
| Network Improvement Programme | 0.058 | - | - | 0.058 |
| End User Computing - Management Systems & Technologies | 1.106 | - | - | 1.106 |
| ICT & Print Service | 0.841 | 0.120 | - | 0.961 |
| **Total Customer & Business Transformation** | **3.250** | **0.120** | **-** | **3.370** |
| **Democratic and Member Services** | | | | |
| Town Hall Audio Visual Equipment | 0.145 | - | - | 0.145 |
| **Total Democratic and Member Services** | **0.145** | **-** | **-** | **0.145** |
| **TOTAL CORPORATE SERVICES** | **5.395** | **2.120** | **6.000** | **13.515** |

## ECONOMIC REGENERATION, GROWTH & ENVIRONMENT - CAPITAL PROGRAMME

| Project Description | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|
| **Transport and Operations** | | | | |
| Road Maintenance | 1.369 | - | - | 1.369 |
| Bridge Maintenance | 0.372 | - | - | 0.372 |
| Traffic Signals - Maintenance | 0.121 | - | - | 0.121 |
| Bus Stop - Maintenance | 0.014 | - | - | 0.014 |
| Street Lighting Structural Works | 0.398 | - | - | 0.398 |
| Footpath & Cycleway - maintenance | 0.231 | - | - | 0.231 |
| Capitalisation of Potholes | 0.500 | 0.500 | 1.000 | 2.000 |
| Chapelford Highways Works (commuted sum) | 0.159 | - | - | 0.159 |
| Briarswood Remedial Works - Highways | 0.069 | - | - | 0.069 |
| Highways Maintenance Investment | 5.038 | 5.000 | - | 10.038 |
| Warrington Bus Interchange Refurbishment | 0.069 | - | - | 0.069 |
| Omega Burtonwood Village Traffic Management | 0.857 | - | - | 0.857 |
| S106 Saxon Park | 0.079 | - | - | 0.079 |
| S106 Farrell Street South | 0.310 | - | - | 0.310 |
| S106 Eagle Ottawa | 0.035 | - | - | 0.035 |
| S106 Walton Locks | 0.013 | - | - | 0.013 |
| S106 Doeford Close | 0.029 | - | - | 0.029 |
| Cycling Improvements | 0.235 | - | - | 0.235 |
| Pedestrian Improvements: PRoW | 0.049 | - | - | 0.049 |
| General Accessibility Improvements | 0.053 | - | - | 0.053 |
| Cycle Training - Bikeability | 0.006 | - | - | 0.006 |
| Travel Planning and Marketing | 0.020 | - | - | 0.020 |
| Bus Stop Enhancements | 0.019 | - | - | 0.019 |
| Parking Strategy | 0.015 | - | - | 0.015 |
| Safer Routes to Schools | 0.120 | - | - | 0.120 |
| Road Safety - Local Safety Schemes | 0.280 | - | - | 0.280 |
| Traffic Management - Minor Works | 0.195 | - | - | 0.195 |
| Pedestrian Improvements: (Crossings) | 0.078 | - | - | 0.078 |
| Traffic Signal Enhancements | 0.102 | - | - | 0.102 |
| UTMC Development | 0.069 | - | - | 0.069 |
| Network Management Plan | 0.104 | - | - | 0.104 |

| Project Description | 2019/20<br>£m | 2020/21<br>£m | 2021/22<br>£m | Total<br>£m |
|---|---|---|---|---|
| Monitoring & Strategic Studies | 0.117 | - | - | 0.117 |
| Centre Park Link | 4.070 | 10.501 | 0.400 | 14.971 |
| Warrington West Station | 5.519 | - | - | 5.519 |
| Birchwood Pinch Point | - | 0.030 | - | 0.030 |
| Omega M62 Junction 8 | 0.215 | - | - | 0.215 |
| ITB Smaller LST Scheme | - | 0.702 | - | 0.702 |
| Multi-modal Model | 0.050 | 0.050 | 0.050 | 0.150 |
| Chester Road Cycle Route | 0.400 | 0.450 | - | 0.850 |
| Trans Pennine Trail Upgrade | 0.500 | 0.230 | - | 0.730 |
| Victoria Park Improvement | 0.452 | - | - | 0.452 |
| Sankey Valley Park Improvement | 0.265 | - | - | 0.265 |
| Dallam/Bewsey Regeneration Programme | 0.018 | - | - | 0.018 |
| Warrington Allotments Improvement Programme | 0.013 | - | - | 0.013 |
| Alexander Park Developments Phase 1 - Play Area Phase 2 - Pavilion | 0.012 | - | - | 0.012 |
| S106 Gatewarth 300 (Omega South Zone 7) | 0.080 | 0.050 | - | 0.130 |
| Oakwood Avenue Park Refurbishment | 0.110 | - | - | 0.110 |
| Birchwood Forest Park Skate Area & Bike Pump Track | 0.127 | - | - | 0.127 |
| Victoria Park Bowling Pavilion Extension | 0.150 | - | - | 0.150 |
| Volunteer Support & Quick Win Projects | 0.030 | - | - | 0.030 |
| Lymm Dam Site Infrastructure Refurbishment | 0.055 | - | - | 0.055 |
| Shaw Street Recreation Ground Uplift | 0.039 | - | - | 0.039 |
| Culcheth Village Green Play Area Uplift | 0.034 | - | - | 0.034 |
| Birchwood Forest Park Ranger & Sports Changing Building Refurbishment | 0.200 | - | - | 0.200 |
| Whitecross Park Play Area | 0.130 | - | - | 0.130 |
| Causeway Park | 0.140 | - | - | 0.140 |
| Old Hall Park Refurbishment | 0.200 | - | - | 0.200 |
| Rixton Clay Pits Footpath Upgrade PROW to PFA | 0.030 | - | - | 0.030 |
| Parsonage Way | 0.300 | - | - | 0.300 |
| Flood Risk (contribution to Environment Agency scheme) | 0.529 | 0.300 | 0.325 | 1.154 |
| Western Link Blight Claims | 1.240 | - | - | 1.240 |
| M62 Junction 9 Improvements | 0.320 | | | 0.320 |
| Warrington East Phase 2 | 3.629 | - | - | 3.629 |
| Warrington East Phase 3 (NPIF) | 6.545 | - | - | 6.545 |
| Omega Local Highways Phase 1 - Lingley Green Avenue/Omega Boulevard Junction Improvements | 1.561 | 4.598 | 0.075 | 6.234 |
| Omega Local Highways Phase 2A - Burtonwood Road/Kingswood Road | - | 0.050 | - | 0.050 |
| Omega Local Highways Phase 2B - Lingley Green Avenue/A57 Liverpool Road Junction Improvements | 2.088 | - | - | 2.088 |
| Omega Local Highways Phase 3 - Lingley Green Avenue/Whittle Avenue/Burtonwood Road Junction Improvements | 1.900 | 3.997 | - | 5.897 |
| Grey to Green Highways Improvements | 0.040 | - | - | 0.040 |
| Springfield Street Public Realm Improvements | 0.016 | - | - | 0.016 |
| Omega to Burtonwood Accessibility Improvements | 1.250 | 0.200 | - | 1.450 |
| Stadium Quarter Improvements | 0.698 | 1.250 | 0.050 | 1.998 |
| Community Recycling Centres Infrastructure Investment | 0.045 | - | - | 0.045 |
| Victoria Park Regeneration Phase 2 - New Sports Facilities | 0.125 | - | - | 0.125 |
| Travellers transit site | 0.100 | 1.586 | 0.203 | 1.889 |
| Walton Estate Old Riding School | 0.017 | - | - | 0.017 |
| Walton Estate (Heritage Lottery Fund) | 1.174 | - | - | 1.174 |
| Walton Estate Conservatory Range | 0.250 | - | - | 0.250 |
| Cenotaph Riverbank Stabilisation | 1.394 | 0.020 | - | 1.414 |
| Warrington Borough Council Combined Control Room | 0.688 | - | - | 0.688 |
| Risley Moss Tower Plus | 0.535 | - | - | 0.535 |
| Vehicle & Plant asset replacement programme (Environmental Operations) | 0.358 | - | - | 0.358 |
| Refuse Collection Vehicle Replacements | 2.310 | 1.331 | - | 3.641 |
| **Total Transport and Operations** | **51.076** | **30.845** | **2.103** | **84.024** |

| Project Description | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|
| **Warrington & Co** | | | | |
| Capital Building Maintenance Programme | 0.152 | - | - | 0.152 |
| Various Sites - Structural & Chimney Works | 0.022 | - | - | 0.022 |
| Museum - Roof | 0.128 | - | - | 0.128 |
| Various Civic Build - Fire Alarm Systems | 0.109 | - | - | 0.109 |
| Town Hall Golden Gates Refurbishment & Repair | 0.030 | - | - | 0.030 |
| Town Hall Fire Alarm System | 0.056 | - | - | 0.056 |
| Property Review Disposals | 0.011 | - | - | 0.011 |
| Maintenance Investment Estates Land (Roads and Footpaths) | 0.045 | 0.045 | 0.045 | 0.135 |
| Unit 11 & 13 Sanket Bridges Industrial Estate Works | 0.049 | - | - | 0.049 |
| Bewsey & Dallam Hub | 0.406 | - | - | 0.406 |
| Warrington Waterfront - Western Link (acquisition of land) | 0.140 | - | - | 0.140 |
| **Total Warrington & Co** | **1.148** | **0.045** | **0.045** | **1.238** |
| **TOTAL ECONOMIC REGENERATION, GROWTH & ENVIRONMENT** | **52.224** | **30.890** | **2.148** | **85.262** |

## INVEST TO SAVE - CAPITAL PROGRAMME

| Project Description | 2019/20 £m | 2020/21 £m | 2021/22 £m | Total £m |
|---|---|---|---|---|
| **Corporate Services** | | | | |
| Shared Ownership Mortgages (Local Authority Partnership Purchase) | 0.500 | 0.500 | - | 1.000 |
| Loans to Housing Associations | 200.000 | 200.000 | 19.572 | 419.572 |
| Redwood Bank | 10.000 | - | - | 10.000 |
| Solar Farm Projects | 62.480 | 17.178 | - | 79.658 |
| **Total Corporate Services** | **272.980** | **217.678** | **19.572** | **510.230** |
| **Economic Regeneration, Growth & Environment** | | | | |
| Street Lighting Energy, Carbon & Asset Improvement | 3.500 | 3.328 | - | 6.828 |
| Housing Company | 22.000 | 22.000 | 15.489 | 59.489 |
| Time Square Project | 31.633 | 7.343 | - | 38.976 |
| Solar Photovoltaic (PV) - Hermes | 1.302 | - | - | 1.302 |
| Solar Photovoltaic (PV) - Plastic Omnium | 0.364 | - | - | 0.364 |
| Walton Heritage Yard Developments | 0.007 | - | - | 0.007 |
| **Total Economic Regeneration, Growth & Environment** | **58.806** | **32.671** | **15.489** | **106.966** |
| **TOTAL INVEST TO SAVE** | **331.786** | **250.349** | **35.061** | **617.196** |
| **TOTAL CAPITAL PROGRAMME** | **404.298** | **287.313** | **43.746** | **735.357** |

**Annexe 2**

## Capital strategy indicators

### A Debt to net service expenditure (NSE) ratio

This indicator shows the gross debt as a percentage of the next service expenditure of the Council. This shows the level of debt relative to the financial size and strength of the authority.

| | 18/19 Forecast £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m |
|---|---|---|---|---|
| Gross Debt | 721.042 | 1050.323 | 1316.382 | 1328.516 |
| Net Service Expenditure | 136.836 | 132.998 | 132.917 | 135.799 |
| **Gross Debt to net service expenditure ratio** | 526.94% | 789.73% | 990.38% | 978.30% |

### B Commercial Income to NSE

This indicator is to show the dependence on income that is not from fees and charges. Fees and charges income is netted off the NSE and compared to the non-fees and charges income. Commercial Income in this case refers to all commercial loans.

| | 18/19 Forecast £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m |
|---|---|---|---|---|
| Commerical Income | 13.100 | 20.550 | 21.825 | 21.825 |
| Gross Service Expenditure less Fees and Charges | 388.594 | 397.985 | 407.601 | 417.447 |
| **Commercial income to NSE ratio** | 3.37% | 5.16% | 5.35% | 5.23% |

### C Interest Cover Ratio

This indicator shows the ratio of income from commercial property investments compared to the interest expense incurred by them.

| | 18/19 Forecast £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m |
|---|---|---|---|---|
| Net Commerical Property Income | 12.040 | 12.040 | 12.040 | 12.040 |
| Commerical Property Interest | 5.040 | 6.402 | 6.402 | 6.402 |
| **Interest cover ratio (times)** | 2.39 | 1.88 | 1.88 | 1.88 |

### D Loan to Value Ratio

This indicator compares the amount borrowed against the value of the commercial property assets bought. All Council Invest to Save Schemes are 100% loan to value and interest is charged on the full amount of the purchase price and associated costs.

| | 18/19 Forecast £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m |
|---|---|---|---|---|
| Gross Debt related to Property investments | £281,104 | £281,104 | £281,104 | £281,104 |
| Commerical Property Purchase Costs | £281,104 | £281,104 | £281,104 | £281,104 |
| **Loan to Value Ratio** | 100.00% | 100.00% | 100.00% | 100.00% |

## E Target Income Returns

This indicator measures the yield for the portfolio of properties. This is measured by comparing the net income received, before interest, to the purchase costs. This is shown in totality for the whole of the Commercial Property portfolio. Purchase costs are the total for the portfolio not new purchases.

| | 18/19 Forecast £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m |
|---|---|---|---|---|
| Net Commerical Income from Property Investments | 17.081 | 18.442 | 18.442 | 18.442 |
| Commerical Property Purchase Costs | 281.104 | 281.104 | 281.104 | 281.104 |
| **Target Income Returns** | 6.08% | 6.56% | 6.56% | 6.56% |

## F Gross and Net Income/Operating Costs from Commercial Investments

This indicator shows the Gross Income received from Commercial activities, the Operating Costs of running them, and then the resulting Net Income received in monetary terms.

| | 18/19 Forecast £m | 19/20 Estimate £m | 20/21 Estimate £m | 21/22 Estimate £m |
|---|---|---|---|---|
| **Gross Commerical Income from Property Investments** | 18.250 | 18.250 | 18.250 | 18.250 |
| **Operating Costs including Interest** | 11.250 | 12.612 | 12.612 | 12.612 |
| **Net Commercial Income from Property Investments** | 12.040 | 12.040 | 12.040 | 12.040 |

## G Occupancy Levels

The following table shows the expected average level of lease occupancy over the period. These are not expected to fluctuate over the next 3 years, except in the case of Birchwood Park which is very fluid due to the Park having multiple units.

| Commercial Property | Occupancy Levels |
|---|---|
| **1-2 Fennel Street (Pure Gym)** | 100% |
| **DW Sports** | 100% |
| **Birchwood Park** | 94% |
| **Matalan** | 100% |
| **Eddie Stobarts** | 100% |
| **Stanford House** | 100% |
| **Appleton House/Atlantic House** | 100% |

**Annexe 3**

**FLEXIBLE USE OF CAPITAL RECEIPTS STRATEGY**

## Introduction

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation. Guidance on the use of this flexibility was issued in March 2016 which applies to the financial years 2016/17 through to 2019/20. In the Provisional Local Government Settlement 2018/19 (announced 19 December 2017) the Government confirmed that the flexibility to use capital receipts to help meet the revenue costs of transformation will be extended for a further 3 years to April 2022. The Guidance requires local authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. This document constitutes the Warrington Council Strategy.

## The Guidance

The Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 specified that;

- Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. Following the Provisional Settlement announcement 19 December 2017, the period of offer is 1$^{st}$ April 2016 to 31$^{st}$ March 2022. They may not use their existing stock of capital receipts to finance the revenue costs of reform.

- Local authorities cannot borrow to finance the revenue costs of the service reforms.

- The expenditure for which the flexibility can be applied should be the up-front (set up or implementation) costs that will generate future ongoing savings and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The ongoing revenue costs of the new processes or arrangements cannot be classified as qualifying expenditure.

- In using the flexibility, the Council will have due regard to the requirements of the Prudential Code, the CIPFA Local Authority Accounting Code of Practice and the current edition of the Treasury Management in Public Services Code of Practice.

The Guidance provides a definition of expenditure which qualifies to be funded from the capital receipts flexibility. Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

There are a wide range of projects that could generate qualifying expenditure. The key determining criteria to use when deciding whether expenditure can be funded by the capital receipts flexibility is that it is forecast to generate ongoing savings to an authority's net service expenditure. Within the above definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

**The Council's Proposals**

The Council intends to use the capital receipts flexibility to fund or part fund the following project:

- Warrington 2020 Service Transformation Programme

The expected savings generated by this project are set out in the table below.

| Project | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 |
|---|---|---|---|
| Warrington 2020 Service Transformation Programme | 1,500 | - | - |
| **Total** | **1,500** | **-** | **-** |

**The Prudential Code**

The Council will have due regard to the requirements of the Prudential Code and the impact on its prudential indicators from implementing the proposed project. The capital expenditure prudential indicators will be amended and approved as appropriate.

The Council will also have due regard to the Local Authority Accounting Code of Practice when determining and including the entries required from undertaking and funding this project within the Council's Statement of Accounts.

**Monitoring the Strategy**

The strategy will be monitored throughout the financial year and may be updated and replaced as proposals are developed and expenditure is incurred.