Isle of Wight Council
Capital Strategy

2022-23

FOR PUBLICATION – CORPORATE POLICY

1. Document Information

Title:	Isle of Wight Council Capital Strategy 2022-23
Review frequency:	Annual
Next Review:	February 2023
Approval Date:	February 2022
Status:	DRAFT
Current Version:	February 2021
Author:	Becky Horn
Sponsor:	Chris Ward
Consultation:	Financial Services
Approved by:	Full Council

2. Contents

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.

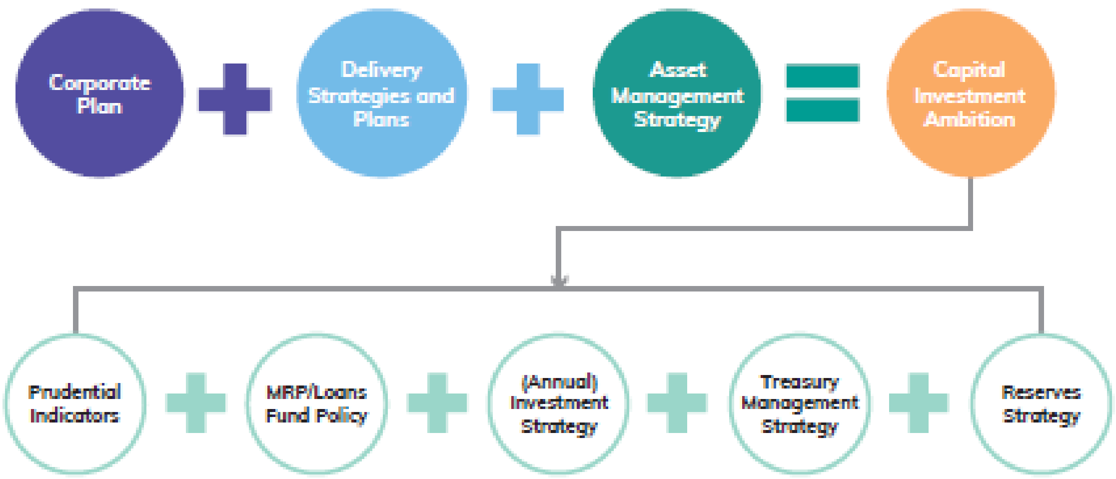
As such, every decision we take will not only need to have regard to our climate change strategy but must also have regard to supporting, sustaining, and enhancing our biosphere status.

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 in order to ensure 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 funded but which Councils are expected to implement like new websites
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 comply with legislation like disabled access and health and safety
Unforeseen emergency works like coastal protection and land movement	Projects resulting from partnership activity like the Newport and Ryde Heritage High Street Projects

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 section, but this would almost certainly exceed the available resources, making it unaffordable and creating expectations which cannot be met.

Balancing all of these different needs and views will always 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 has 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: o Have a significant catalytic potential to unlock the regeneration of the Island. o Are significant in terms of the Council strategies that they serve. o Are significantly income generating or efficiency generating. o 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.

Proposal initiation → Challenge and refinement → Prioritisation → Recommendation and 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 (Appendix 4) 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 focussing 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 adaptions to peoples' homes
- Invest in highways network integrity priority works, the public realm and rights of way

Further details on investments are in the appendix to the February 2022 budget setting report.

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

	2021/22 forecast	2022/23 estimate	2023/24 estimate	2024/25 estimate	2025/26 estimate	2026/27 estimate	Total
Adult Social Care and Public Health	0.66	1.43	1.85	0.76	0	0	**4.71**
Children's Services, Education & Lifelong Skills	12.84	5.62	2.44	0	0	0	**20.9**
Community Safety, Digital Transformation, Housing Provision and Housing Needs	6.26	14.49	10.45	10.35	0	0	**41.55**
Environment, Heritage and Waste Management	5.93	1.6	3.25	4.23	38.38	0	**53.4**
Highways PFI, Infrastructure and Transport	18.7	6.85	3.01	1.66	2.01	2.51	**34.74**
Regeneration, Business Development and Tourism	14.55	15.18	12.74	0	0	0	**42.47**
Strategic Finance, Corporate Resources and Transformational Change	0.88	2.05	0.4	0.4	0	0	**3.73**
TOTAL	**59.83**	**47.21**	**34.15**	**17.41**	**40.39**	**2.51**	**201.5**

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, the necessity to supplement the capital resources available remains an explicit feature of the Council's approved MTFS. For this reason, it is recommended that any variation arising from the Local Government Finance Settlement 2022/23 or any further savings made in 2021/22 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Revenue Reserve for Capital, COVID Contingency, Transformation Reserve, and General Reserves with the level of each transfer to be determined by the S.151 Officer

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 e.g. Levelling Up Fund - East Cowes Marine Park. 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.

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, priorities and aspirations and the financing available. Additionally, invest to save bids are often 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 available for schemes only 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

	2021/22 forecast	2022/23 estimate	2023/24 estimate	2024/5 estimate	2025/6 estimate	2026/7 estimate	Total
Unsupported borrowing/debt	6.53	18.50	25.19	13.15	1.13	0.00	**64.50**
Capital Resources	2.13	1.32	0.20	0.05	0.58	0.00	**4.28**
Revenue Resources	8.78	10.94	2.85	2.39	6.39	2.51	**33.85**
External Grants	41.34	14.68	5.90	1.82	32.30	0.00	**96.04**
Other External Contributions	1.05	1.78	0.00	0.00	0.00	0.00	**2.83**
TOTAL	**59.83**	**47.21**	**34.15**	**17.41**	**40.39**	**2.51**	**201.50**

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), although there has been no statutory minimum since 2008. 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) most recently 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.

- Where former operating leases have been brought onto the balance sheet on 1st April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- 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) on 31 March 2021, the budget for MRP has been set as follows:

Table 3 – Estimate of MRP in £ millions

	31.03.2023 estimated CFR	**2022-23 estimated MRP**
Capital expenditure before 01.04.2008	148.4	1.7
Capital expenditure after 01.04.2008	172.8	4.1
Leases and Private Finance Initiative	101.2	5.7
Loans to other bodies repaid in instalments	0.9	0.0
Total General Fund	**423.3**	**11.5**

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, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

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

	2021/22 forecast	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
Capital resources	0	0	0	0
Revenue resources	5.2	11.5	12.2	13
TOTAL	**5.2**	**11.5**	**12.2**	**13**

The Capital Financing Requirement (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 £16.5m during 2022/23. 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

	31.3.2022 forecast	**31.3.2023 budget ***	**31.3.2024 budget**	**31.3.2025 budget**
General Fund services	400.3	395.3	411.1	423.3
Capital investments	6.5	28.0	25.2	13.1
TOTAL CFR	**406.8**	**423.3**	**436.3**	**436.4**

The Council will adopt the new IFRS 16 Leases accounting standard with effect from April 2022. 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.

A provisional estimate of the lease liability to be recognised in 2022-23 is £9.523 million and this amount has been included in the capital financing requirement for 2022-23. The Minimum Revenue Provision (MRP) relating to this liability in 2022-23 is estimated as being £0.795 million. This has an overall neutral effect on the Council switching expenditure from Service Revenue Accounts (i.e. Operating Lease payments) to Corporate Financing Accounts (i.e. Finance Lease payments).

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 has £204.1m borrowing at an average interest rate of 3.03% and £75.5m treasury investments at an average rate of 0.13%.

The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.70%) and long-term fixed rate loans where the future cost is known but higher (currently 2.27%).

Statutory guidance is that debt (which comprises borrowing, 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

	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Debt (incl. PFI & leases)	179.3	191.9	210.8	217.1
Capital Financing Requirement	406.8	423.3	436.3	436.4

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. This benchmark is currently £189.3m and is forecast to rise to £227.1 over the next three years. Table 7 below shows that the Council expects to remain borrowed below its liability benchmark. This is because a deliberate decision has been that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 7: Borrowing and the Liability Benchmark in £ millions

	31.3.2022 forecast	31.3.2023 budget	31.3.2024 budget	31.3.2025 budget
Outstanding borrowing	179.3	191.9	210.8	217.1
Liability benchmark	189.3	201.9	220.8	227.1

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 £m

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit – borrowing	430	440	470	480
Authorised limit – PFI and leases	130	140	130	120
Authorised limit – total external debt	**560**	**580**	**600**	**600**
Operational boundary – borrowing	340	354	375	382
Operational boundary – PFI and leases	107	111	105	98
Operational boundary – total external debt	**447**	**465**	**480**	**480**

Further details on borrowing are in pages 8 to 10 of the treasury management strategy approved by Audit Committee.

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 are on pages 16 to 17 of the treasury management strategy

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 £1.1m 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 are in pages 4 to 7 of the investment strategy approved by Full Council.

11 Non Treasury Commercial Investments

The Council's medium-term financial strategy, which is 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 the Council is no longer actively looking to acquire properties on the mainland.

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.

The total income received for the period 1 April 2020 to 31 March 2021 was £1.8m (rounded up). This represents a 12% annual increase to revenue. Based on the acquisition price, the gross return up to 31 March 2020 was 4.53% and up to 31st March 2021 it was 5.08% (N.B. income for 2021 includes an element of backdated rent).

The cumulative net income (excluding debt costs) to the Council for the year to 31 March 2021 amounts to £1.666m, which represents income of £1.785m less costs of £0.119m. For the period between 1 April 2020 and 31 March 2021 this represents a return of 4.74%.

The Council incurred costs of £0.073m relating to service charges which includes the management costs agreed under the strategic partnership with PCC of £0.06m and services provided by managing agents of £0.013m. Other operating costs incurred were £0.046m. The Council incurred debt costs of £0.738m and contributed towards the commercial property reserve of £0.024m. This reserve will be used to fund potential lost rental income and future property related costs.

The net return (including debt costs) for 2020/21 prior to the reserve transfer was £0.928m, which represents a net yield of 2.64%.

12 Liabilities

In addition to debt of £204.01 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

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
Financing costs (£m)	7.1	11.5	21.0	21.7	22.5
Proportion of net revenue stream	3.88%	7.28%	13.04%	12.69%	12.87%

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. Whilst the costs of borrowing may be fixed, the revenue budget is reducing so 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. We are currently exploring how our aim to 'buy local' can be achieved within that legislative framework.
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 impacted. Professional advice and valuations are sought to mitigate this risk.
Transfer	Increasingly, major projects are delivered by or in partnership with developers, neighbouring authorities or Government departments. Whilst this may transfer some of the risk away from the Council a careful balance must be maintained to ensure our objectives are achieved.
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.
Covid19 type events	Clearly the unprecedented events of the last 2 years has had a significant impact on contractors' ability to guarantee resource and deliver works. The Council seeks to build in contingencies for such events into timescales but recognises that national lockdowns may ultimately lead to delays.