Appendix 4 – Capital Strategy

WARRINGTON BOROUGH COUNCIL

FULL COUNCIL - 24 February 2020

Report of Cabinet Member:	Councillor C Mitchell, Deputy Leader and Cabinet Member, Corporate Resources	
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Key Decision No.	N/A	
Ward Members:	All	

TITLE OF REPORT: CAPITAL STRATEGY

1. PURPOSE

1.1 To seek Full Council approval of the Council's 2020/21 Capital Strategy which incorporates the 2020 – 2023 Capital Programme together with the Property Investment Strategy and the Capital Receipts Flexibilities Policy.

2. CONFIDENTIAL OR EXEMPT

2.1 This report is not confidential or exempt.

3. INTRODUCTION AND BACKGROUND

3.1 The Capital Strategy has been developed in line with the CIPFA Prudential Code for Capital Finance in Local Authorities 2017 and this is the third year Councils have been required to produce one. This Capital Strategy is intended to give a high level overview of how capital expenditure and financing plans are decided upon and provides the framework for the development, management and monitoring of the councils capital investment plans.

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.

3.4 The Council already has a number of strategies in place which cover various aspects of spending. We appreciate that it can be difficult to understand how all of these elements mesh together to form a 'whole', which is where the Capital Strategy comes in. By bringing everything together in one document, we can show how the need to invest in assets.

3.5 The Capital Strategy will play a key role in delivering the four key pledges of the Council's Corporate Strategy with regards to:

- Opportunities for the most vulnerable
- Grow a strong economy for all
- Build strong, active and resilient communities
- Create a place to be proud of

It will do this by investing in regeneration, housing, transport, social care, income generating invest to save schemes and the Wellbeing of the residents of Warrington.

4. MATERIAL CHANGES TO STRATEGY

4.1 This is the third year the Council has produced a Capital Strategy. The material changes that are included in the 2020/21 Strategy compared to the 2019/20 Capital Strategy are:

1. The Council is continuing its successful policy of purchasing investment property funded by prudential borrowing. The surpluses earned will be invested in economic regeneration of the borough and in frontline services. A savings target of £7m is built into the MTFP for this.
2. The policy is to be adopted of placing 15% of returns after the payment of finance costs into a reserve to meet future life cycle costs (maintenance, void periods, impairments) associated with property investment. This amount will be reviewed on an annual basis.
3. The Council have had regard to the 2019 CIPFA Prudential Property Investment Guidance in formulating its 2020/21 Capital Strategy.

5. 2020-2023 CAPITAL PROGRAMME

5.1 The Council's 2020-2023 Capital Programme, associated financing and Capital Flexibilities Polices is attached at Appendix 1 to this report.

6. PROPERTY INVESTMENT STRATEGY

6.1 The Council's Property Investment Strategy is attached at Appendix 2 to this report.

7. 2020 ASSET MANAGEMENT PLANNING

7.1 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

7.2 In the context of the Property Investment Strategy, the Council is using capital to invest in property to promote regeneration in the borough and to generate a financial return.

7.3 In July 2017, the Council adopted its first 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.

7.4 The Council funds the purchase of the property by borrowing. 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 and promotes regeneration in the borough.

7.5 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.

7.6 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.

7.7 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.

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

- Wellbeing of the residents of Warrington
- Increase Gross Value Added (GVA) of Warrington
- Financial gain to fund our services to local people
- Market and economic opportunity – the time is right
- Economic development and regeneration activity in Warrington

OPERATING IN THE PROPERTY INVESTMENT MARKET

7.9 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.

7.10 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.

7.11 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.

7.12 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.

7.13 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.

7.14 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

7.15 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.

RESERVE

7.16 The Council from the surplus income it receives from commercial property will top-slice a proportion annually to go into a reserve. This reserve will act as a future sinking fund to fund future repairs and maintenance, void period and impairment losses.

MINIMUM REVENUE PROVISION (MRP)

7.17 Per the Council's MRP Strategy which is contained within the Council's Treasury Management Strategy. The Council will pay no MRP on its property investment portfolio. The Council are forecasting its Property Investment Portfolio to increase in value over time and some of it may be sold and reinvested for a financial gain. Any fall in property values will either be charge to the financial reserve or future MRP may be charged just on the impairment amount.

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

- Increase the Wellbeing of the residents of Warrington
- 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.
- Increase Gross Value Added (GVA) of the Warrington
- 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.

Building Asset Maintenance Programme

7.19 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 element of planned and structured maintenance as part of this budget.

Building Maintenance Programme Revenue Funding 2020-21:

7.20 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	£900,000	£1,200,000 per year
Schools portfolio	Funded through client directorate where local authority	Funded through client directorate where local authority	

Building Maintenance Programme Capital Funding 2020-23:

7.21 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 Cabinet. The schools that remain under jurisdiction of the local authority and not academy programme, are separately funded with current figures as shown below. The capital programme of spend on buildings is structured as follows:

	Capital improvement	Total
Operational business portfolio	£3,700,000	£3,700,000
Schools portfolio	£1,800,000	£1,800,000
Total		£5,500,000

Property Disposal Capital Receipts

7.22 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.

7.23 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.

7.24 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.

7.25 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.

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

7.27 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 2020-2023	Total
Property Disposal General	£3,925,000	£3,925,000
Other Receipts	£4,750,000	£4,750,000
Total		£8,675,000

8. GOVERNANCE FRAMEWORK

8.1 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 Full Council for approval
- All schemes and the overall Capital Programme are subject to approval by the Cabinet
- 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 Cabinet 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 have 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 Cabinet Reports

9. COMMERCIAL ACTIVITY

9.1 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.

9.2 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.

9.3 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 and legal reviews.

9.4 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.

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

9.6 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.

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

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

9.9 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.

COMMERCIAL ACTIVITY GOVERNANCE

9.10 Due to the nature and associated risks of the Council's Commercial Programme the Council have an increased Governance Framework for Commercial schemes. Whilst all Commercial Schemes following the same governance process as all other capital schemes due to the higher risk profile more stringent governance is followed. Appendix 3 to this report shows the governance process for commercial schemes.

10. RISK APPETITE STATEMENT 2020

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

10.2 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.**

10.3 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.

10.4 The risk appetite statement forms a key element of the Council's governance and reporting framework and is set 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

10.5 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.

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

10.7 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

10.8 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

10.9 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.

10.10 The Council is exposed to a range of broad buckets 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.

10.11 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.

10.12 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.

10.13 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. 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.
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 cashflow 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

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

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

- Capital strategy
- 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

10.16 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 A1 which is one of the highest possible credit rating and the same as Saudi Arabia, China and Japan. The rating is

reviewed on an annual basis and acts as a barometer check of the risk of the Council's policies.

11. OTHER LONG-TERM LIABILITIES

Pension Guarantees

11.1 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.

11.2 All guarantees entered into need the approval of the Cabinet. 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.

11.3 The table below shows the pension position as at 31st December 2019 for all of the companies the Council guarantees. Of the five companies guaranteed only the pension for Tarmac Trading Ltd is currently in deficit.

Employer Name	Surplus/ Deficit £'000	Funding Level %
Catalyst Choices	2,813	114
Tarmac Trading Ltd	-83	91
LiveWire	4,957	124
Warrington Cultural Trust	1,358	136
Your Housing	135	128

12. KNOWLEDGE AND SKILLS

12.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (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.

12.2 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. These teams consist of Officers with many years' experience of commercial schemes. Succession Planning is also in operation with Junior Officers shadowing and being involved in all stages of the commercial programme.

12.3 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.

12.4 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.

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

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

13. TREASURY MANAGEMENT

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

13.2 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.

13.3 At the end of 2022/2023 it is forecast that the Council's debt will be £2.548bn.

13.4 The Council's Authorised Borrowing limit for 2020/21 which is £2.514bn represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council.

13.5 The Council's Operational Boundary debt forecast for 2020/21 is £2.297bn. This represents the limit beyond which external debt is not normally expected to exceed.

13.6 The Council makes provision for the repayment of debt over the life of the asset that the borrowing is funding. 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.

13.7 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

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

13.9 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.

13.10 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.

13.11 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.

13.12 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.

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

Loans

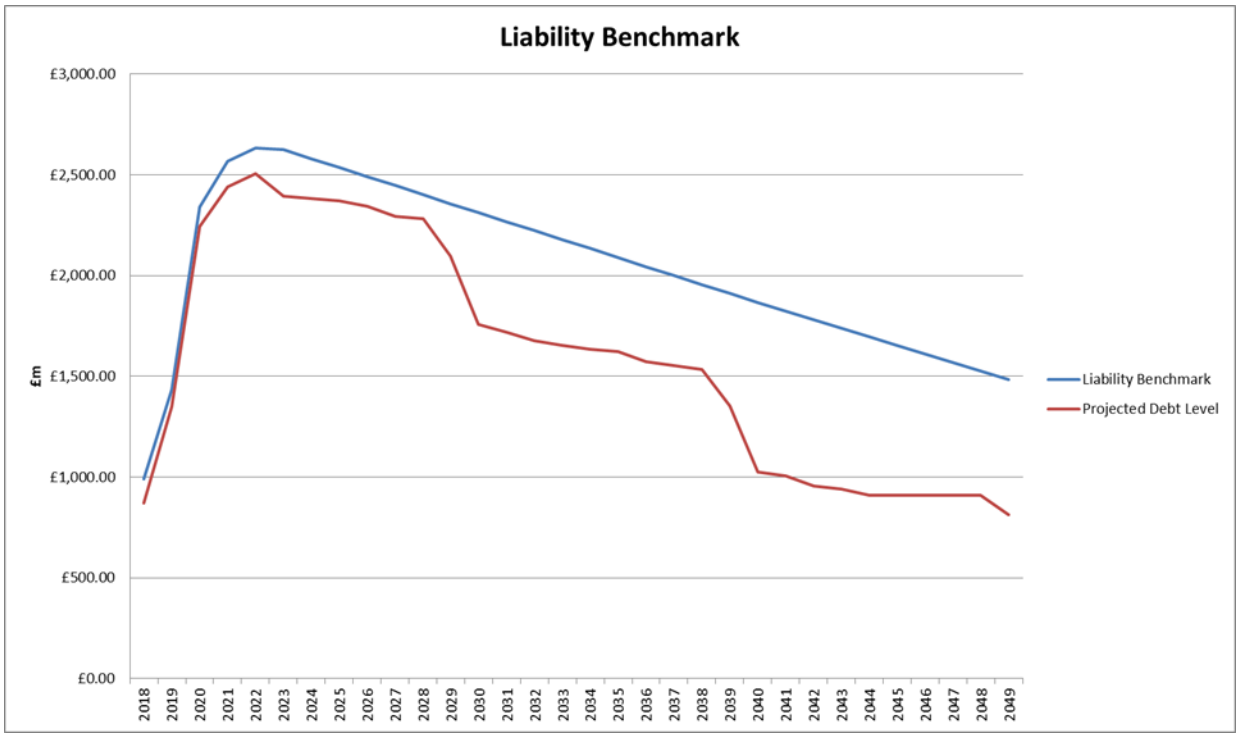
13.14 The Council make loans for a number of reasons primarily economic development and investment objectives.

13.15 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 Cabinet

13.16 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



13.17 The liability benchmark is the level of expected debt given current projections for capital expenditure up to year 2023/24. 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.

14. PREVAILING GUIDANCE

14.1 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.

- Whilst the major reason for investing in certain instances is for financial return. There are other reasons for investing with regards using the surplus generated to fund regeneration in Warrington and to fund services.
- Per National Audit Office figures the Council's real term reduction in funding is 23.3% whilst over the same period costs have increased together with demand for services. The surplus generated from these investments are being used to fund critical services and regeneration.
- 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.
- Other authorities for example Spelthorne have followed a similar policy. The Prime Minister on a visit to Spelthorne in January 2020 declared he was impressed with Spelthorne Borough Council's initiatives during a visit to one of the authority's out-of-borough commercial property investments
- Sajid Javid (Chancellor of Exchequer) will announce large spending plans in his March 11 2020 budget. The Chancellor argues that at present very low interest rates and a negative inflation adjusted interest rate for the government when it borrows it would be mad not do so. The Council shares this logic and policy direction.

15. PROPORTIONALITY

15.1 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 Cabinet 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	23/24
Cumulative Commercial Income in Base Budget	20,551	29,370	29,937	30,712	30,712
% of Base Budget	15.45	20.83	21.79	21.88	21.36
Limit of Commercial Income as a % of Base Budget	23.30	23.30	23.30	23.30	23.30

15.2 Although this Capital Strategy looks forward, it is worth noting the significant level of investment activity that the Council has already undertaken. The Council's Non Treasury Management Investments (commercial investment) is summarised in the table below as at 31.1.20:

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
	Together Energy	18,000
	Redwood Bank Shares	30,367
	Birchwood Park	214,705
	York Solar Farm	41,000
Total Investments in Group Entities		**310,600**
Loans to Housing Associations & Commercial Loans		137,727
Purchase of Investment Properties		257,008
Total Non-Treasury Investments		**705,335**

15.3 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
- Improves Wellbeing of the residents of Warrington
- Improves Gross Value added of the borough
- 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

15.4 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.

15.5 The Council's Non Treasury Management Investments are fully secured against the properties purchased and the assets of companies we purchase shares in. All the Council's Non Treasury Investments could be sold if required. In assessing the Liquidity of the assets it is estimated that dependent upon asset class and prevailing market conditions at the time assets could be liquidated within 3 – 12 months.

16. INDICATORS

16.1 Appendix 4 to this report presents a range of indicators that enable greater understanding to the Council's total exposure from borrowing and investment decisions.

17. SECTION 151 OFFICER ASSURANCE

17.1 This Capital Strategy is compiled in line with the requirements of the 2018 CIPFA Prudential Code and 2018 Treasury Management Code.

17.2 The Section 151 Officer views the Strategy to be prudent and affordable and it is fully integrated with the Council's 2020 Medium Term Financial Plan, Treasury Management Strategy and other Strategic Plans.

17.3 The risk associated with the Strategy is covered by the Council Risk Appetite Statement above.

18. FINANCIAL CONSIDERATIONS

18.1 Dealt with in the body of the report.

19. RISK ASSESMENT

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

20. EQUALITY AND DIVERSITY / EQUALITY IMPACT ASSESSMENT

20.1 These are fully integrated into the Capital Programme.

21. CONSULTATION

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

22. REASONS FOR RECOMMENDATION

22.1 That Full Council approves the recommendations included in this report.

22.2 To ensure the Council adopts the Prudential Code for Capital Finance 2017.

23. RECOMMENDATION

23.1 Full Council is recommended to:

(i) To note material changes to the 2020/21 Capital Strategy contained within section 4 of the Capital Strategy.

(ii) Approve the 2020/21 Capital Strategy.

(iii) Approve the 2020/21 – 2022/23 Capital Programme contained in Appendix 1 to this report.

(iv) Agree the Capital Receipts Flexibilities Policy contained within Annexe 1 of this report for adoption.

(v) Agree the Property Investment Strategy contained within Appendix 2 of this report for adoption.

24. BACKGROUND PAPERS

Capital Programme Model

Contacts for Background Papers:

Name	E-mail	Telephone
Danny Mather	dzmather@warrington.gov.uk	01925 442344

25.	Clearance Details			
	Name	Consulted		Date Approved
		Yes	No	
Relevant Cabinet Member	**Cllr C Mitchell**	✓		21.01.2020
SMT		✓		21.01.2020
Relevant Director	**Lynton Green**	✓		17.01.2020
Council Monitoring Officer	**Matthew Cumberbatch**	✓		17.01.2020
S151 Officer	**Lynton Green**	✓		17.01.2020
Relevant Assistant Director				

Appendix 1

1 2020/21 – 2022/23 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 2020/21 – 2022/23 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 Cabinet.

1.5 The proposed 2020/21 – 2022/23 capital programme is £1,291.050m. 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 2020/21 – 2022/23 capital programme. A full copy of the draft capital programme on a scheme by scheme basis can be found at pages 28 – 31.

2020/21 – 2022/23 Capital Programme

Capital Programme Directorate Budgets	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Families & Wellbeing	9.959	0.112	-	**10.071**
Corporate Services	5.566	2.000	4.438	**12.004**
Environment & Transport	59.036	25.460	12.026	**96.522**
Growth	6.436	0.567	-	**7.003**
Invest to Save Programme	875.866	220.990	68.594	**1,165.450**
Total - Capital Spending Plans	**956.863**	**249.129**	**85.058**	**1,291.050**

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 Cabinet 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 2020/21 – 2022/23 Capital Programme.

Funding the 2020/21 – 2022/23 Capital Programme

Capital Programme Funding	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**Total £m**
Unsupported Borrowing - Corporate	47.176	18.793	7.651	**73.620**
Unsupported Borrowing - Invest to Save	875.866	220.990	68.594	**1,165.450**
Capital Grants & Reserves	16.053	0.112	-	**16.165**
Capital Receipts	4.459	4.025	4.563	**13.047**
External Funding	13.309	5.209	4.250	**22.768**
Total - Capital Funding Plans	**956.863**	**249.129**	**85.058**	**1,291.050**

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 Cabinet.

1.12 The 2020/21 – 2022/23 Capital Programme generates a revenue borrowing cost to the Council of £5.890m a breakdown of which is given below:

- 2020/21 - £3.774m
- 2021/22 - £1.503m
- 2022/23 - £0.612m

1.13 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.

New Corporate Schemes

1.14 Per Cabinet meeting 10 February 2020, the Cabinet approved the following new schemes for inclusion in the 2020/21 – 2022/23 Capital Programme:

- **Warrington Youth Zone –** Contribution to Onside for the development of a Youth Zone. Additional budget of £230k which will cost the Council an extra £18k per annum for a 25 year period.

- **Community Equipment –** Equipment purchase to keep people safe, well and as independent as possible in their own homes, provided on loan to Warrington residents. Total budget of £700k which will cost the Council an extra £56k per annum for a 25 year period.

- **Western Link Blight Claims –** Blight claims property acquisition. Total budget of £6.860m, this is the likely maximum to be spent over the current capital programme timescale. There could be a revenue cost of up to £549k per annum, however, where possible the Council is looking to mitigate this figure by using the properties to deliver revenue income.

- **Property Investment –** Acquire property assets around strategic objectives. Total budget of £620m, there is no additional funding pressure as the proposed budget is Invest to Save (which will be funded from generated income).

FAMILIES & WELLBEING - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Adult Social Care				
Community Equipment	0.700	-	-	0.700
Total Adult Social Care	**0.700**	**-**	**-**	**0.700**
Education and Early Help				
Additional primary places - St Phillips	0.130	-	-	0.130
Dallam Primary - External Improvements	0.005	-	-	0.005
Culcheth Primary - Roof Works	0.007	-	-	0.007
Croft Primary - Roof Works	0.007	-	-	0.007
Additional primary places Grappenhall Heyes	3.244	0.075	-	3.319
Grappenhall Heyes - New Roofing	0.010	-	-	0.010
Oughtrington Primary - replacement roof	0.010	-	-	0.010
Twiss Green Primary - replacement roof	0.010	-	-	0.010
Newchurch Primary - replacement roof	0.010	-	-	0.010
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
Meadowside Primary - Heating	0.010	-	-	0.010
Stockton Heath Primary - Roof repairs	0.010	-	-	0.010
Bridgewater High - Extension	3.400	-	-	3.400
SEND - Oakwood CP KS1	0.010	-	-	0.010
Children Centres Works	0.250	-	-	0.250
Total Education and Early Help	**7.872**	**0.112**	**-**	**7.984**
Public Health				
Supported Housing Project	0.647	-	-	0.647
CCTV Procurement	0.127	-	-	0.127
Warrington Public Libraries Improvement Programme	0.613	-	-	0.613
Total Public Health	**1.387**	**-**	**-**	**1.387**
TOTAL FAMILIES & WELLBEING	**9.959**	**0.112**	**-**	**10.071**

CORPORATE SERVICES - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Finance				
Corporate Redundancy Costs	2.000	2.000	4.438	8.438
Total Finance	**2.000**	**2.000**	**4.438**	**8.438**
Customer and Business Transformation				
Warrington 20:20 Transformation Programme	2.223	-	-	2.223
Network Improvement Programme	0.053	-	-	0.053
End User Computing - Management Systems & Technologies	0.534	-	-	0.534
ICT & Print Service	0.756	-	-	0.756
Total Customer & Business Transformation	**3.566**	**-**	**-**	**3.566**
TOTAL CORPORATE SERVICES	**5.566**	**2.000**	**4.438**	**12.004**

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Environment and Transport				
Road Maintenance	1.386	-	-	1.386
Bridge Maintenance	0.438	-	-	0.438
Traffic Signals - Maintenance	0.121	-	-	0.121
Bus Stop - Maintenance	0.015	-	-	0.015

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Environment and Transport				
Street Lighting Structural Works	0.398	-	-	0.398
Footpath & Cycleway - maintenance	0.231	-	-	0.231
Capitalisation of Potholes	0.500	0.500	0.500	1.500
Highways Maintenance Investment	5.000	2.109	-	7.109
Penketh/Whittle Brook Flood Risk Management	0.420	-	-	0.420
S106 Saxon Park	0.114	-	-	0.114
S106 Farrell Street South	0.300	-	-	0.300
S106 Eagle Ottawa	0.035	-	-	0.035
S106 Common Lane Pedestrian Crossing	0.024	-	-	0.024
Cycling Improvements	0.250	-	-	0.250
Pedestrian Improvements: PRoW	0.050	-	-	0.050
General Accessibility Improvements	0.050	-	-	0.050
Cycle Training - Bikeability	0.005	-	-	0.005
Travel Planning and Marketing	0.035	-	-	0.035
Bus Priority Schemes	0.050	-	-	0.050
Bus Stop Enhancements	0.010	-	-	0.010
New Bus Priority Measures	0.050	-	-	0.050
Parking Strategy	0.015	-	-	0.015
Safer Routes to Schools	0.075	-	-	0.075
Road Safety - Local Safety Schemes	0.150	-	-	0.150
Traffic Management - Minor Works	0.250	-	-	0.250
Pedestrian Improvements: (Crossings)	0.100	-	-	0.100
UTMC Development	0.050	-	-	0.050
Network Management Plan	0.200	-	-	0.200
Monitoring & Strategic Studies	0.129	-	-	0.129
Freight	0.010	-	-	0.010
Cleaner Fuels	0.015	-	-	0.015
Centre Park Link	8.700	0.250	-	8.950
Birchwood Pinch Point	0.015	-	-	0.015
ITB Smaller LST Scheme	0.702	-	-	0.702
Omega to Burtonwood Accessibility Improvements	1.344	0.035	-	1.379
Chester Road Cycle Route	0.835	-	-	0.835
Trans Pennine Trail Upgrade	0.722	-	-	0.722
Westbrook Way Shared Use Path	0.196	-	-	0.196
Freshwater Close Play Area	0.002	-	-	0.002
Victoria Park Improvement	0.431	-	-	0.431
Sankey Valley Park Improvement	0.260	-	-	0.260
Dallam/Bewsey Regeneration Programme	0.006	-	-	0.006
Warrington Allotments Improvement Programme	0.020	-	-	0.020
Alexander Park Developments Phase 1 - Play Area Phase 2 - Pavilion	0.024	-	-	0.024
S106 Gatewarth 104 (Omega Bericote Land)	0.072	-	-	0.072
S106 Gatewarth 300 (Omega South Zone 7)	0.128	-	-	0.128
Oakwood Avenue Park Refurbishment	0.047	-	-	0.047
Longbarn Park Refurbishment	0.015	-	-	0.015
Enfield Park Refurbishment	0.031	-	-	0.031
Birchwood Brook Footpath	0.003	-	-	0.003
Volunteer Support & Quick Win Projects	0.030	-	-	0.030
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	0.192	-	-	0.192

ENVIRONMENT & TRANSPORT - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Environment and Transport				
Old Hall Park Refurbishment	0.054	-	-	0.054
Rixton Clay Pits Footpath Upgrade PROW to PFA	0.030	-	-	0.030
Lymm Dam WC	0.020	-	-	0.020
Parkfields Park Enhancement	0.003	-	-	0.003
St Elphins Park Pavilion Refurbishment	0.100	-	-	0.100
Flood Risk (contribution to Environment Agency scheme)	0.300	0.325	-	0.625
Western Link Blight Claims	7.322	-	-	7.322
Warrington East Phase 2	0.656	-	-	0.656
Warrington East Phase 3 (NPIF)	1.351	-	-	1.351
Omega Local Highways Phase 1 - Lingley Green Avenue/Omega Boulevard Junction Improvements	4.969	0.723	-	5.692
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	1.459	0.035	-	1.494
Omega Local Highways Phase 3 - Lingley Green Avenue/Whittle Avenue/Burtonwood Road Junction Improvements	3.997	1.363	-	5.360
Western Link Pre construction	8.370	9.873	11.401	29.644
Stadium Quarter Improvements	0.914	0.050	-	0.964
Community Recycling Centres Infrastructure Investment	0.035	-	-	0.035
Travellers transit site	1.586	0.303	-	1.889
Walton Hall High/Low Ropes Concession	0.010	-	-	0.010
Cenotaph Riverbank Stabilisation	0.020	-	-	0.020
Depot Amalgamation	1.965	9.894	0.125	11.984
Warrington Borough Council Combined Control Room	0.020	-	-	0.020
Parsonage Way Playing Field	0.150	-	-	0.150
Refuse Collection Vehicle Replacements	1.331	-	-	1.331
TOTAL ENVIRONMENT & TRANSPORT	**59.036**	**25.460**	**12.026**	**96.522**

GROWTH - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Growth				
Various Sites - Structural & Chimney Works	0.005	-	-	0.005
Birchwood Tennis Centre - Roof	0.026	-	-	0.026
Museum - Roof	0.456	-	-	0.456
Various Civic Build - Fire Alarm Systems	0.195	-	-	0.195
St Werburghs Boiler & Heating System	0.008	-	-	0.008
Orford Youth Base - Boiler	0.008	-	-	0.008
Various Changing Rooms - Showers	0.065	-	-	0.065
Birchwood Tennis Ctr - Water Heater	0.013	-	-	0.013
Orford Jub Hub - Exit Doors	0.005	-	-	0.005
Hood Lane Rec - Emergency Lighting	0.004	-	-	0.004
Parr Hall Ventilation Tower Repairs	0.005	-	-	0.005
Padgate House Boiler	0.004	-	-	0.004
East Annexe Drill Hall Roofing	0.190	0.030	-	0.220
New Electric Sub-station Town Hall Complex	0.400	0.074	-	0.474
Town Hall Fire Alarm System	0.004	-	-	0.004
Town Hall Golden Gates Additional Work	0.010	-	-	0.010
NTH/Quattro Demolition	0.704	0.038	-	0.742

GROWTH - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Growth				
Maintenance Investment Estates Land (Roads and Footpaths)	0.045	0.045	-	0.090
Bewsey & Dallam Hub	1.250	0.080	-	1.330
Warrington Waterfront - Western Link (acquisition of land)	0.110	-	-	0.110
Warrington Youth Zone	2.929	0.300	-	3.229
TOTAL GROWTH	**6.436**	**0.567**	**-**	**7.003**

INVEST TO SAVE - CAPITAL PROGRAMME

Project Description	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Corporate Services				
Shared Ownership Mortgages (Local Authority Partnership Purchase)	1.000	-	-	1.000
Loans to Housing Associations	200.000	200.000	40.322	440.322
Solar Farm Projects	17.178	-	-	17.178
Total Corporate Services	**218.178**	**200.000**	**40.322**	**458.500**
Environment and Transport				
Street Lighting Energy, Carbon & Asset Improvement	3.328	-	-	3.328
Total Environment and Transport	**3.328**	**-**	**-**	**3.328**
Growth				
Strategic Property Investment Programme to support Regeneration & Investment Portfolio	630.000	11.370	-	641.370
Time Square Project	3.860	-	-	3.860
Housing Companies	20.500	9.620	28.272	58.392
Total Growth	**654.360**	**20.990**	**28.272**	**703.622**
TOTAL INVEST TO SAVE	**875.866**	**220.990**	**68.594**	**1,165.450**
TOTAL CAPITAL PROGRAMME	**956.863**	**249.129**	**85.058**	**1,291.050**

Annexe 1

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 1st April 2016 to 31st 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. Adjustment has been made in 2020/21 for savings not achieved in 2019/20. Generation of savings are expected to be back on track by financial year 2021/22.

Project	2020/21 £000	2021/22 £000	2022/23 £000
Warrington 2020 Service Transformation Programme	(1500)	1,500	-
Total	**(1500)**	**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.

Appendix 2

PROPERTY INVESTMENT STRATEGY 2020-2022

1. PLAIN ENGLISH SUMMARY

1.1 **What is this about?** Since 2010 the Council has seen a real terms cut in its government funding of 23.3% - National Audit Office figures. At the same time we have experienced an unprecedented increase in demand for our services, particularly in the area of children's and adult social care. Like many authorities the Council has invested in commercial property to generate surplus funds which can be re-invested in our services. Although generating a commercial return is a key objective of the Property Investment Strategy there are many more objectives and benefits to the Council from doing so.

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

- Wellbeing of the residents of Warrington
- Increase Gross Value Added (GVA) of Warrington
- Financial gain to fund our services to local people
- Market and economic opportunity – the time is right
- Economic development and regeneration activity in Warrington

1.3 The Government expects and is directing councils to become self-financing. Increasingly councils are not given grant and financial support from Government and need to find other sources of income to fund services for local people.

1.4 **How does it work?** Following the 2017 Property Investment Strategy, Warrington Council is investing 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 must 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. External consultants and specialist property, legal and finance investment advisors support the Council in this strategy.

1.5 The Council funds the purchase of the property by borrowing money. The rental income paid by the tenant must exceed the cost of repaying the borrowed money each year. The annual surplus supports the Council's budget position, and enables the Council to continue to provide services for local people.

1.6 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 may see an increase in the value of the property as well as an annual revenue surplus.

1.7 **So what is this Property Investment Strategy for?**

- It sets out what the Council wants to achieve when acquiring property assets for investment purposes – primarily wellbeing of the residents of Warrington.
- It aligns with Government guidance and ensures appropriate compliance
- It identifies the issues of the economy, the general property market and the range of risks for the Council in acquiring investment property.
- It identifies criteria for acquiring and owning property assets for investment purposes to ensure risks are minimised.
- It includes an outline of the process involved in acquiring property assets for investment purposes.
- It is part of a wider policy framework supporting what the Council does and why.

2. INTRODUCTION

2.1 It is entirely appropriate for the public sector to improve the strategic management and operation of their property assets and to take a more commercial approach to property investment decisions. This strategy outlines Warrington Borough Council's approach to the acquisition of property for investment purposes.

2.2 **The Property Investment Market**

2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as "…used solely to earn rentals or for capital appreciation or both…".

2.4 The statutory guidance on local government investments states:

"The definition of an investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations."

2.5 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 value of the asset. 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.

2.6 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.

2.7 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.

2.8 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).

2.9 Within the property investment market there is a wide spread in financial returns (known as yields) on offer, which relate to the particular characteristics of the asset in question. Yields are used in investment markets to compare different types of investments – including those beyond the property market.

2.10 The yield represents the risk that investors associate with ensuring a long term income, including the potential for growth. The current property investment marketplace has seen uncertainty in recent years around both the UK political and Brexit related climate. However, the fundamentals of investing in UK real estate remain sound. Demand for secure income product remains unwavering, while tight supply in the business space markets offers potential for growth.

2.11 At the extreme ranges, property investment yields can range from 3% (low risk) for prime London property to over 20% (high risk) for dated property in secondary locations with high vacancy rates.

2.12 This strategy outlines the main factors that investors take into account when looking at property as an investment. It is a combination of these factors that determine the yield. Typically the Council is looking to invest in property with a yield in the region of 4% to 6.5% which represents secure, lower risk investment with potential for growth in value.

2.13 A full repair and insuring (FRI) lease is an industry standard contractual arrangement for most commercial and investment properties. The occupier or tenant has the contractual responsibility to pay all outgoings associated with the property – for example business rates, maintenance and repair, services, security, building insurance and reasonable costs of the landlord in consenting to transferring the property to another tenant and alterations. This format creates the basis of commercial property as an investment vehicle. As such, as owner (landlord) of the property with a tenant on an FRI lease, there is little or no property management responsibility and no costs. In circumstances where costs are incurred by the Landlord these may be recoverable by the Landlord through a Service Charge provision.

2.14 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.

2.15 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 and moving into different property classes.

3. WHY SHOULD WE BUY AND HOLD PROPERTY INVESTMENTS?

3.1 The reasons for buying and owning property investments are primarily:

- Wellbeing of the residents of Warrington
- Increase Gross Value Added (GVA) of Warrington
- Financial gain to fund our services to local people
- Market and economic opportunity – the time is right
- Economic development and regeneration activity in Warrington

3.2 **Funding our services for local people** – The Council has been successfully investing in property for the past few years and our property portfolio currently generates a surplus of around £13 million each year. The Council plans to purchase additional properties in 2020/21 and beyond to generate further surpluses in the region of £7 million. Full details of these can be found in the Council's Capital Strategy and Medium Term Financial Plan reports. Prudence guides the Council's Property Investment Programme and the Council makes an annual allocation in the region of 15% from any surpluses into a reserve on an annual basis. This reserve acts as a sinking fund for performance monitoring costs, management, future repairs and maintenance, void periods and impairments.

3.3 Property is usually described as a low to medium risk asset. Its returns invariably lie between those produced by equities and those produced by bonds. Properties leased long term to tenants of good covenant strength have a lower risk of default and will produce secure income streams. Consequently their risk profile is much nearer to that of bonds than of equities. If income streams from property rent exceed the cost of borrowing required to initially acquire the property, surpluses will be generated.

3.4 Budget cuts and austerity measures have seen significant funding gaps in local authorities' finances. Income generation is now at the forefront of many local authority financial strategies. Local authorities can take a longer term view of income and capital growth than most of the current investment market as their approach is long term ownership and benefit. Many current investors are looking to improve returns in the short term to maximise short term benefits to drive asset value and sale value.

3.5 Most property investments that the Council will consider will therefore relate to property that is already occupied by a tenant of strong covenant, by way of a lease and therefore generates reasonably secure income for a number of years.

3.6 **Market and economic opportunity** – In certain aspects of the financial markets and the investment world, we are living in unprecedented times. Interest rates have held at a 300 year low for the last six years. In the medium to long term, investment analysts are forecasting interest rate rises.

3.7 The Public Works Loan Board (PWLB) provides the Council with access to competitive

debt finance at fixed rates of interest. That makes us competitive in investment markets, as shown by London based international investment agencies continuing to contact the Council over availability of investment property.

3.8 The property market economic cycle tends to mirror wider economic trends. At the moment, the property market in the UK now offers value, certainty and elements of potential rental and capital value growth. This does depend on the individual property and location. The London market, while offering more certainty in terms of long term risk, is generally considered "overheated" with little short term prospect of rental or capital growth – again depending on the individual property. The north of England property market is seeing increasing investment from within and outside the UK.

3.9 **Economic development and regeneration activity in Warrington** – In the case of Warrington, a third reason for the Council buying and owning property investments is to have and maintain an influence in place-shaping of the town. Although traditional property investors are considered to be entirely financially motivated and influenced, the local authority has a wider, moral and principled role.

3.10 The Council is already making an investment of over £140 million in the town centre Time Square development. As funder and owner of the scheme, the Council will benefit financially from the income from commercial tenants such as the cinema and restaurants. However, the Council will also be in total control of the development and regeneration of this critical town centre site in 25 to 30 years' time. This long term, regeneration and place-shaping role is a key aspiration of the Council, to retain control of the key parts of the town for the benefit of local people and the community.

3.11 In summary, acquiring property investments in Warrington is recommended for the following reasons:

- To enable the Council to practice strategic regeneration for the benefit of the town rather than be restricted to policy and theory
- To enhance the Council's position as a major land owner with the ability to influence the growth of the future development of the town
- To take advantage of current property values and seek long term (20 years) capital growth
- To enable the Council to be seen to be acting proactively and taking leadership, investing in the town to promote economic development and growth

4 DOES THE COUNCIL HAVE THE POWERS AND AUTHORITY TO ACQUIRE PROPERTY INVESTMENTS?

4.1 The Council has completed the purchase of a number of properties with a view to generating an income for various purposes. This has been conducted with careful and prudent reference to the powers available to the Council. To that end the Council has sought advice on the matter from leading Queens Counsel ("Counsel").

4.2 The Council has a number of powers available to it in respect of acquiring properties, the key distinctions are whether the land is within or outside of the Council's area, and what the purpose of the acquisition is. Broadly those powers are:

4.3 Land Acquisition powers pursuant to s.120 Local Government Act 1972 ("LGA 1972"), the

Council has specific land acquisition powers. When the property is within the borough and is for the purpose of the Council's functions or the benefit, improvement or development of our area, this is the most appropriate power.

4.4 Where the Land Acquisition Power is not available the Council has powers under the Local Government Act 2003 ("LGA 2003"), particularly section 1 ("the Borrowing Power") and section 12 ("the Investment Power").

4.5 When relying on LGA 2003, the Council has regard of:-

- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003;
- "Treasury Management in the Public Service: Code of Practice and Cross –Sectoral Guidance Notes" which in turn have been issued by CIPFA in amended form as the Treasury Management Guidance ("CIPFA Guidance");
- Secretary of State and other relevant guidance;
- The Council's own strategies, such as the Corporate Strategy, the Treasury Management Strategy and the Property Investment Strategy.

As well as the below in respect of the borrowing:-

- "Affordability" as interpreted by the CIPFA code;
- The limits imposed by s.2 LGA 2003 – this states that we can't borrow where it would result in breaches of affordable borrowing limits;
- The degree of flexibility in respect of future capital expenditure plans

4.6 Furthermore, if the investment is to be properly treated as an "investment", the acquisition must be treated as such and recorded on the Council's balance sheet accordingly.

4.7 When relying on the Borrowing and Investment Powers, the Council will fully consider the available powers and set the grounds for compliance on a case by case basis.

4.8 As the Council continues to make significant increases in its commercial investments, funded in most part by borrowing, as well as a risk analysis of each specific investment on an case by case basis, it will also require examination of the overall risks of the property investment strategy and take into account the proportionality of the overall strategy.

4.9 To date the Council has acquired a number of properties most of which are within the Council's boundaries or the North West Region.The properties are set out below:-

Tenant/Property	**Location**	**Sector**
Tesco	Bolton	Food store
Tesco	Widnes	Distribution
Asda	Manchester	Food store and mixed retail
Movianto	Haydock	Distribution
Apollo Park	Warrington	Mixed food and leisure
Stobart HQ	Warrington	Distribution
Birchwood Park	Warrington	Mixed
Pure Gym	Warrington	Gym
Matalan	Warrington	Retail
DW Sports	Warrington	Gym
New Balance	Warrington	Office
Highways England	Warrington	Office
Stanford House	Warrington	Office

4.10 Whilst the Council aims to hold a diverse portfolio of property investments to mitigate certain risks, this may be tempered by increases in investments in particular sectors. This means that when looking at further commercial investments the Council should also consider questions such as:-

- Are the Council's individual investments disproportionally weighted to a particular sector;
- Is a particular investment disproportionally large when taken in the context of the wider portfolio;
- Are the Council's individual investments disproportionally weighted to a particular geographical area;
- Instead of considering the failure of one investment on its own, what are the consequences of the failure of a particular sector and what how would that impact the overall portfolio;
- What would the consequences of any specific changes in law (e.g. MRP or legislation in respect of legal powers) be on the each investment and the overall portfolio.

4.11 When considering the individual acquisitions, the Council needs to be satisfied that the individual risks, as well those in the context of the wider portfolio, are fully considered. When considering the risks, the consequences such as proportionate loss of income from the individual property or sector, as well the Council's ability to meet its ongoing liabilities (e.g. servicing the debt) and the impact that this may have upon the Council's

finances as a whole must be considered.

4.12 A final point to note regarding the use of the Investment and Borrowing Powers is that there is no requirement for the acquisition and ongoing ownership of the property to be conducted through a company. The reason being that the acquisition and ongoing operation of the property is as an investment and not for the purposes of trading i.e. a commercial purpose.

5 PRUDENTIAL PROPERTY INVESTMENT

5.1 The Council in making any property investment has regard to the Prudential Code, Ministry of Housing Communities and Local Government Guidance and CIPFA Property Investment Guidance. Any departure from Guidance is reported in the Council's Capital Strategy and Treasury Management Strategy. The Council's Chief Finance officer (Section 151 Officer) must be alert to these risks and advise accordingly before, during and after investment decision making. The Council's existing practice and governance approach ensure this and the recommendation of this policy is that this continues.

5.2 The Prudential Framework (including statutory guidance and the Prudential Code itself) allows local authorities the flexibility to take their own decisions; provided that the decisions taken are prudent, affordable and sustainable and that they have regard to the statutory guidance.

5.3 The Council will include a business case for any property investment acquisition proposal. The business case will reflect these two points at 5.1 and 5.2 above and also make the following specific decisions regarding any proposed acquisition of investment property:

Can we acquire commercial property?

- Are there legal powers to support the acquisition and, crucially, are they powers specifically to acquire property or to make investments?
- Where borrowing is required, are powers available to support the taking out of loans?

Should we acquire commercial/investment property?

- Is it reasonable to exercise the authority's legal powers in the way proposed?
- Do the authority's decisions have proper regard for the statutory guidance?
- Do the authority's decisions have proper regard for the Prudential Code in terms of affordability, prudence and proportionality?
- Is the acquisition defensible under the best value duty?

Will we acquire commercial property?

- Is the proposal consistent with the authority's corporate and financial strategies?
- Can the proposal be accommodated within the authority's investment strategy and property strategy?
- Does the authority have the necessary competence to take the proposed decision?
- Does the authority have appropriate skills to manage the asset?

5.4 The Council will satisfy itself in the business case that acquiring a property investment will be **reasonable**. This will involve:

- Consideration of the Wednesbury principles of reasonableness – these can be summarised as a reasoning or decision is Wednesbury unreasonable (or irrational) if it is so unreasonable that no reasonable person acting reasonably could have made

it. This principle comes from the legal case Associated Provincial Picture Houses Ltd v Wednesbury Corporation in 1948.

- Regard in making an acquisition and managing the investment to the MHCLG's Statutory Guidance on Local Government Investments, including:
  - Its support for the CIPFA view on not borrowing more than or in advance of need
  - The requirements for transparent reporting about the implications of an acquisition for the security, liquidity and proportionality of the investment and the authority's risk exposure
  - The need for appropriate capacity, skills and culture
- Regard to the CIPFA Prudential Code, which requires any acquisition to be:
  - Affordable – taking into account the extent to which expenses will be covered by income, including any need to make provision for capital expenditure consistently with the MHCLG's Statutory Guidance on Minimum Revenue Provision
  - Prudent – maximising the reliability of the elements of the affordability analysis and ensuring risk is controllable within acceptable limits
  - Proportional – ensuring that the authority's revenue budget is not over-reliant on income from commercial property and that property does not constitute an inappropriate proportion of the overall investment portfolio.

5.5 The Council will assess the key issues relevant to decision making informed by the principles in the Investments Guidance. These are:

- Transparency and democratic accountability – proposals will be compliant with this investment strategy approved in advance by members and made publicly available.
- Contribution – we will disclose the contribution that investments make towards service delivery objectives and the authority's placemaking role.
- Use of indicators – quantitative indicators will be provided to allow members and the public to assess the authority's risk exposure
- Security – we will have a strategy for assessing risk of loss before entering into a transaction and disclose the extent to which the fair value of investment property provides security against loss and the mitigating actions proposed if there is insufficiency.
- Liquidity – each acquisition will set out procedures for ensuring that funds invested in property can be accessed when needed – it is appropriate to make this individual to each asset as all property investments by their nature are unique and different exit strategies will be applicable to different properties.
- Proportionality – we will reference the plans to achieve a balanced budget where there is any dependence on profit-generating investment activity
- Borrowing in advance of need – Each property acquisition decision will include a clear reference to compliance or otherwise with guidance and where guidance has not been wholly complied with, an explanation for any variance.
- Capacity, skills and culture – The Council has commenced an officer skills audit and a process to ensure that members and officers have appropriate capacity, skills and information to be involved in decision making.

5.6 Each investment property acquisition business case will reference:

- Understanding of local and wider property markets
- How the investment opportunity is identified
- Assessment and confirmation of the reasonableness of the acquisition price
- Option appraisal
- Due diligence
- The involvement of external advisers and agents in due diligence and decision making evidence and data
- Implications for the Council's VAT partial exemption position.
- Risk register
- Arrangements to be in place to manage the property following acquisition
- Any new frameworks required for assessing the performance of property as an investment including:
  - What the valuation arrangements will be
  - If any other key performance indicators are required
  - How often they will be measured and who by
  - Appropriate performance benchmarking
  - Frequency of future property yields review and risk assessments
- Any appropriate contingency plans will also be highlighted to deal with potential under-performance:
  - dealing with vacancies and defaults on rental payments
  - strategies for falls in market value
  - exit strategy

6. OTHER CONSIDERATIONS

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

1. 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 continuing to fund services for local people. 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.

2. 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 5 to 10 years now becoming more acceptable unless some form of lease break provisions are included in favour of the tenant.

3. 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 borrowing and management.

4. 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.

5. 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.

6. 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. A wider geographical diversification and spread of property investment assets also mitigates risk in the portfolio.

7. 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. However, value is very much related to the tenant occupier, their covenant and length of lease remaining.

8. 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.

9. 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.

6.2 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. This ensures a prudent investment to be show positive characteristics of **security** and **liquidity**. In effect, a property investment asset that has a secure rental income and can be realised relatively quickly in disposal.

- 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.
- Pursue opportunities to increase returns and improve the investment value of commercial assets.

7 FUNDING AND FINANCING PROPERTY INVESTMENT

7.1 The Council has access to a number of funding sources for property investment acquisition. Depending on the particular circumstances, the Council will fund acquisitions utilising prudential borrowing, or by releasing cash investments, or by a combination of both.

7.2 The difference between the rate of borrowing and the rate of return generated by the investment is effectively a revenue surplus which may be used to fund front line services or pay off the capital borrowed, or a combination of both.

7.3 The Council will have regard to the CIPFA Prudential Code and MHCLG Investment Guidance and CIPFA Property investment Guidance in making any investment.

8 FINANCIAL IMPLICATIONS

8.1 This Property Investment Strategy is a framework designed to secure long term and sustainable income streams for the Council and to increase its financial resilience over time, so that it is less reliant on declining funding from Central Government. All investments are fully secured on the land and properties being purchased. With regards to liquidity if the properties were to be sold it is estimated it would generally take between 3 to 12 months to do so. Yield of the investment is benchmarked to the market when carrying out the pre-acquisition due diligence.

8.2 The Council will fund acquisitions by borrowing funds from the Public Works Loan Board (PWLB), money markets, and/or by running down cash investments.

8.3 The financing costs, will need to be met from the income stream generated by each investment.

8.4 Given the specialist nature of investment acquisitions, the Council will obtain advice from appointed agents with a proven track record in this field.

8.5 When considering a property acquisition, it is important to recognise that there are significant other costs beyond purchase price. These may include:

- External valuation report and property investment analysis
- Building surveys
- Legal due diligence on property title
- Legal conveyancing fees
- Investment advice
- Agency fees at approximately 1% of purchase price
- Stamp Duty Land Tax (variable depending on price)

- Land Registry fees
- Certain vendors may also request payment of the seller's advisers' costs by the buyer, although that should be resisted wherever possible.

8.6 Advice will be taken on a case by case basis, but the Council should be VAT neutral, especially when acquiring a going concern. In addition, each acquisition will be assessed separately and advice taken as to the most financially (and as appropriate) tax efficient method of holding the ownership of the property.

8.7 All of the costs described will be accounted for within each business case for an acquisition.

9. RISK ANALYSIS

9.1 The Property Investment Officer Group assesses the risks associated with this strategy. A report is produced each year on Implementation Risks and Issues. The following are all considered and recommendations made on how to proceed.

- General property investment related risks & issues for the Council
  - How to avoid "Chasing the money"
  - Valuation and overpaying to secure assets
  - Buying outside Warrington and beyond the North West
  - Buying outside the UK
  - Buying on market and or off market
  - Scale – lots of small ones or a few big deals?
  - The zeitgeist of new municipalism – this opportunity on borrowing and investing may not last for ever

- Finance risks & issues
  - Full year effect of income target
  - Sinking fund (links to MRP policy and value) and a project reserve
  - Overhead costs, SDLT, agent fees, external consultants
  - Revenue implications of abortive costs up front at risk costs
  - Professional Indemnity insurance cover for legal and property advisors
  - Property agent fees

- Governance issues
  - Property Investment Strategy – ability over time to sell and buy
  - MRP policy – risks – basis of calculation
  - Decision and governance process
  - External and internal audit advice
  - Project Risk Register
  - Governance and minutes to CIPG and Treasury Management Board updates

- Resources
  - Property database
  - Property, Finance & Legal teams
  - External specialists/consultants

- Annual asset valuations

9.2 **Key Risk** - The key risk of property investment for the Council is based on the quality of the tenant and the ability to pay the rent and property outgoings.

9.3 If a tenant vacates a property and or fails to pay the rent, the liabilities of occupation costs (utility services, vacant property business rates, insurance, security, repair and maintenance) may fall on to the Council as owner. In addition, if there is no rental income, the Council will not have a direct income source to repay the borrowing of any initial acquisition cost or replace the opportunity cost of invested cash.

9.4 The mitigation factors in this risk are that financial, business and credit checks on the tenant(s) and the business viability are completed ahead of a decision on acquisition.

9.5 **Acquisition Risk** - The Council will be targeting low risk, low management investments and those which have continued to remain occupied and attractive to tenants, landlords and investors.

9.6 Interest in this type of property investment has remained strong and the Council will often find itself as one of several potential bidders. This means that there will be instances when the Council will be unsuccessful in its bids. All concerned should be aware of this possible outcome and the potential for abortive costs. This may be for example on internal and external advice around valuation reports, legal due diligence, credit and finance checks and tax advice.

9.7 Mitigation here will be around maintaining positive relationships in the property investment market with agents, seeking early advice on property availability and securing either exclusivity or lock-out agreements with the vendor if possible.

9.8 Due to the nature of the property market, decisions may need to be taken quickly in order to put offers forward. However, offers can be made on a conditional basis and contracts for sale would not be exchanged until the usual due diligence process has been satisfactorily undertaken. However, a private purchaser will usually be able to move quicker than the Council in acquiring property in terms of decision making and approach to risk. It is **not** suggested that the Council compromise either democratic decision making or principles of risk in competing in the property market.

9.9 **Cost Risk -** Abortive costs may be incurred in forming unsuccessful bids, or failing to reach exchange of contract as a result of due diligence undertaken. These may include feasibility studies, ground investigations, advisers' costs, legal costs, survey fees and officer time. Before resources are committed on an investment proposal, approval to offer and bid will be granted by the Chief Executive, Sect 151 officer and Director of Growth – see section 10.16 below.

9.10 This is a risk which is inherent to the property market and should be managed at the earliest stage of each potential acquisition and as set out above through seeking exclusivity or lock out agreements if possible.

9.11 **Property Market Risk** - Property investment carries inherent risks due to wider economic conditions beyond the immediate control of the Council. This is not a risk free strategy. There are no guarantees. The Council has to be prudent in managing risk and reward.

9.12 The mitigation here is around investment and economic advice, being aware of trends

and the external factors over which we have no control. In addition, the Council will undertake annual property valuations of each investment property owned alongside investment portfolio review.

9.13 It is also important to consider the Council's longer term strategy and the reasons for acquisition in the first place. For example, in a worst case scenario, a catastrophic economic collapse, where the majority of property investments may be affected by tenant business failure, which may result in vacancies in the portfolio with holding costs and no income to cover cost of borrowing. We may seek to dispose (potentially at a loss) of a number of assets while consolidating into a smaller number of more successful investments, resilient to the economic conditions. However, the Council may also wish to take a longer term view. Property has consistently demonstrated over the last 50 years that capital and rental growth exists over a 15 to 20 year economic cycle.

9.14 Other property related risks, such as those relating to physical defects and characteristics, can be assessed by appropriate surveys and due diligence ahead of acquisition. The Council will focus on properties with FRI lease and minimal or no management holding cost, liability or responsibility. Mitigation is through proactive portfolio management with resource and capacity available to the Property & Estate Management team to carry out or oversee annual market valuations, inspections, maintain positive tenant relationships, legal support on lease management and enforcement of tenant covenants. Resources to fund these mitigations will be deducted from the rental income as is standard in the property investment industry.

9.15 It is not uncommon for potential investment opportunities to be offered directly or via limited / targeted marketing to specific clients and those opportunities may never be advertised to the wider market. In those circumstances, the ability of the Council to act quickly is key. Increased knowledge of investment opportunities can also be achieved through adopting a proactive approach with property owners and specialist property investment agencies.

9.16 The process of due diligence being undertaken prior to completion is key to the mitigation of most property risks.

9.17 **Property Investment market risks** – The Council has two key advantages over many competing investors in the market place:

- The Council is able to take a longer term view on holding property assets as investment, rather than prioritising shorter term objectives around share price for example.
- The main disadvantage of property compared to other investments is its liquidity. Again, the Council is not in the same position as many investors and can take a longer, more mature view on liquidity risk.

10. PROPERTY INVESTMENT ACQUISITION PROTOCOL

10.1 Purpose - To ensure that there is a consistency of approach involving appropriately qualified officers, the Council should adhere to a formal Acquisition Protocol.

10.2 This protocol will apply to all non-operational acquisitions of land and property for the purpose of inclusion within the investment portfolio.

10.3 Definition of an Acquisition - An acquisition is defined as the purchase of a legal interest in land and property, (by way of freehold, leasehold or license) for strategic or investment purposes.

10.4 The Local Government Act 1972 gives the Council powers to acquire any property or rights which facilitate, or are conducive or incidental to, the discharge of any of its functions or for the benefit, improvement or development of the local area. Local authorities do, however, have wider fiduciary roles and can face criticism or challenge if they do not have robust business cases for all purchases.

10.5 A decision to acquire property intended to make an investment return will have three parts:

- the identification of the legal powers that support the proposed transactions
- demonstration that the exercise of these powers would be reasonable
- confirmation that the authority wishes to take the proposed course of action.

10.6 Property Acquisition by the Council - The Council's Treasury Management team and Property & Estate Management team will continually assess the mix of properties it holds and will look at its overall exposure to risk, including any over-reliance on specific property sectors. It will consider options to increase or decrease that exposure and to minimise the management time and costs of its portfolio.

10.7 It is likely that synergies will arise from acquiring new assets which have physical proximity to existing assets (including the marriage value of merging adjoining legal interests – for example the acquisition on DW Sport on Academy Way in 2016). They may also be derived from achieving a more commercially focussed approach to the management of the entire portfolio.

10.8 Acquiring property can also have a regeneration investment effect and support areas of decline. However, the must be a clear and objective focus on the reasons for acquiring any property.

10.9 **Acquisition Criteria**

The following criteria will be used when considering acquiring property investments:

10.10 Each acquisition will be looked at on its own merit and all recommendations for funding will require a supporting Business Case. Key elements of each business case shall include:

10.11 Investment Acquisitions

- The key financial benefits with a projected target return of at least 1.5% above borrowing/investment rates. Note that initial returns may not immediately provide this level dependant on where the property is within the rent review cycle.
- Level of financial security. Acquisitions should normally be pre-let to tenants of good covenant ideally on fully repairing and insuring terms (or inclusion of full cost recovery mechanisms) with an unexpired term of at least five years.
- The key consideration Priorities set out at section 6.1 above

10.12 Strategic Acquisitions

- How the acquisition fits with the Council's place making role and assists in strengthening the local economy?
- The key consideration Priorities set out at section 6.1 above
- Measurable benefits attained through ownership. (This may also include consolidation of existing ownerships to enable future sales, modernisation of the Borough's business infrastructure encouraging inward investment, benefits associated with relocation and business start-up within the Borough)
- How direct intervention will expedite agreed key strategies.
- Any potential conflicts with strategic planning policies?

10.13 Where a proposed property acquisition demonstrates both investment and strategic value to the Council, some of the above criteria may be relaxed.

The Process of Acquiring Property Assets

10.14 Given the specialist nature of the investment properties market, it would be difficult for the Property & Estate Management team to actively identify and evaluate suitable opportunities. Consequently the Council will look to use and where appropriate appoint external consultants to provide the specialist advice needed in each business case. The primary role of the investment advisers will be to identify the most suitable investment opportunities and present them to the Council for consideration.

10.15 In addition to the Council's own Property & Estate Management team of Chartered Surveyors, external advice will be procured from Chartered Surveyors to review and advise on:

- The range of appropriate values for the investment.
- Prospects for rental growth.
- Sector specific advice in particular risks associated with specific occupiers, sectors and locations.
- Capital growth prospects and liquidity (the last two factors are particularly important, as consideration also needs to be given to what happens to assets in the future).
- The approach to forming offers, bidding and achieving best value.

10.16 All acquisition proposals will be channelled through the Property & Estate Management Team, Property Investment Officer Group and the Director of Growth. They will then draft an outline business case in those instances where it was felt that the investment opportunity merited further consideration. The outline business case for the acquisition will include an indexation score for the property in accordance with the assessment criteria and key consideration priorities set out at section 6.1 above. Authority to proceed to commit expenditure on due diligence will be approved following formal consultation with the Chief Executive, Sect 151 Officer and Director of Growth.

10.17 To ensure that transparency and appropriate governance is applied at all times, and an appropriate audit trail exists on decision making, all decisions will follow Financial Regulations and comply with the Council's Constitution requirements. This will involve reports to Cabinet for acquisitions for more than £250,000, or in urgent and appropriate cases – use of Special Procedures and subsequent reporting to Cabinet in compliance with Financial Regulations and the Constitution.

10.18 Any report to Cabinet or use of Special Procedures will include a Business Case document setting out benefits, risks, a clear and transparent decision making process, analysis of exposure to potential revenue loss risk and clarifying compliance with guidance and statute. All acquisitions will also be reported to Treasury Management Board and Capital Investment Programme Group.

10.19 Once an acquisition is approved in the appropriate way, it is possible that the appointed advisers will also act as the Council's agents in respect to the bidding process, deal negotiation and final purchase. The agents will be given specific parameters for the terms of each purchase.

10.20 All valuations must be carried out, or verified, by a fully qualified member of the Royal Institution of Chartered Surveyors with sufficient current local knowledge of the particular market, and the skills and understanding necessary to undertake/verify the valuation competently.

10.21 All acquisitions will be carried out in accordance with rules laid down by any relevant professional bodies and laws (in particular, in compliance with all relevant Public Sector and Local Government Legislation, Statutory Instruments, Government Circulars, and existing Council procedures, policies and the Constitution).

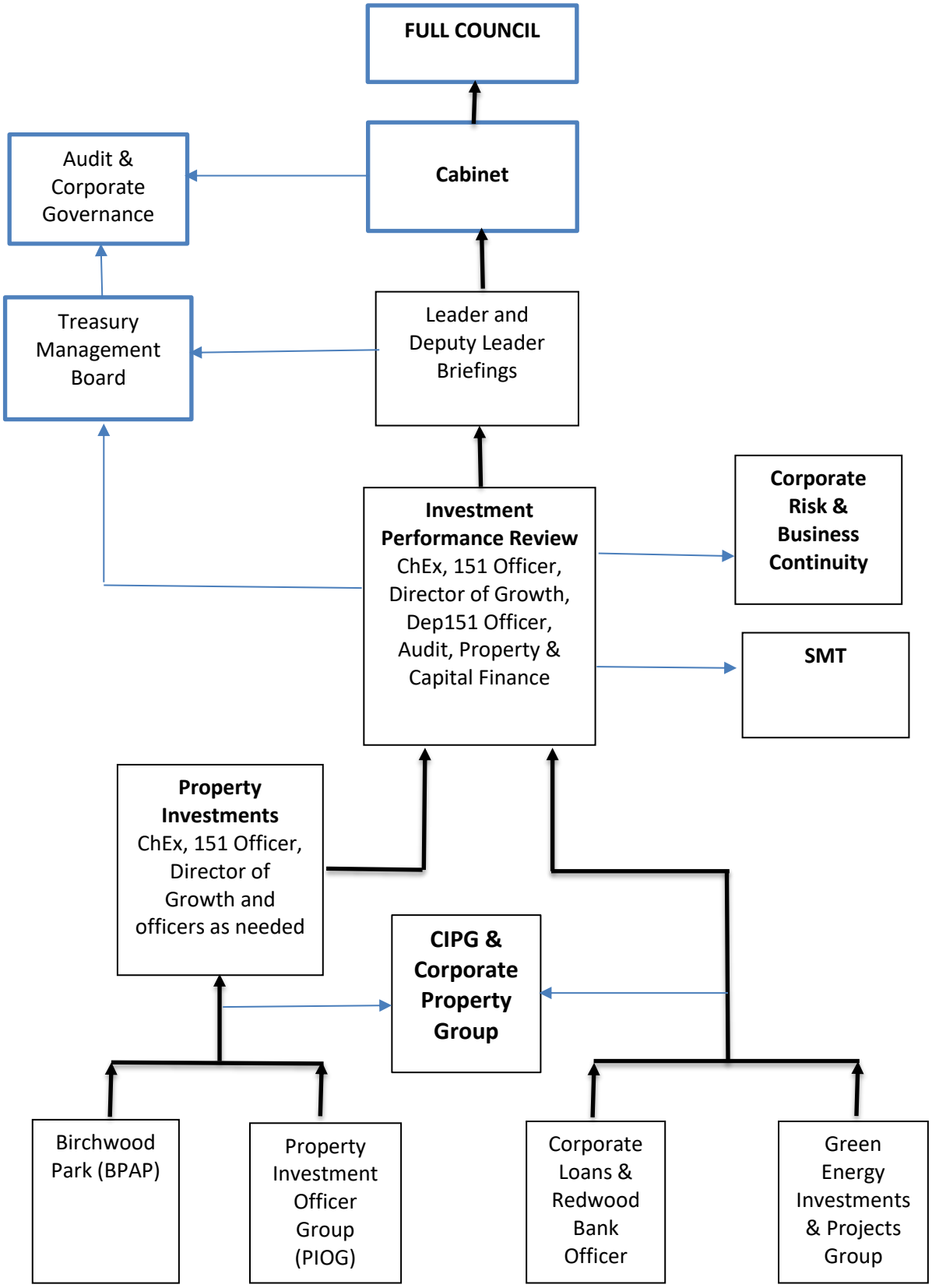
10.22 It should be recognised that, in some instances it will be necessary for the Council to make a conditional offer on acquisitions where time is limited. This will be after consultation with the Leader of the Council, the Cabinet Member for Finance and Corporate Property and in line with the agreed principles and priorities above. Any final offers will be subject to approval in accordance with Financial Regulations of the Council and the Constitution.

11. ENVIRONMENTAL AND SUSTAINABILITY

11.1 Whilst the main criteria in assessing the attractiveness of the investment will be in respect to financial return and risk, the Council should give due consideration to those property investments which display higher levels of environmental sustainability.

Appendix 3

COMMERCIAL INVESTMENTS GOVERNANCE STRUCTURE



Appendix 4

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.

	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m
Gross Debt	1305.693	2964.166	3051.321	3116.337
Net Service Expenditure	132.99	140.971	137.371	140.371
Gross Debt to net service expenditure ratio	981.80%	2102.68%	2221.23%	2220.07%

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.

	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m
Commerical Income	20.551	29.370	29.937	30.712
Gross Service Expenditure less Fees and Charges	380.353	382.654	384.933	387.188
Commercial income to NSE ratio	5.40%	7.68%	7.78%	7.93%

C Interest Cover Ratio

This indicator shows the ratio of income from commercial property investments compared to the interest expense incurred by them. Please note Birchwood park is included within this.

	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m
Net Commerical Property Income	18.801	24.523	24.523	24.523
Commerical Property Interest	10.180	12.998	12.998	12.998
Interest cover ratio (times)	1.85	1.89	1.89	1.89

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.

	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m
Gross Debt related to Property investments	£486,810	£716,810	£716,810	£716,810
Commerical Property Purchase Costs	£486,810	£716,810	£716,810	£716,810
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.

	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m
Net Commerical Income from Property Investments	18.801	24.523	24.523	24.523
Commerical Property Purchase Costs	486.810	716.810	716.810	716.810
Target Income Returns	3.86%	3.42%	3.42%	3.42%

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.

	19/20 Estimate £m	20/21 Estimate £m	21/22 Estimate £m	22/23 Estimate £m
Gross Commerical Income from Property Investments	23.571	30.516	30.516	30.516
Operating Costs including Interest	4.770	5.993	5.993	5.993
Net Commercial Income from Property Investments	18.801	24.523	24.523	24.523

G Occupancy Levels

The following table shows the expected average level of 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%
Tesco Farnworth	100%
Tesco Widnes	100%
Apollo Gemini	100%
Movianto Haydock	100%
Asda Hulme	100%