"A" ITEM

	REPORT TO CABINET TO BE HELD ON 17 APRIL 2018
	Key Decision **YES** **Forward Plan Ref No**
Corporate Priorities: **Place** **Prosperity** **Council** **People**	**Cabinet Portfolio Holder** **Cllr. Helen Mallory**

REPORT OF THE DIRECTOR (RB) – 18/87

WARDS AFFECTED: ALL

SUBJECT: COMMERCIAL PROPERTY INVESTMENT STRATEGY

RECOMMENDATION (S):

1. Cabinet to recommend that Full Council;

   (i) approve the proposed Commercial Property Investment Strategy (the Strategy) described in this report and attached at Appendix A, together with the objectives, Prudential Indicators and limits, investment criteria and governance arrangements, and resolve that the Strategy be adopted;

   (ii) approve a capital fund of £30m funded from borrowing from the Public Works Loan Board and a revenue budget of £100k funded from the Council's Investment Fund, to facilitate the purchase of properties and to pursue development opportunities that meet the criteria contained within the Strategy;

   (iii) approve the changes required to the current approved and operational borrowing limits and associated Prudential Indicators as set out in Appendix B, in order to accommodate the increased prudential borrowing requirements set out in this report;

(iv) amend Article 8.9 (ii) of the Constitution to alter the terms of reference of the Audit Committee to include

'(j) receive quarterly reports on the implementation of the Commercial Property Investment Strategy and make any recommendations to full Council'

(v) delegate authority to the Audit Committee to approve the risk/ rate of return scoring matrix referred to at Appendix A.2.1

(vi) delegate authority to the Director (LD) to make the necessary amendments to the Constitution arising out of this report

2. Subject to Council approval of the recommendations set out at 1 above, that Cabinet approve:

(i) the proposed governance arrangements for the Property Investment Governance Board (PIGB) and the Property Selection Team (PST) set out at paragraph 6 of this report and at Appendix A3 of the Strategy

(ii) the delegation of authority to the Commercial Director, following consultation with the PIGB, to approve expenditure and to acquire and/or dispose of such legal estates and interests in land and to make such property investments as are within the overall limit and criteria of the Strategy, subject to the Commercial Director preparing a business case and risk assessment in line with the Strategy, and to take any and all decisions necessary for the implementation of the Strategy, save for where authority is reserved to the Leader of the Council under the Strategy

REASON FOR RECOMMENDATION (S):

- To enable the Council to build a stronger commercial property portfolio through the purchase of prime or nearly prime investment property within the Borough and wider Local Enterprise Partnership regions that can generate income and financial returns to contribute towards the revenue shortfall identified in the Councils Financial Strategy and to stimulate economic growth
- To generate income and financial returns from development and regeneration projects throughout the Borough and wider Local Enterprise Partnership regions to both stimulate economic growth and to contribute towards the revenue shortfall identified in the Council's Financial Strategy;
- To establish governance arrangements and control measures to manage the risks associated with commercial property investments

HIGHLIGHTED RISKS:

(i) Capital values and income from investments can fall as well as rise. While a balanced spread of investments will help reduce the overall risk of falling investments, a portfolio may still contain individual investments that underperform, despite due diligence and expert investment advice

(ii) The process of buying and selling commercial property, in relation to some other forms of investment, is complex and can result in transactional delays which carries risk from market shift, abortive transactional costs and the in-ability to realise capital quickly.

(iii) The property portfolio will have a risk of void periods in future occupation and / or tenants may default on payment of rent.

(iv) The Strategy will have an impact on the Council's finances and financial standing and decisions made under this strategy will need to take into account the fiduciary duty that the Council holds towards residents. Due consideration will be required to ensure that the confidence and faith placed by the public in the Council's ability to manage and protect their financial interests is secured, and that investments made are judged to be reasonable.

(v) The use of the Public Works Loan Board (PWLB) and increased debt by the Council to purchase property may be subject to increased scrutiny from central government, and it will be essential that the Strategy and the governance arrangements are deemed to be reasonable and robust by external auditors and we will need to comply with any changes in the guidance and show that we have robust procedures in place to pursue these policies.

1. INTRODUCTION

1.1 This report sets out the proposed Commercial Property Investment Strategy (the Strategy) in support of the Councils Financial Strategy and Corporate Plan. The Strategy is intended to generate net financial returns for the Council through the acquisition of new investment properties and pursuance of redevelopment and regeneration opportunities.

1.2 Like all local authorities, central government funding for the Council continues to be cut, whilst demand led services and other cost pressures increase. The Council will be required to make savings of at least £5.2million in its annual revenue budget over the three financial years up to 2020/21. Commercial income generated via the delivery of the Strategy will be used to maintain service provision to the local community and support the delivery of the Borough's growth.

2. CORPORATE OBJECTIVES AND THE CORPORATE PLAN

2.1 The implementation of the Strategy will meet the following corporate priorities:

2.2 **Place:** To protect and improve our environment, now and in the future by way of high quality planning and development.

2.3 **Prosperity:** To develop a prosperous and innovative Borough by way of development and inward investment in the Local Enterprise Partnership region.

2.4 **Council:** To be an efficient and effective Council which is financially sustainable for the future. In parallel with the proposed Commercial Strategy this strategy will enable the Council to consider innovative and creative solutions of funding and investing in valued front line services and delivering economic growth.

2.5 **People:** Inward investment and development in the region will have socio economic benefits for the wider local community.

3. BACKGROUND AND ISSUES

3.1 Reductions in central government funding have forced local authorities to make service cuts and look for ways to become less dependent upon central government funding and revise their financial strategies accordingly. Many local authorities have adopted property investment strategies as a means of securing alternative sustainable funding sources to operate successfully with reduced central government funding. In preparing the Strategy, officers have consulted with leading consultants and looked at case studies and local authority investment processes, structures and activity published by other Councils.

3.2 A recent Sunday Times article estimated that Council investment in commercial property totalled £1.3bn in 2016, with many Councils buying property outside of their administrative boundaries. Typically the net income returns from commercial property investment are higher than long term PWLB interest rates, and so investment in commercial property can generate a positive net income return to pay for both its own purchase and cover the general council deficit on expenditure secured against good quality assets.

3.3 In view of the rapid growth in this sector the Government recently published consultation papers on changes proposed to the guidance on Local Government Investments and Minimum Revenue Provision (i.e. provisions for the repayment of debt) and following that consultation the Ministry for Housing, Communities and Local Government (formerly the DCLG) has produced updated statutory guidance in both of these areas. The updated guidance for Local Government Investments recommends that an investment strategy such as the one appended to this report be approved annually by

Elected Members. The activity proposed by the Council will take full regard of the recommendations contained within the updated guidance.

4. PROPOSAL FOR NEW PROPERTY ACQUISITION

4.1 Finance for purchases can come from a combination of capital sale receipts from ongoing portfolio rationalisation, cash reserves and/or cost effective long term debt available from the Treasury via the PWLB at favourable interest rates. Financing decisions will align to the Council's Capital Strategy and Treasury Strategy and will be factored into the decision making process. New property investment will be directed towards two streams of activity:-

Stream 1
Prime and close to prime commercial real estate investment let on long leases to good covenants initially focused on the North and East within the wider LEP areas which will provide a secure long term income over and above their ability to pay back the purchase price debt. The framework for Stream 1 is more detailed in Appendix A1.

Stream 2
Investment focussed on the North and East within the wider LEP areas which generate regeneration or economic development benefits as well as positive financial returns for the Council. Financial returns for the Council may come in the form of increased business rates income where the investment is within the Borough. The framework for Stream 2 is more detailed in Appendix A2.

4.2 Newly purchased or created property assets would be added to the Council's existing portfolio. Estates and Strategic Land and Asset Management would undertake asset and property management to maintain and improve the performance of an investment property supported and resourced by external specialists as required. This would include ensuring statutory and regulatory compliance, tenant compliance, landlord responsibilities, securing receipt of rents, dealing with maintenance, service charge, voids and insurance matters. The costs of these activities will be factored into the business case for the property acquisition / redevelopment.

4.3 The property asset management requirements will be subject to an annual review and incorporated within the Property Asset Management Plan (PAM) which is presented to Full Council annually. The PAM will need input from both Estates and Asset Management

5 LEGAL FRAMEWORK

5.1 **s1, Local Government Act 2003**; The Borrowing Power authorises the Council to borrow money for any purpose relevant to its functions or for the prudent management of its financial affairs, subject to borrowing limits imposed by the Council itself (the duty to determine an affordable borrowing limit) and the Secretary of State (none currently in force). In setting the affordable borrowing limit the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA (Code). Furthermore the Council must have regard to any guidance issued by the Secretary of State. The guidance that will have effect in respect of the PI Strategy is Statutory Guidance on Local Authority Investments (3rd Edition) (Guidance).

5.2 **s.12, Local Government Act 2003;** The Investment Power authorises the Council to invest for any purpose relevant to any of its functions or for the purposes of the prudent management of its financial affairs. The Council must have regard to the Guidance.

5.3 **s. 120, Local Government Act 1972**; The Acquisition Power authorises the Council to acquire (by agreement) any land whether within the Council's area or outside it for the purposes of "(a) any of their functions…or (b) the benefit, improvement or development of their area".

5.4 **s.123, Local Government Act 1972**; The Disposal Power authorises the Council to dispose of any land held by the Council but requires best consideration to be obtained.

5.5 **s.111, Local Government Act 1972**; .Subject to the LGA 1972 and any other statute, the Council has the power to do anything which is calculated to facilitate, or is conducive or incidental to the discharge of any of its functions. This includes expenditure, borrowing/lending and the acquisition or disposal of property or any rights. Case law has established that raising funds or lending is though still restricted by the functions that specifically relate to these actions.

5.6 A combination of these powers will permit the Council to directly purchase and manage commercial property for long term investment purposes to generate a return where that activity is true investment, as opposed to short term 'trading' for a commercial purpose.

5.7 A distinction is to be drawn between (a) 'investment' and (b) 'trading', or 'acting for a commercial purpose'. Should the Council seek to purchase properties on a short term basis, for example to purchase, renovate and quickly sell on for an immediate gain, this is likely to be viewed as 'trading', which the Council does have a power to do under the Trading Power set out in **s.95 Local Government Act 2003**, or 'acting for a commercial purpose' which similarly the Council has a power to do under the General Power of Competence conferred under **s1 and s4 of the Localism Act 2011.** The exercise of these powers set out in 5.7 however must be carried out through a company.

5.8 At present it is intended to restrict acquisitions under this Strategy to investment acquisitions and therefore the Council will rely on the Borrowing Power and the Investment Power, together with the Acquisition Power, the Disposal Power and the Incidental Power. The Council does not propose to rely on the Trading Power or the General Power of Competence and therefore does not propose at this stage to set up a company structure through which to invest in commercial property.

5.9 The legislative framework in relation to Commercial Property Investments is complex, overlapping and as yet largely untested by the Courts. However Government Guidance supports the separating out of 'investment' from 'acting for a commercial purpose'.

6 GOVERNANCE

6.1 Clear and robust decision making is critical to the Strategy. The Governance arrangements are more detailed in Appendix A and reflect the recommendations. Consideration will be given to appropriate indicators to be built into the Council's Performance Management Framework in relation to each investment opportunity.

6.2 It is necessary to have a framework for determining which properties and development opportunities should be invested in.

A dedicated officer level Property Selection Team (PST) will be formed and structured as outlined in Appendix A3. This team will advise a Property Investment Governance Board (PIGB) on potential purchases and development opportunities that meet the pre-determined selection criteria contained within the Strategy. The PST will identify investment opportunities based on the selection criteria set out in this Strategy, will carry out all necessary due diligence and will present a full business case to the PIGB for challenge.

The structure of the PIGB is also outlined in Appendix A3. The purpose of the PIGB is to challenge and scrutinise investment opportunities identified by the PST, ensuring that only credible options are progressed, and providing the forum for the strategic management of the overall portfolio of investments, consistent with the aims of the Strategy.

The PIGB will be advisory in nature and will assist the Commercial Director by reviewing, challenging and recommending to him the progression or rejection of property investments.

In order to enable the timely and decisive decision making at Director level which is essential in this type of industry to respond to opportunities as they arise, all executive decisions on investments associated with the Strategy shall be delegated to the Commercial Director.

Decisions of the Commercial Director will be subject to fulfilment of the minimum criteria set out within the Strategy, satisfaction with the business case and risk assessment, and will have regard to the recommendation of the PIGB.

Acquisitions and development opportunities that do not meet the minimum criteria set out within the Strategy may still be considered where they would bring other compelling benefits to the Borough, however decision making in this case shall be reserved to the Leader of the Council, rather than the Commercial Director.

Further oversight and scrutiny will be provided by Audit Committee as set out in the recommendations to this report.

7. CONSULTATION

7.1 In line with the draft property investment strategy considered by Audit Committee June 2017, the Leader of the Council, Portfolio Holder and Chair of Audit have worked with Officers to formulate the strategy and are supportive of the Strategy.

7.2 Officers have held detailed discussions with independent professional property advisors and valuers who have advised other Councils on their Property Investment Strategies and have taken external legal, financial and property advice. The Strategy as drafted incorporates examples of good practice endorsed by advisors who have been involved in the property investment strategies of many local authorities.

8 RESOURCES

8.1 Implementation of the Strategy is likely to give rise to the need for additional internal and external resource, dependent upon the extent, nature and specific timing of acquisition, redevelopment, disposal and asset management activities.

8.2 The requirement for additional external resources will need to be managed on a case by case basis in order that implementation of the strategy is not affected, including both the ability to deliver improvements to the existing portfolio and the council’s reputation in the market and with commercial agents.

8.3 The work will call upon the following skills areas:

a) Building & Plant surveys
b) Valuations (including valuation review)
c) Ongoing Estate Management and Rationalisation
d) Environmental/constraints
e) Planning and Architectural Design
f) Project Costings and Project Management
g) Legal and Financial
h) Investment and Acquisitions consultant

8.4 It is proposed that a revenue sum of £100k be earmarked to fund the upfront, potentially abortive, costs associated with the above areas. Where applicable these fees would be factored into the business case for the purchase / redevelopment opportunities as part of the net yield calculations. The £100k will be funded from the Council's Investment Fund.

9. IMPLICATIONS

9.1 Policy

9.1.1 The Strategy will form part of the Council's policy framework.

9.2 Financial Implications

9.2.1 Current financial projections indicate that the Council will be required to make savings of at least £5.2 million from its annual revenue budget over the three financial years up to 2020/21. Like many local authorities the Council is keen to pursue commercial opportunities to generate financial returns to support the revenue budget rather than rely purely on cuts in service. This Commercial Property Investment Strategy will contribute positively towards the achievement of those savings targets and enable the continued delivery and investment of key front line services whilst achieving a balanced budget.

9.2.2 The 2018 Financial Strategy approved borrowing of £12million spread over two years to 2019/20 to support this Investment Strategy, and the budget savings proposals to 2021 factored in a net return of 5% on that investment (after allowing for repayments of borrowing and financing costs). This equates to a targeted annual revenue saving of £600k from property investments. Based on current interest rates, borrowing and repayment costs will equate to circa 4% of acquisition cost therefore the achievement of a target net return of 5% would require a gross investment return of circa 9%.

9.2.3 Since drafting the Financial Strategy the Estates and Strategic Land team have undertaken market analysis of the property sector within the LEP area. This market analysis has been used to inform the creation of the attached Strategy and associated selection criteria and has highlighted that the achievement of a 9% gross return would require a high risk investment approach, based on the purchase of sub-prime properties with weaker tenancies.

9.2.4 A more realistic return for the lower risk properties the Council wishes to invest in is considered to be in the range of 5-7%, resulting in a net return of 1-3% after allowing for initial borrowing and repayment costs. On that basis it is proposed that the amount made available for investment be increased from the £12m set out in the 2018 Financial Strategy to £30m. This will deliver the £600k savings target factored into the Council's Medium Term Financial Plan assuming that a net return of 2% is achieved. A higher level of investment will also provide the opportunity to purchase more properties and spread market risk across a larger, more diverse, portfolio.

9.2.5 Alongside the delivery of the Property Investment Strategy the Estates team will be generating capital receipts through the rationalisation of the Council's existing property portfolio. These capital receipts may be used to part-fund the proposed £30m investment in the Strategy rather than it being funded solely from PWLB borrowing. If the expenditure is funded from capital receipts the Council would not be required to set aside revenue monies for interest and borrowing repayments, therefore higher levels of revenue savings would be achieved. Initial borrowing and repayment costs currently equate to 4% per annum therefore additional revenue savings of £40k per annum would be delivered for every £1m funded from capital receipts rather than borrowing. At this stage it is assumed that the £30m will be fully financed through PWLB borrowing, however this will be considered in further detail in the Council's Capital Strategy, which will be brought to members for consideration later in the year.

9.2.6 In addition to the net revenue return from commercial properties the Council would also benefit from longer term uplifts in property values, however this capital uplift will only be realised if the properties are sold. The net return calculations contained within this report are based on current interest rates, which may fluctuate. The business cases for decision making will factor in the interest rates applicable at the time an investment is being considered.

9.2.8 The Strategy and any associated investment and funding decisions will align with the Council's Financial Strategy, Capital Investment Strategy, Treasury Management Strategy and Prudential borowing Framework. The proposed increase in borrowing from £12m to £30m will require changes to the current approved and operational borrowing limits as set out in the 2018 Financial Strategy. The updated Prudential Indicators are set out within Appendix B of this report.

9.3 Legal

9.3.1 The relevant legal implications have been addressed within the body of the report. The Council will prepare all the relevant Legal documentation pertaining to any acquisition or disposal.

9.4 **Risk**

9.4.1 Detailed in the attached Risk Matrix

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Risk Matrix

Risk Ref.	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1		Capital values of investments can fall as well as rise. Investment income can fall as well as rise.	The value of assets on the Councils balance sheet or revenue from rental income can rise as well as fall.	Independent open market valuations will be made at point of purchase. Each purchase will be analysed in relation to the Scoring Criteria and taken in context of the portfolio as a whole and the Council's overall position	C3	C2	Estates & Strategic Land Finance Asset Management	Thorough due diligence carried out
2		Debt finance will increase the Councils overall debt levels. Financing costs can rise over time making net returns less attractive.	Increased finance costs could have a negative effect on the net return from investments	Financial modelling and sensitivity analysis will be used to show best and worst case scenarios prior to purchase.	C3	C2	Estates & Strategic Land Finance Asset Management	Thorough due diligence carried out.
3		The process of buying and selling property, in relation to some other forms of investment, is complex and can result in transactional delays which carries risk from market shift, abortive transactional costs and the inability to realise capital quickly.	Abortive costs and transactional delays will mean an increased cost to the Council that needs to be anticipated. It could be that investigative/feasibility works are required prior to purchase	Try to keep abortive costs and transactional costs to a minimum by using in house skill sets and supported by outhouse appointments on	C3	C2	Estates & Strategic Land Finance Asset Management	Thorough due diligence carried out

				agreed fee structures				
4		The property portfolio will have a risk of void periods in future occupation and / or tenants may default on payment of rent.	Void periods or default in rent will mean gaps in rental income	All purchases will be viewed in relation to the Scoring Criteria and subsequent active management of the asset will identify issues. .	C4	C3	Estates & Strategic Land Finance Asset Management	Thorough due diligence being carried out
5		The impact on the council's finances and financial standing and decisions made under this strategy do not adequately take into account the fiduciary duty that the Council holds towards residents.	Increased financial risk and associated costs. Cuts in Council services and / or unanticipated draws from reserves.	Establishment of PIGB and the governance arrangements set out within the Strategy. Production of business cases, including risk assessments, for separate purchases. Section 151 Officer involvement in the process. Full consideration of the recent guidance issued by MHCLG.	B3	B2	Estates & Strategic Land Finance Asset Management	Embed due diligence procedures through the decision making process.

6		The use of the Public Works Loan Board (PWLB) and increased debt by the Council to purchase property may be subject to further guidance from central government	Increased scrutiny from central government	The Strategy and the governance arrangements need to be robust and will need to comply with any future changes in the guidance.	D4	D3	Estates & Strategic Land Finance Asset Management	Thorough due diligence being carried out

APPENDIX A

COMMERCIAL PROPERTY INVESTMENT STRATEGY

Circulated as separate document

APPENDIX B

UPDATED PRUDENTIAL INDICATORS*

Affordability Indicators

The indicators of affordability address the revenue implications of the Council's capital investment programme. These indicators, recommended for approval, are set out in Bold in the following table.

	2016/17 Actual £000s	2017/18 Estimate £000s	2018/19 Estimate £000s	2019/20 Estimate £000s
Opening Capital Finance Requirement	14,783	20,831	19,191	54,341
a) Capital Expenditure	**20,830**	**29,919**	**58,627**	**2,846**
Sources of finance:				
Grants/other contributions	(9,274)	(15,627)	(15,923)	(2,030)
Capital receipts & reserves set aside	(4,868)	(12,305)	(6,954)	(816)
Net Repayment of Borrowing		(2,900)		
Other transactions				
Minimum Revenue Provision	(640)	(727)	(600)	(1,293)
b) Net Borrowing Indicator and Closing Capital Finance Requirement	**20,831**	**19,191**	**54,341**	**53,102**
c) Ratio of Financing Cost to Net Revenue Stream	**1.93%**	**3.65%**	**9.94%**	**14.59%**
d) Incremental impact on the Council Tax		**£57.74**	**£7.21**	**(£0.78)**
e) Gross Debt and the Capital Financing Requirement		**21.47%**	**87.99%**	**87.21%**
f) Gross and Net Debt			**53.99%**	**57.80%**

a) Capital Expenditure Indicator

The total amount of capital expenditure is the initial driver behind the cost of the capital programme for Council Tax payers. This is therefore given as the first indicator. Capital expenditure for 2018/19 has increased significantly from the estimates provided last year. This is due to slippage in expenditure included within the capital programme from earlier years together with the new schemes highlighted within appendix B and the significant expenditure derived from the Commercial Strategy.

* These indicators update the ones presented in Appendix E of the 2018 Financial Strategy.

The total cost falling on the Council Tax Payer is dependent on capital expenditure after taking account of grants and contributions. The Capital Expenditure Indicator does not therefore by itself, indicate the cost of the Capital Programme to Council Tax payers either in one year or over the course of the Financial Strategy.

b) Net Borrowing and Capital Financing Requirement Indicators

Capital expenditure in excess of the financing provided by external grants or the set-aside of reserves or capital receipts, increases the underlying need to borrow. This underlying need is shown by the indicator, the Capital Financing Requirement (CFR). The CFR in turn determines the minimum provision required in the Revenue Budget for repayment of borrowing.

As detailed within the Councils Capital Programme the Council has budgeted to fund £51.993m through its own resources from the period 2017/18 onwards, with £37.737m of this being funded through Unsupported Prudential Borrowing.

The table below details the Unsupported Prudential Borrowing included within the prudential indicators:

Scheme	**2016/17 £k**	**2017/18 £k**	**2018/19 £k**	**2019/20 £k**
Leisure Village – wet construction	3,430	1,203	-	-
Leisure Village – dry construction in lieu of Filey Rd sale)	2,900	-	-	-
OAT Permanent Decking	-	650	-	-
Borrowing included in the 2015/16 budget	9	41	2,750	-
Borrowing included in the 2016/17 budget proposals	300	-	3,000	-
Other previously approved schemes	49	92	-	-
Commercialisation Investments			30,000	-
Total	**6,688**	**1,987**	**35,750**	**-**

The Council will need to take out external borrowing to fund these levels of expenditure. As at February 2018 the Council has £12.0m in external borrowing; the Prudential Indicators assume the levels of prudential borrowing will be in addition to the current £12.0m.

Following accounting changes the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £111k of such schemes within the CFR.

* These indicators update the ones presented in Appendix E of the 2018 Financial Strategy.

c) Ratio of Financing Cost to Net Revenue Stream Indicator

The costs of borrowing and also the interest received from investments, is largely determined by decisions on past and future capital investment. The proportion of revenue grant and council tax that is required to cover this net cost is measured by the Prudential Indicator: Ratio of Financing Costs to Net Revenue Stream. The increases in the ratio result from reductions in the Governments finance settlement, together with increased interest charges from borrowings.

d) Incremental impact on the Council Tax Indicator

The Council's capital strategy supports capital investment by identifying matching financing from reserves, revenue underspends and capital receipts. The calculation measures this in terms of the resulting additional cost each year to Council Tax (Band D). The effect of this updated strategy compared with the resources identified in the previous strategy shows an incremental impact in the 2017/18 financial year. This materialises as a result of the increased investments made within the capital programme.

Funding for the increased investment follows a critical review of the Councils operational reserves together with in year savings made as a result of one off items within the revenue budget. Due to the one-off nature of these investments the levels of impact seen within the 2017/18 figures are not repeated, showing a negligible decrease over the term.

e) Gross Debt and the Capital Financing Requirement

The Capital Strategy and the prudential indicators to which it adheres are based on a principle of prudence. This is measured through the: Gross Debt and Capital Financing Requirement. The purpose is to ensure that over the medium term debt external borrowing will only be used for capital purposes. This is monitored through ensuring that external borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year, plus any additions to the capital financing requirement for the current and next two financial years.

f) Gross and Net Debt

The Gross and Net Debt indicator is used to highlight where the authority may be borrowing in advance of need. This ratio is expressed through the amount of net debt (i.e. borrowings less cash investments) as a percentage of gross debt (borrowings only). The increase in this ratio reflects that in future years the levels of debt will exceed the levels of cash investments, which is currently not the case. The increased percentage reflects the additional borrowings which will be taken out in order to support the Council in pursuing commercial opportunities.

Treasury Management Indicators

The Treasury Management Indicators are set as a means of aiding a prudent borrowing and investment strategy. The predominant indicator is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public

* These indicators update the ones presented in Appendix E of the 2018 Financial Strategy.

Services. The Council has adopted the Code and complies with its requirements. The relevant treasury indicators are outlined below.

Limits to Borrowing Activity

Operational Boundary: this is the limit beyond which external debt is not normally expected to exceed.

Operational Boundary	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
Debt	£12 million	£48 million	£48 million	£48 million
Other long term liabilities				
Total	£12 million	£48 million	£48 million	£48 million

Authorised Limit: this is a limit beyond which external debt is prohibited, and this limit must be set and revised by Full Council. This reflects a level of borrowing which, while not desired, could be afforded in the short term but might not be sustainable in the longer term.

Authorised Boundary	2017/2018 Estimate	2018/2019 Estimate	2019/2020 Estimate	2020/2021 Estimate
Debt	£53 million	£53 million	£53 million	£53 million
Other long term liabilities				
Total	£53 million	£53 million	£53 million	£53 million

Upper and lower limits for the maturity structure of the Council's debt (fixed and variable) for the forthcoming year

* These indicators update the ones presented in Appendix E of the 2018 Financial Strategy.