



Isle of Wight Council Capital Strategy

2023-24

1. Document Information

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3. Context and Purpose of Policy

In October 2021, the Council's Alliance Administration published [the new 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.

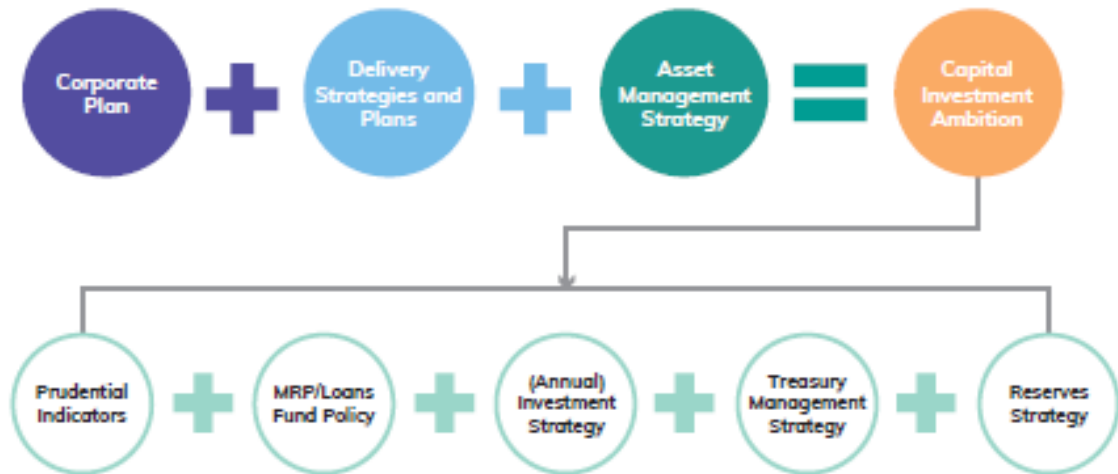
As such, every decision we take will not only need to have regard to our climate change strategy but must also have regard to supporting, sustaining, and enhancing our biosphere status.

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 e.g. 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, we would base the capital strategy 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.

Indeed, the pace and scale of recent economic events originating in the current year has led the Council to experience estimated unplanned cost pressures of circa £20m, representing over 12% of its overall net Budget and a ten-fold increase in the level of planned savings for 2023/24 (originally £2m).

The Council's costs rose at a pace that without Central Government intervention in the Autumn Statement and the Local Government Finance Settlement would have exhausted all of the Council's financial resilience and leaving the Council exposed to a "Structural Budget Deficit" (i.e. in year underlying spending exceeding in year underlying funding) that would have required immediate and drastic cuts to services.

The seriousness of the situation exposed the Council's vulnerability to a financial shock necessitating the Council's S.151 Officer advising the Council in the following terms on 28 November 2022:

"The Council should not implement any new Policy Decision that increases the Financial Burden on the Council or draws on Revenue or Capital Reserves" and further that "The Council should take decisions that improve the Council's financial position"

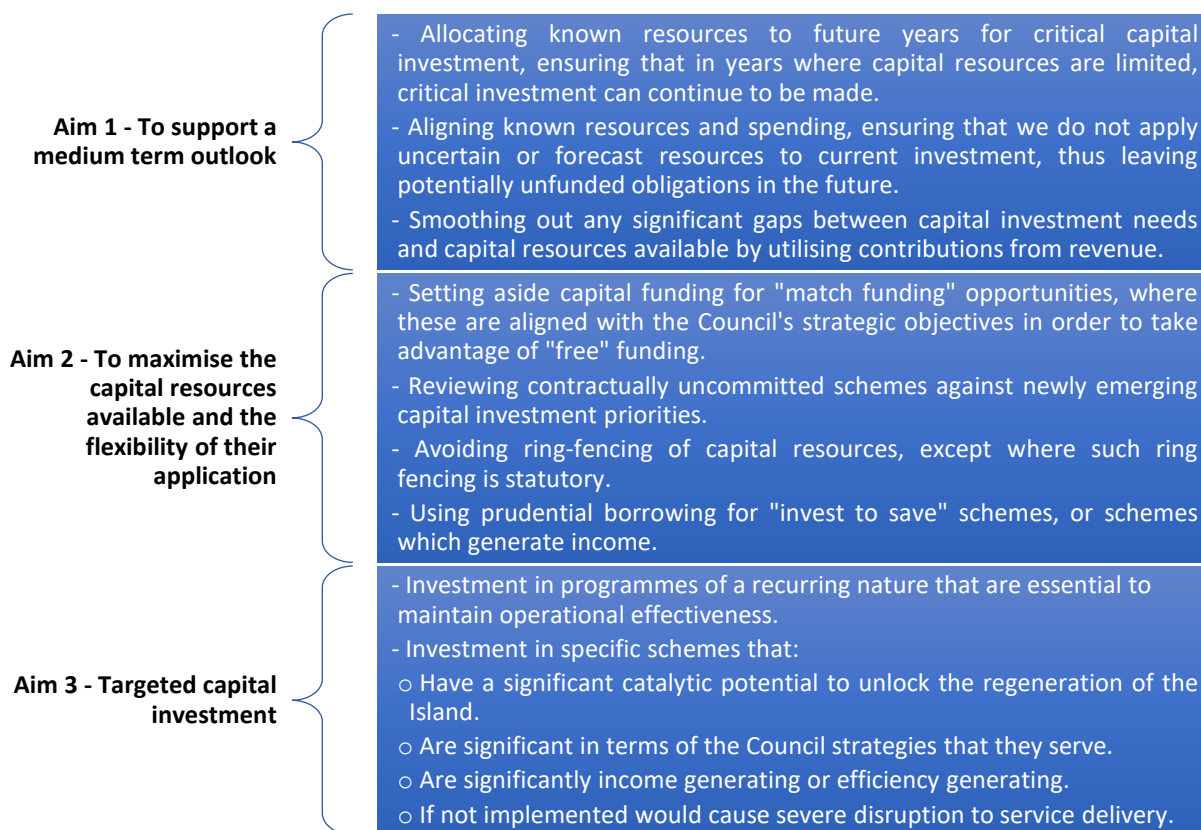
This advice was provided in order to protect the ongoing delivery of vital Council Services on a sustainable basis. It was also provided to demonstrate that the Council could evidence rationality in its decisions in that any decision was being taken in the context of the wider cost and demand pressures that the Council had yet to resolve.

Capital funding is therefore particularly constrained for 2023/24, previously relying on contributions from the Revenue Budget which have been unavailable due to the imperative to meet the substantial cost of inflationary pressures experienced during the year. The challenge presented by these inflation driven cost pressures, exacerbated by the legacy impact of the Covid pandemic when combined with an uncertain funding environment represent the greatest risks to the delivery of sustainable public services on the Island.

The Council will also inevitably face future obligations of a statutory nature as well as wish to further develop its priorities and aspirations for future capital investment. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available.

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 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 S.151 Officer be given delegated authority to transfer all or part of any further savings made in 2022/23 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, but 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:



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:

- Ensure the medium term resilience of essential core services and facilities
- Supports the delivery of the council's key areas of activity focusing on the provision of housing affordable to Island residents, responding to climate change and enhancing the biosphere and economic recovery.
- 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 adaptations to peoples' homes
- Invest in highways network integrity priority works, the public realm and rights of way

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

	2022/23 forecast	2023/24 estimate	2024/25 estimate	2025/26 estimate	2026/27 estimate	2027/28 estimate	Total
Adult Social Care and Public Health	0.25	3.16	1.09	0	0	0	4.5
Children's Services, Education & Lifelong Skills	8.53	6.93	2.44	0	0	0	17.9
Digital Transformation, Housing, Homelessness and Poverty	2.86	16.6	17.27	20.15	0.82	0.74	58.43
Climate Change, Environment, Heritage, Human Resources and Legal and Democratic Services	0.65	6.43	1.42	5.88	32.3	0	46.68
Community Protection, Regulatory Services and Waste	2.08	2.34	2.81	0	0	0	7.23
Infrastructure, Highways PFI and Transport	9.57	11.25	0.88	1.09	1.56	0	24.35
Levelling Up, Regeneration, Business Development and Tourism	5.99	4.83	12.92	6.25	0	2.19	32.19
Strategic Finance, Corporate Resources and Transformational Change	2.08	2.22	0.86	0	0	0	5.16
TOTAL	32.01	53.77	39.7	33.37	34.67	2.93	196.45

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 us very little choice in how we spend this funding. Our policy is that where grants aren’t 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 the new 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 MTFs 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. 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

	2022/23 forecast	2023/24 estimate	2024/25 estimate	2025/26 estimate	2026/27 estimate	2027/28 estimate	Total
Unsupported borrowing/debt	2.55	11.19	32.52	27.38	0.00	0.00	73.64
Corporate Resources (including capital receipts)	9.85	20.14	5.15	5.99	2.37	2.93	46.43
Ringfenced Grants	18.73	21.07	2.02	0.00	32.30	0.00	74.13
Other External Contributions	0.88	1.36	0.00	0.00	0.00	0.00	2.25
TOTAL	32.01	53.77	39.70	33.37	34.67	2.93	196.45

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 has 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.
- For all historical Investment Properties, MRP will be provided where the current market value falls below the unfinanced capital cost of property. MRP will be determined by charging the unfinanced capital cost over the

remainder holding period of the relevant asset; calculated using the annuity method with an annual interest rate equal to the PWLB rate at start of financial year. 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.

- 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 for the unfinanced cost over the remaining 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

	31.03.2024 estimated CFR	2023-24 estimated MRP
Capital expenditure before 01.04.2008	146.1	1.8
Capital expenditure after 01.04.2008	161.3	4.2
Leases and Private Finance Initiative	87.4	5.1
Loans to other bodies repaid in instalments	1.0	0.0
Total General Fund	395.8	11.1

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other funding, 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

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Capital resources	0.0	0.0	0.0	0.0
Revenue resources	10.7	11.1	12.6	13.4
TOTAL	10.7	11.1	12.6	13.4

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. 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

	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
General Fund services	393.4	384.6	383.2	402.3
Capital investments	2.5	11.2	32.5	27.4
TOTAL CFR	395.8	395.8	415.7	429.7

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.

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.

9.1 Borrowing

Due to decisions taken in the past, the Council currently (26/01/2023) has £186.7m borrowing at an average interest rate of 3.05% and £26.5m treasury investments at an average rate of 3.23%.

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between 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

	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Debt (incl. PFI & leases)	233.9	230.4	237.5	230.8
Capital Financing Requirement	395.8	395.8	415.7	429.7

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 £10m at each year-end, as required by the Treasury Management Strategy to maintain sufficient liquidity and minimise credit risk. This benchmark is currently £151.4m and is forecast to increase to £158.08m over 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

	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Outstanding borrowing	141.4	135.1	148.4	148.0
Liability benchmark	151.4	145.1	158.4	158.0

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

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit – borrowing	420.0	410.0	430.0	430.0
Authorised limit – PFI and leases	130.0	130.0	120.0	110.0
Authorised limit – total external debt	550.0	540.0	550.0	540.0
Operational boundary – borrowing	334.0	324.0	343.0	344.0
Operational boundary – PFI and leases	102.0	105.0	98.0	91.0
Operational boundary – total external debt	436.0	429.0	441.0	435.0

Further details on borrowing will be updated in the Treasury Management Strategy which goes to Audit Committee for approval.

9.2 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 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 (ie 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 £1.3m 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, 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 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; and
- 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 Committee.

12 Liabilities

In addition to debt of £186.7 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

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£millions)	11.5	16.1	18.5	21.2	22.4
Proportion of net revenue stream	7.26%	10.02%	10.35%	11.26%	11.70%

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 Council's 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 Council's 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.