Isle of Wight Council Capital Strategy

2024-25

1. Document Information

Title: Status:	Capital Strategy 2024-25 FINAL
Current Version:	1.1
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Consultation:	Director of Finance & S151 Officer, Assistant Director of Finance, Strategic Manager – Finance.
Approved by: Approval Date:	Full Council 28 February 2024
Review Frequency: Next Review:	Annual February 2025

Version History		
Version	Date	Description
1.0	05 February 2024	First draft – template review, & 24/25 budget implications. Full Council submission.
1.1	28 February 2024	Post Full Council update – following budget amendment including capital schemes.

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3. Context and Purpose of Policy

In October 2021, the Council's Alliance Administration published the current corporate plan outlining its strategic priorities and direction for the period 2021 to 2025. The Alliance priorities are set against a clear aim to work together openly and with our communities to support and sustain our economy, environment, and people. The key areas of activity that will be our main focus for the lifetime of the plan and which will need to be central to everything we do as a Council are:

Provision of affordable housing for island residents - We will work to increase the rate of affordable housing. We will need to use public and private assets to increase the availability of housing across the Island. We will work to bring empty properties back into use, including compulsory purchases, encourage housing associations to increase their rate of delivery of new homes and we will look to secure investment that will allow the Council to promote the delivery of affordable homes.

Responding to climate change and enhancing the biosphere - In 2019 the council declared a climate emergency and committed to working towards achieving a net-zero carbon status for the Isle of Wight by 2030. Following further work the climate change strategy, which came into effect in 2021, revised these targets to be net-carbon zero as a council by 2030, across the school estate by 2035 and as an Island by 2040. An action plan has been introduced to guide the work needed to achieve these targets. Over and above this, going forward, every decision taken must have regard to the need to reduce the council's and the Island's carbon footprint.

We will need to both support and exploit our position as a UNESCO Biosphere Reserve to lever in funding and support for the work we must do, including achieving our net zero aspirations. We will work closely with town, parish, and community councils to support them in helping to deliver our aspirations and we will challenge the utility companies and our partners to support us in making the Island a sustainable place to live and work. In so doing we will look to also address issues of fuel poverty and health inequalities by making homes more energy efficient and by creating new opportunities for local people to make better use of the landscape to support their health and wellbeing.

As such, every decision we take will not only need to have regard to our climate change strategy but must also have regard to supporting, sustaining, and enhancing our biosphere status.

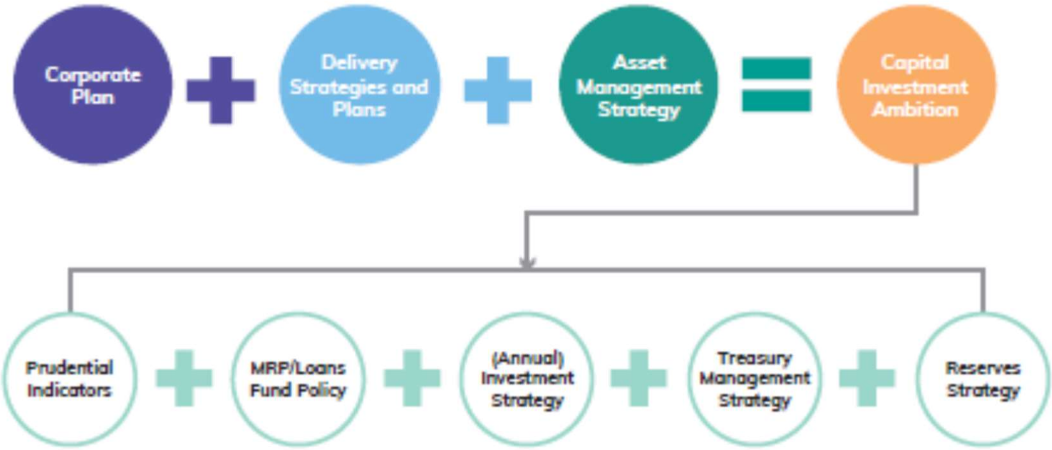
Economic recovery - The core strengths of the Island economy remain as a platform for recovery, the investment in high-speed broadband, the increased interest in the quality of life, open green space and the highly connected attractions of island life all combine to enable continued promotion of the Isle of Wight as great place for business.

Having good premises and a strong local skills pool are also key factors in helping realise our regeneration ambitions. Our investments with partners in the provision of high-quality business accommodation, which reflects the new more flexible requirements of a post pandemic workplace, further supports the Island's "offer". Growing our skills base and retaining our workforce in key sectors, such as hospitality and social care will be a key challenge for the next five years as will helping those who have lost time from education to recover and achieve their personal goals. These will be key aspects of our Island skills plan.

Progressing this ambitious agenda will require investment if the administration is to deliver on its major commitments. In such a diverse environment and with so many competing needs, there will be pressure on the resources available to deliver our priorities. It is therefore crucial that, when capital investment decisions are made, decision makers have a clear and informed view of the resources available, any long-term affordability implications and any potential risks to which the Council is exposed. The capital strategy aims to present that information in a clear and accessible format to support transparent decision making.

4. Driving our Capital Investment Ambition

Capital investment is investment that will result in the acquisition, creation, or enhancement of fixed assets that will yield benefits to the Council for a period of more than one year. As well as our corporate plan, our wider framework of internal strategies and plans play a fundamental role in driving our capital investment ambitions. These strategies and plans are under constant review as needs change with the current environment but are summarised in the diagram below:



Projects for inclusion in the capital programme also arise from a variety of other sources, some of them internally generated and some arising from external factors. The more significant of these external and internal drivers are summarised below:

Internal	External
Regular, programmed works required to property assets like schools, leisure centres, libraries and Council run care facilities which ensures they remain fit for purpose and ensure service continuity.	Government funded programmes, for example disabled facilities grants where the Government provides the funding to meet the costs of this activity.
Vehicle, plant and equipment replacements that enable us to continue to provide services or respond to changing service needs.	Government and regional policies and plans which aren't directly or fully funded but which Councils are expected to fund and implement.
ICT investment as a result of technological progress and in reaction to external factors such as cybercrime.	Public expectation that works should be carried out or services should be provided.
Invest to save projects which may generate income or efficiencies which support the Council's financial position.	Works required to Council property to comply with legislation like disabled access and health and safety.
Unforeseen emergency works like coastal protection and land movement.	Projects resulting from partnership activity.

5. Balancing Priorities and Resources

Given the uncertainty around resources and the number of factors influencing capital investment priorities, it is not surprising that investment proposals may find themselves competing for limited resources, and priorities may not always line up. In an ideal world, the capital strategy would be based on evidence of need as expressed by all the influencing factors outlined in the previous sections, but this would almost certainly exceed the available resources, making it unaffordable and creating expectations which cannot be met.

Rising cost pressures and constrained funding is a feature across Local Government as a whole, with services such as Adults Social Care, Children's Services and Homelessness experiencing the most severe increases in price, demand and therefore cost and resulting in all councils needing to continue to make substantial budget savings.

Despite this climate of increased cost and demand, the funding envelope for local government has remained unchanged. Consequently, the Budget setting process over this period has been some of the most challenging that the Council has experienced and has rendered the aspirations of the Administration to avoid savings impossible. In stark contrast, the financial position of the Council, prior to the recent announcement of additional funding was such that the Council faced a Budget Deficit for 2024/25 of £8.5m. This deficit being after applying an increase in Council Tax of 4.99% in accordance with the Government's own assumptions.

The Final Local Government Settlement provided an additional £600m of funding nationally including £500m ringfenced to social care. For the Council this resulted in additional resources of £1.6m for social care, resulting in total Social Care funding from Government of an additional £4.7m in 2024/25 but set against increased costs of Adult Social Care and Children's Services of £11.3m. The Settlement also confirmed the flexibility to increase Council Tax by an additional 2% (over the 3.0% limit for general purposes) for Adult Social Care and amounting to £2.0m, providing some limited relief to the £6.6m Social Care Funding Gap.

The Final Settlement also confirmed an addition £3m of funding for the Council due to the additional costs of providing services on the Island due to physical separation, taking the total funding received to £4m.

Despite the additional funding from Government, an increase in Council Tax of 4.99% and savings proposals amounting to £2.75m, the Council will still enter 2024/25 with a "Structural Deficit" and needing to draw on General Reserves of £1.2m.

The Social Care pressures of £11.3m plus a further £8.2m of unavoidable costs across all other Council Services resulting from the substantial and prolonged financial impact of inflation has culminated in total additional costs for the Council of £19.5m in 2024/25. These are the driving factors behind the challenges of setting a Budget for 2024/25 which requires the Council to make such a significant withdrawal from Reserves to balance the Budget.

Due to the scale of the demand and inflationary pressures that the Council are experiencing, the Council has been unable to afford any contribution towards new Capital Investment either from the 2023/24 Budget or from the 2024/25 Budget. Consequently, the Cabinet has had to restrict its ambitions to essential Capital Investment only that is required to continue to deliver the current level of services on a sustainable basis. A modest £9.3m of new Capital Investment is proposed of which just £1.4m is provided from Corporate Capital Resources with external funding amounting to £7.9m. In addition potential borrowing of £8.5m is planned subject to business case.

Budget affordability constraints are expected to continue in the future. To address both the Cabinet's aspirations and the Council's future statutory obligations, future Revenue Contributions to the Capital Programme will inevitably be required. Whilst bidding for external capital funding will always form part of the strategy to fund Capital Investment requirements, not all investments will be either eligible or successful.

Given that this Capital Investment is necessary for the Council's statutory obligations, support to transform the Island's economic potential as well as the Cabinet's priorities (particularly to provide housing affordable to Island residents), it is vital that the Council makes provision for Revenue Contributions to Capital wherever possible. To fulfil even some of the future obligations and aspirations, further revenue contributions to capital will be required in future years and will need to be embedded within the Council's financial planning process.

Given the scale of the "Capital Gap" described above, the necessity to supplement the capital resources available remains an explicit feature of the Council's approved Medium Term Financial Strategy (MTFS) so that the Council can continue to fund essential services but also fund regeneration and income generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island. For this reason, it is recommended that the Section 151 Officer be given delegated authority to transfer all, or part of any further savings made in 2023/24 arising at the year-end to supplement the capital resources available for future years.

Balancing the wish to deliver the agenda and provide support to residents in such difficult times and operating in the financial environment as outlined above continues to be a challenge. The Council's approach to planning tries to ensure we are still able to respond to opportunities when they present themselves and we can still plan for the longer term. Our approach to our capital planning therefore continues to have 3 core aims:

Aim 1 - To support a medium term outlook	- Allocating known resources to future years for critical capital investment, ensuring that in years where capital resources are limited, critical investment can continue to be made. - Aligning known resources and spending, ensuring that we do not apply uncertain or forecast resources to current investment, thus leaving potentially unfunded obligations in the future. - Smoothing out any significant gaps between capital investment needs and capital resources available by utilising contributions from revenue.
Aim 2 - To maximise the capital resources available and the flexibility of their application	- Setting aside capital funding for "match funding" opportunities, where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding. - Reviewing contractually uncommitted schemes against newly emerging capital investment priorities. - Avoiding ring-fencing of capital resources, except where such ring fencing is statutory. - Using prudential borrowing for "invest to save" schemes, or schemes which generate income.
Aim 3 - Targeted capital investment	- Investment in programmes of a recurring nature that are essential to maintain operational effectiveness. - Investment in specific schemes that: ○ Have a significant catalytic potential to unlock the regeneration of the Island. ○ Are significant in terms of the Council strategies that they serve. ○ Are significantly income generating or efficiency generating. ○ If not implemented would cause severe disruption to service delivery.

In order to achieve these aims the capital planning process begins early in each financial year and works through a timeline involving Councillors, services and other stakeholders to review and prioritise proposals before bringing a set of recommendations to Full Council each February for approval.

6. Planned Capital Investments

The overall Capital Programme recommended to Full Council for approval includes all existing schemes which have been reviewed and considered as a continuing priority, and the proposed 'new start' schemes to comprise a balanced set of proposals which:

- Provide some assurance and funding security for essential core services and facilities
- Complements the existing capital programme and further supports the council's financial viability for the medium term
- Invests in Schools
- Invests in care facilities including adaptions to peoples' homes
- Invest in highways network works, the public realm and rights of way
- A supporting tourism infrastructure fund
- Provide for solar panel investment, a potential childrens residential provision, digital technology aid for adults, all subject to business case and feasibility studies.

The Council does not plan to undertake any investments for the primary purpose of financial return. Further details on investments are in the appendices and report on budget setting taken to Full Council.

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

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	TOTAL
Leader, Transport & Infrastructure, Highways, PFI & Transport Strategy, Strategic Oversight & External Partnerships	9.96	10.02	2.52	1.63	2.19	3.05	**29.37**
Deputy Leader, Housing and Finance	8.17	22.65	12.75	13.00	0.00	0.00	**56.58**
Adult Social Care and Public Health	2.01	3.60	0.12	0.05	0.00	0.00	**5.78**
Children's Services, Education & Corporate Functions	6.21	9.51	2.45	0.00	0.00	0.00	**18.17**
Regulatory Services, Community Protection, & ICT	1.78	1.30	0.23	0.82	0.74	0.00	**4.86**
Planning, Coastal Protection and Flooding	3.57	1.25	0.22	36.70	0.00	0.00	**41.74**
Economy, Regeneration, Culture & Leisure	4.63	20.42	6.55	0.00	0.00	0.00	**31.60**
Climate Change, Biosphere & Waste	2.15	4.11	0.10	0.00	0.00	0.00	**6.36**
TOTAL	**38.48**	**72.86**	**24.94**	**52.20**	**2.93**	**3.05**	**194.46**

7. Financing the Capital Programme

All capital investments must be financed, and the Council has several funding streams available to do this:

Capital Grants – Most capital grants are 'ringfenced' meaning they can only be spent on delivering the projects for which they were awarded. This leaves very little choice in how this funding is spent. Our policy is that where grants are not ringfenced they will be available to finance the overall capital programme in order to achieve maximum flexibility.

Other External Contributions - the Council may be able to deliver its priorities and better manage its risks by entering into partnerships or joint ventures where the Council can provide land or buildings, with other parties contributing funding. Wherever possible and subject to the usual risk assessments, the Council looks for innovative ways of extending the number of capital schemes which are completed on a jointly funded or partnership basis.

Capital Receipts – the Council may be able to generate funding for its priorities by selling surplus assets and generating capital receipts. Once an asset is deemed to be surplus to requirements, the Council's policy is to evaluate, through an options appraisal, whether to transfer, sell or re-develop the site seeking to find the optimum balance between the economic and social return to the Island and the financial return to the Council. The Council’s policy is to allocate any capital receipts from sales of assets to the financing plan for capital investments, and should receipts exceed that amount in year, the Council will consider extending the capital programme or using the opportunity to reduce prudential borrowing and make revenue savings. The Council does not plan to utilise Government guidance updated in August 2022 for flexibility around use of capital receipts to fund transformational revenue projects but will keep this under review.

Reserves or Revenue Contributions - the Council has historically funded some capital expenditure from the Revenue Budget in order to meet any "gap" arising between needs and the financing available. Additionally, invest to save bids are built around additional income generation or savings which pay for the capital investment and a reserve (built up from revenue budget allocations) has been established to facilitate this and can be used to contribute towards capital investment. Finally, a revenue reserve for capital has been established as approved in the Medium-Term Financial Strategy and the Section 151 Officer has delegated authority to transfer year end savings to this reserve which is available to finance new capital investment.

Borrowing – Prudential Borrowing is only available for a Council's "Primary Purpose for Investment" which must be "consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice".

The arrangements for Prudential Borrowing were strengthened following growing concerns over Local Government commercial property investments and taking on disproportionate levels of commercial debt to generate yield. New borrowing for "debt-for-yield investment" is not permissible under the Prudential Code, as it does not constitute the primary purpose of investment and represents unnecessary risk to public funds.

Prudential Borrowing is only available for schemes where savings or revenue returns accrue directly to the Council on a sustained basis. Business cases in line with the Government’s Green Book and 5 case model, are prepared for any investments which require borrowing and the Section 151 Officer makes an assessment of the overall prudence, affordability and sustainability of the total borrowing requested. The impact of this borrowing is reported in the Treasury Management Strategy alongside the Prudential Indicators required by CIPFA’s Prudential Code for Capital Finance.

The planned financing of our capital investments is as follows:

Table 2 - Capital financing in £ millions

	2023/24 Forecast	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	TOTAL
Unsupported borrowing/debt	5.85	39.40	18.75	14.47	0.00	0.00	**78.46**
Corporate Resources (including capital receipts)	12.92	15.90	6.07	6.82	2.93	3.05	**47.70**
Ringfenced Grants	18.33	17.35	0.12	30.91	0.00	0.00	**66.70**
Other External Contributions	1.38	0.22	0.00	0.00	0.00	0.00	**1.60**
TOTAL	**38.48**	**72.86**	**24.94**	**52.20**	**2.93**	**3.05**	**194.46**

8. Minimum Revenue Policy Statement

Where the Council finances capital expenditure by debt, it must put aside revenue resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as the Minimum Revenue Provision (MRP). The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The Council changed the basis of MRP from a straight line to an annuity basis for capital expenditure funded by borrowing to March 2016. The total overpayment at March 2016 was £39.9 million and this reduced MRP in later years. The final £3.9 million of this overpayment was drawn down in 2021/22.

The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends several options for calculating a prudent amount of MRP. The Council has adopted the following principles for the charging of the Minimum Revenue Provision (MRP):

- The annuity method for capital expenditure will ensure the repayment of the debt better reflects the consumption of these assets financed. MRP will be determined by charging the expenditure over the expected useful life of the relevant asset. This being equal to the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

- For finance leases and the Highways PFI contract, the MRP charge will be equal to the repayment of the liability in year, in line with the Council's accounting policy.

- The duty to make MRP extends to investment properties where their acquisition has been partially or fully funded by an increase in borrowing or credit arrangements. For all historical Investment Properties, MRP will be provided from 2024/25 to fully provide for the historic financed element of any purchases using the annuity method with an annual interest rate equal to the PWLB rate at start of financial year, up to a maximum period of 50 years. Upon sale of a property, the capital receipt received will be used to repay any outstanding debt; where there is a shortfall, MRP will be charged for the difference. A consultation by government is expected to be communicated in March 2024 where it is anticipated the regulations will be updated to require a prudent MRP linked to the whole CFR.

- For capital expenditure loans to third parties and subsidiaries, no MRP will be charged as the principal repayments will be used to repay outstanding debt. The Council estimates impairments annually to determine if there is a likelihood of loans not being repaid in full. Where the impaired loan value falls below borrowing undertaken, MRP will be provided over remainder term of loan using annuity method with an interest rate equal to the relevant PWLB rate at the start of year.

Based on the Council's latest estimate of its Capital Financing Requirement (CFR), the budget for MRP has been set as follows:

Table 3 – Estimate of MRP in £ millions

	31.03.2025 Estimated CFR	2024-25 Estimated MRP
Capital expenditure before 01.04.2008	144.7	1.9
Capital expenditure after 01.04.2008	188.8	4.6
Leases and Private Finance Initiative	89.5	6.2
Loans to other bodies repaid in instalments	1.0	0.0
Total General Fund	**424.0**	**12.7**

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

Table 4: Replacement of prior years' debt finance in £ millions

	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Capital resources	-	-	-	-
Revenue resources	11.2	12.8	13.9	14.5
TOTAL	**11.2**	**12.8**	**13.9**	**14.5**

The CFR measures the Council's cumulative need to borrow for capital purposes, i.e., its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The CFR is expected to increase by £34.5 million during 2024/25. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2024 Forecast	31.3.2025 Budget	31.3.2026 Budget	31.3.2027 Budget
General Fund services	383.6	376.7	410.1	414.3
Capital investments	6.0	47.3	18.8	14.5
TOTAL CFR	**389.6**	**424.0**	**428.9**	**428.8**

The Council will adopt the new IFRS 16 Leases accounting standard with effect from April 2024. The main impact on lessees is to remove the distinction between finance leases and operating leases and requires all substantial leases to be accounted for as finance leases. This means that most existing operating leases will need to be brought onto the Council's balance sheet as an asset, together with a liability to pay for the asset acquired. The initial estimate is a recognition of assets in the region of £7.9 million which has been provided for within the MRP calculation.

9. Links to Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. Cash surpluses can be offset against capital financing shortfalls to reduce overall borrowing.

a. Borrowing

Due to decisions taken in the past, the Council currently (31/01/2024) has £179.9 million borrowing at an average interest rate of 3.32% and £22.0 million treasury investments at an average rate of 5.33%.

The Council's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between low-cost short-term loans and long-term fixed rate loans where the future cost is known but higher.

Statutory guidance is that debt (which comprises borrowing, Private Finance Initiative (PFI) liabilities, leases and transferred debt) should remain below the capital financing requirement, except in the short-term. As can be seen from table 6 below, the Council expects to comply with this in the medium term.

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

	31.3.2024 Forecast	31.3.2025 Budget	31.3.2026 Budget	31.3.2027 Budget
Debt (incl. PFI & leases)	253.5	290.8	291.4	290.9
Capital Financing Requirement	389.6	424.0	428.9	428.8

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level of £10 million at each year-end, as required by the Treasury Management Strategy to maintain sufficient liquidity and minimise credit risk. This benchmark is currently £175.7 million and is forecast to increase to a maximum of £224.4 million during the next three years. Table 7 below shows that the Council expects to remain borrowed below its liability benchmark.

Table 7: Borrowing and the Liability Benchmark in £ millions.

	31.3.2024 Forecast	31.3.2025 Budget	31.3.2026 Budget	31.3.2027 Budget
Forecast borrowing	165.7	201.3	208.2	214.4
Liability benchmark	175.7	211.3	218.2	224.4

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

Table 8: Prudential Indicators: Authorised limit and operational boundary for external debt in £ millions

	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
Authorised limit – borrowing	410.0	460.0	480.0	490.0
Authorised limit – PFI and leases	130.0	210.0	200.0	190.0
Authorised limit – total external debt	**540.0**	**670.0**	**680.0**	**680.0**
Operational boundary – borrowing	324.0	368.0	380.0	388.0
Operational boundary – PFI and leases	105.0	168.0	162.0	154.0
Operational boundary – total external debt	**429.0**	**536.0**	**542.0**	**542.0**

Further details on borrowing will be updated in the Treasury Management Strategy which is considered by the Audit & Governance Committee for approval.

b. Treasury Investments

Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy, and the Council may request its money back at short notice.

The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks. The treasury management indicators will be updated in the Treasury Management Strategy which goes to Audit & Governance Committee for approval.

10. Non-Treasury Service Investments

Local Authorities have the powers to make investments to assist local public services, including making loans to, and buying shares in local service providers, local small businesses to promote economic growth, and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to consider such investments based on a business case and risk assessment looking particularly at affordability, prudence, and proportionality in respect of the Council's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services). The Council would expect such investments to break even or generate a profit after all costs. Most loans and shares are capital expenditure and purchases will therefore be proposed, assessed and approved as part of the capital programme.

Existing investments for service purposes are currently valued at £1.4m which relates mainly to the Council's investment under a loan agreement in Perpetuus Tidal Energy Centre Ltd (PTEC). In September 2020, the Council agreed to authorise PTEC to raise funds required to renew consenting licences by selling up to two thirds of the Council's shareholding in the company. In addition, the Council's original loan term was extended for 5 years and is now repayable alongside the other loan which capitalised the company and the Council released its position on the PTEC Board. Although this means that the Council will be foregoing its ability to 'direct' the work of the company and also the benefit of any future dividends from its shares, the Council recognised that there is no likelihood of any dividend should the project fail at this juncture. These changes were also made in the spirit of the original intent for PTEC to create jobs and investment and put the Isle of Wight at the forefront of the renewable energy agenda.

Further details on service investments can be found in the investment strategy approved by Full Council.

11. Non-Treasury Commercial Investments

The Council's medium-term financial strategy, which was designed to help improve the Council's financial sustainability, originally made provision for up to £100 million to be available for a commercial property acquisition fund, subject to the approval of a commercial property acquisition strategy. This was approved by Full Council at its meeting on 20 September 2017 and has been used as the framework for all historic acquisitions. The strategy included strict criteria to be used when determining which properties to acquire. Those criteria included the following:

- a balanced commercial property portfolio that provided long term rental returns and growth.
- a portfolio of property assets with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk.
- core assets being the best property for the sector in an ideal location with long term income to high quality tenants.

- all investments must initially provide income (yield) equal to, or above, the Council's required rate of return.
- priority to be given to properties that yield optimal rental growth and a stable income.
- protect capital invested in acquired properties.
- location to be dictated by opportunity to acquire investments that meet the strategy, with proximity to the Isle of Wight being a deciding factor when all other attributes are equal.

In 2018, the fund acquired four separate property investments comprising thirteen lettable units with nine tenants. Portsmouth City Council (PCC), as commissioned by Isle of Wight Council (IWC), was managing the property investment fund since its inception until 1 April 2021, after which time responsibility for management of the properties transferred to IWC's Property Services department. The fund has now settled into a management phase and in line with changes to the Prudential Code the Council is not able to invest for the primary purpose of financial return.

The primary objective for the Council is to protect its capital base where possible, maximise income and create a long-term sustainable income stream. As the fund matures over the coming years and rental income grows, the impact of initial acquisition costs on overall performance should decrease. The fund is valued annually on 31 March by an external valuer. A regular report on returns and values is made to the Council's Audit & Governance Committee.

12. Other Liabilities

In addition to debt of £179.9 million detailed above, the council is committed to making future payments to cover its PFI liabilities and finance leases. Any new liabilities will be approved by full council. Further details on liabilities and guarantees can be found in the council's annual statement of accounts.

13. Revenue Budget Implications

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

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

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Financing costs (£ millions)	17.4	16.9	21.3	22.4	23.1
Proportion of net revenue stream	11.01%	9.44%	10.92%	10.94%	10.96%

14. Risk Management

Major regeneration and school's projects constitute the majority of the Council's medium term capital portfolio with significant longer-term investment in coastal protection projects which will be delivered by external agencies. These inherently carry risk, most of which is outside of the Council's control. The Council's planning and governance processes are developed and implemented in such a way as to mitigate these risks. This table sets out the key risks and mitigations:

Risk	Mitigation
Revenue budget	The cost of borrowing is an element of the revenue budget that we are committed to before we have delivered any services or incurred any other costs. As the Council's revenue budget reduces, the Council seeks to ensure that the ratio of capital financing to available revenue resources doesn't become disproportionate.
Inflation	Capital delivery costs are vulnerable to inflation. In costing the projects, a level of contingency has been built into each scheme to mitigate this risk as well as negotiating fixed price contracts wherever possible. Close monitoring of the programme seeks to ensure that inflationary pressures are identified early on and can be managed within the overall financial provisions.
Legislative	Changes in statute and regulations will impact on both the scope and costs of capital projects as they must comply with legislation. The Council must horizon scan and remain aware of any changes in the pipeline which might affect projects and makes amendments accordingly.
Procurement	The Councils procurement strategy ensures that the principles and practices associated with procuring works, goods and services consistently achieves value for money and actively contributes to the

	Councils priorities. It also ensures that legislative requirements are met.
Market	The programme is complex, and the successful delivery of various aspects depends to a large extent on the commercial market. In particular, income from capital investments and capital receipts may be affected. Professional advice and valuations are sought to mitigate this risk.
Externally Led Projects	Increasingly, major projects are funded, led and delivered by or in partnership with developers, neighbouring authorities, or Government departments. Whilst such funding and projects can support the delivery of our objectives, the Council strives to ensure that any commitment to such projects does not detract from our ability to fund and prioritise smaller local investment on the Island.
Internal capacity	The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field to ensure that the Council has access to knowledge and skills commensurate with its risk appetite. For large complex projects, professional external advice and services including project management, surveyors and valuers are used to undertake due diligence to understand risks and inform decision making.
Contractor capacity	It is recognised that the capacity of Island based contractors is limited and the delivery of one significant project can often impact on capacity to deliver others. Similarly, off island contractors can be unwilling to commit to relocating or accommodating staff, transport of goods and materials etc, or they may price contracts to reflect these resulting in significantly higher costs. These issues have been well documented as the 'island factor' and the Council continues to argue its case for differential funding to account for this.
Contractor Failure	Our reliance on a limited number of contractors either based on the island or willing to work on the island, could lead to project delays or additional and abortive costs should a contractor fail. This is particularly the case where works or materials are of a specialist

	nature. The Council's procurement process seeks to ensure that suitable financial checks are completed before contract award, but the current financial climate impacts on the reliability of any such information.
Pandemic	The Council seeks to build in contingencies for such events into timescales but recognises that such factors may ultimately lead to delays and additional costs.