Isle of Wight Council Capital Strategy

2025-26

1. Document Information

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Version History		
Version	Date	Description
1.0	12 February 2025	First draft – template review, & 25/26 budget implications.

2. Contents

3. Context and Purpose of Policy

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

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

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

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

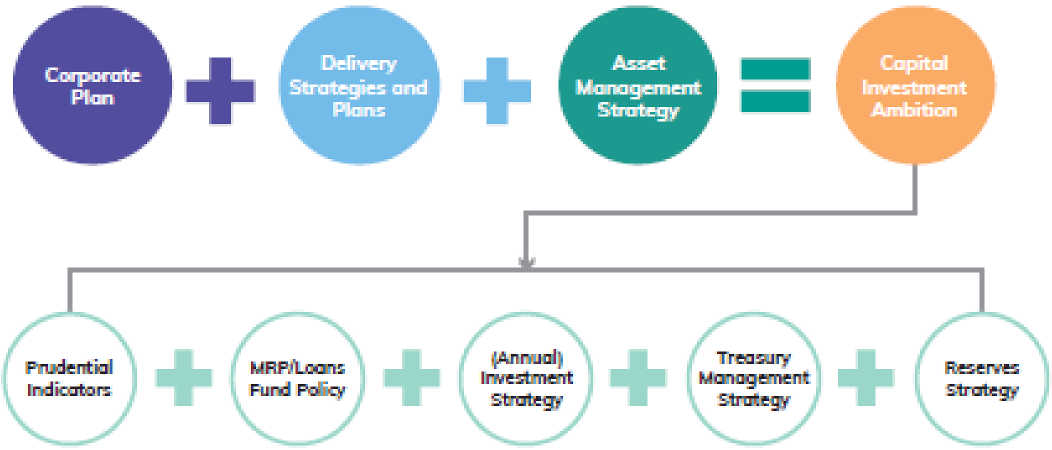
As such, every decision we take will not only need to have regard to our climate change strategy but must also have regard to supporting, sustaining, and enhancing our biosphere status.

Economic recovery - The core strengths of the Island economy remain as a platform for recovery, the investment in high-speed broadband, the increased interest in the quality of life, open green space and the highly connected attractions of island life all combine to enable continued promotion of the Isle of Wight as great place for business. Having good premises and a strong local skills pool are also key factors in helping realise our regeneration ambitions. Our investments with partners in the provision of high-quality business accommodation, which reflects the new more flexible requirements of a post pandemic workplace, further supports the Island's "offer". Growing our skills base and retaining our workforce in key sectors, such as hospitality and social care will be a key challenge for the next five years as will helping those who have lost time from education to recover and achieve their personal goals. These will be key aspects of our Island skills plan.

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

4. Driving our Capital Investment Ambition

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



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

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

5. Balancing Priorities and Resources

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

The climate for Local Government generally continues to be one where the pace at which costs rise is not matched by the pace at which income and funding rise, creating an underlying structural imbalance within the overall financial system.

The Local Government financial envelope is set by Council Tax, the proportion of Business Rates that the Council can retain and Government Funding which is bound within the Comprehensive Spending Review and distributed through the Local Government Finance Settlement. The financial year 2024/25 marks the end of the current Comprehensive Spending Review period, with the next Spending Review due to take place in the Spring of 2025. In the interim period, being the financial year 2025/26 a "roll over" financial settlement from Government was announced on 18 December 2024.

Local Government continues to suffer from exceptional levels of both price rises and demand increases across Social Care and Housing which is destabilising the sector to the extent that many more Councils are seeking Exceptional Financial Support from Government through the approval to borrow to fund their deficits and to increase their Council Taxes beyond the referendum thresholds. The burden of Exceptional Financial Support arrangements ultimately falls to the local taxpayer as the borrowing must be repaid and the Council Tax is increased to fund both the borrowing undertaken and any underlying deficit.

The Budget setting process continues to be as challenging as ever.

The Capital Programme makes proposals for new Capital Expenditure of £13.0m, of which just £2.8m is from Corporate Capital Resources, therefore levering in borrowing capability, reserves and external funding amounting to £10.2m.

Capital Funding has been particularly constrained for 2025/26 to the extent that the aims of the Capital Strategy have not been met; the proposals do not provide surety of funding for the next 3 years for the Council's core essential service delivery (including IT, Vehicle Fleet, Health and Safety Requirements for operational buildings). Furthermore, all uncommitted funding within the approved Capital Programme amounting to £1.9m has been removed to re-direct it to proposed new capital investment for 2025/26 and to support the revenue budget and avoid a serious reduction in the headroom above the minimum level of reserves.

Capital Funding largely comprises either specific grants for schemes, grant funding which is required to be passported to Services or borrowing for Invest to Save Schemes. Genuinely unrestricted Capital Funding (within Corporate Resources) remains scarce and arises from contributions from the Revenue Budget.

Due to the scale of the demand and inflationary pressures that the Council are experiencing, the Council has been unable to afford any contribution towards new Capital Investment from the 2024/25 Budget.

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

Given that ongoing Capital Investment is necessary for the Council's statutory obligations and to support to transform the Island's economic potential. It is vital that the Council makes provision for Revenue Contributions to Capital wherever possible. The proposed Budget for 2025/26 envisages that a £3m Revenue Contribution to Capital will be made to support the Council's Capital Programme for the financial year

2026/27, this however is predicated upon the Council returning a Balanced Budget at the end of 2025/26 and will be subject to confirmation at the Budget Meeting in 2026.

To fulfil even some of the future obligations and aspirations, further revenue contributions to capital will be required in future years and will need to remain embedded within the Council's financial planning process.

To support the Council's Capital Investment needs and aspirations, it is vital that the "standing recommendation" continues that any savings arising at the year-end be transferred to Capital Resources to provide funding for known and potential future commitments.

The development of a Capital Strategy considers investments that will be made in the acquisition, creation, or enhancement of tangible or intangible fixed assets, to yield benefits to the Council for a period of more than one year. It also considers how stewardship, value for money, prudence, sustainability and affordability will be secured. The Capital Strategy 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 uncertain or forecast resources are not applied 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	Annual review of all contractually uncommitted capital schemes which rely on non-ring-fenced funding is undertaken to ensure that they remain a priority in the context of any newly emerging needs and aspirations
	Investment in programmes of a recurring nature that are essential to maintain operational effectiveness
	Invest in specific schemes that: • have a significant catalytic potential to unlock the regeneration of the Island. • are significant in terms of the Council strategies that they serve. • are significantly income generating or efficiency generating. • if not implemented would cause severe disruption to service delivery.

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

6. Planned Capital Investments

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

- Provide some assurance and funding security for essential core services and facilities
- Complements the existing capital programme and further supports the council's financial viability for the medium term
- Invests in Schools
- Invests in care facilities including adaptions to peoples' homes
- Invest in highways network works, the public realm and rights of way
- Provide investment in coastal defences to prevent further damage to coastal assets by erosion

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.

	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	TOTAL
Leader, Transport & Infrastructure, Highways, PFI & Transport Strategy, Strategic Oversight & External Partnerships	33.62	3.91	3.06	2.19	3.05	4.31	50.15
Deputy Leader, Housing and Finance	6.18	29.32	13.25	0.00	0.00	0.00	48.75
Adult Social Care and Public Health	1.99	1.41	1.35	0.05	0.05	0.00	4.84
Children's Services, Education & Corporate Functions	7.43	3.56	2.23	0.00	0.00	0.00	13.22
Regulatory Services, Community Protection, & ICT	2.00	0.23	2.70	0.00	0.00	0.00	4.93
Planning, Coastal Protection and Flooding	2.35	0.62	36.70	0.00	0.00	0.00	39.67
Economy, Regeneration, Culture & Leisure	10.77	12.61	5.00	0.00	0.00	0.00	28.38
Climate Change, Biosphere & Waste	6.19	1.21	0.10	0.00	0.00	0.00	7.50
TOTAL	**70.53**	**52.87**	**64.39**	**2.24**	**3.10**	**4.31**	**197.44**

7. Financing the Capital Programme

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

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

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

Capital Receipts – the Council may be able to generate funding for its priorities by selling surplus assets and generating capital receipts. Once an asset is deemed to be surplus to requirements, the Council's policy is to evaluate, through an options appraisal, whether to transfer, sell or re-develop the site seeking to find the optimum balance between the economic and social return to the Island and the financial return to the Council. The Council's policy is to allocate any capital receipts from sales of assets to the financing plan for capital investments, and should receipts exceed that amount in year, the Council will consider extending the capital programme or using the opportunity to reduce prudential borrowing and make revenue savings. The Council does not plan to utilise Government guidance updated in August 2022 for flexibility around use of capital receipts to fund transformational revenue projects but will keep this under review up until and including 2029/30.

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

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

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

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

The planned financing of our capital investments is as follows:

Table 2 - Capital financing in £ millions

	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	TOTAL
Unsupported borrowing	7.62	40.14	19.47	0.00	0.00	0.00	67.23
Corporate Resources (including capital receipts)	9.59	3.49	9.03	2.19	3.05	4.31	31.67
Ringfenced Grants	52.34	9.23	35.89	0.05	0.05	0.00	97.56
External Contributions	0.99	0.00	0.00	0.00	0.00	0.00	0.99
TOTAL	**70.53**	**52.87**	**64.39**	**2.24**	**3.10**	**4.31**	**197.44**

8. Minimum Revenue Provision 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 Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) issued in April 2024.

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.

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

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

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

- For assets acquired by leases of Private Finance Initiative, MRP will be determined as being equal to the element of the rent of charge that goes to write down the balance sheet liability, in line with the Council's accounting policy.

- Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS16 Leases Accounting Standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on the transition rather than the liability.

Capital Loans

- For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

- For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

- For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

- For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27 or later. Based on the Council's latest estimate of its Capital Financing Requirement (CFR), the budget for MRP has been set as follows:

Table 3 – Estimate of MRP in £ millions

	31.03.2025 Estimated CFR	**2025-26 Estimated MRP**
Capital expenditure before 01.04.2008	144.7	2.0
Capital expenditure after 01.04.2008	153.5	4.8
Leases and Private Finance Initiative (including IFRS16 remeasurement)	137.9	5.8
Capital Loans to Third Parties	1.0	0.0
Total General Fund	**437.1**	**12.6**

Capital Receipts

Proceeds from the sale of capital assets are classed as capital receipts, and are typically used to finance new capital expenditure. Where the Council decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.

- Capital receipts arising from other assets which form an identified part of the Council's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

The CFR measures the Council's cumulative need to borrow for capital purposes, i.e., its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The CFR is expected to increase by £27.5 million during 2025/26. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2025 Forecast	**31.3.2026 Budget**	**31.3.2027 Budget**	**31.3.2028 Budget**
General Fund services	370.6	424.5	451.2	456.4
Capital investments	66.5	40.1	19.5	0.0
TOTAL CFR	**437.1**	**464.6**	**470.7**	**456.4**

9. Links to Treasury Management

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

a. Borrowing

Due to a culmination of decisions taken in the past, the Council currently (31/12/2024) has £168.1 million borrowing at an average interest rate of 3.38% and £23.0 million treasury investments at an average rate of 4.72%.

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

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

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2025 Forecast	**31.3.2026 Budget**	**31.3.2027 Budget**	**31.3.2028 Budget**
Debt (incl. PFI & leases)	292.7	316.5	318.9	304.7
Capital Financing Requirement	437.1	464.6	470.7	456.4

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 £10 million at each year-end, as required by the Treasury Management Strategy to maintain sufficient liquidity and minimise credit risk. This benchmark is currently £164.8 million and is forecast to increase to a maximum of £203.0 million during the next three years. Table 7 below shows that the Council expects to remain borrowed below its liability benchmark.

Table 6: Borrowing and the Liability Benchmark in £ millions.

	31.3.2025 Forecast	**31.3.2026 Budget**	**31.3.2027 Budget**	**31.3.2028 Budget**
Forecast borrowing	154.8	184.4	193.0	186.2
Liability benchmark	164.8	194.4	203.0	196.2

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

	2024/25 Limit	2025/26 Limit	2026/27 Limit	2027/28 Limit
Authorised limit – borrowing	460.0	460.0	470.0	470.0
Authorised limit – PFI and leases	210.0	270.0	260.0	250.0
Authorised limit – total external debt	670.0	730.0	730.0	720.0
Operational boundary – borrowing	368.0	366.0	379.0	372.0
Operational boundary – PFI and leases	168.0	215.0	208.0	200.0
Operational boundary – total external debt	536.0	581.0	587.0	572.0

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

b. Treasury Investments

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

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

10. Non-Treasury Service Investments

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

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

11. Non-Treasury Commercial Investments

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

- a balanced commercial property portfolio that provided long term rental returns and growth.
- a portfolio of property assets with a view to diversification on individual assets by sector (industrial, offices and retail), location and risk.
- core assets being the best property for the sector in an ideal location with long term income to high quality tenants.
- all investments must initially provide income (yield) equal to, or above, the Council's required rate of return.
- priority to be given to properties that yield optimal rental growth and a stable income.
- protect capital invested in acquired properties.
- location to be dictated by opportunity to acquire investments that meet the strategy, with proximity to the Isle of Wight being a deciding factor when all other attributes are equal.

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

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

12. Other Liabilities

In addition to debt of £168.1 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 8: Prudential Indicator: Proportion of financing costs to net revenue stream.

	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
Financing costs (£ millions)	20.6	21.4	22.2	23.1
Proportion of net revenue stream	10.53%	10.43%	10.51%	10.60%

14. Risk Management

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

Risk	Mitigation
Revenue budget	The cost of borrowing is an element of the revenue budget that we are committed to before we have delivered any services or incurred any other costs. As the Council's revenue budget reduces, the Council seeks to ensure that the ratio of capital financing to available revenue resources doesn't become disproportionate.
Inflation	Capital delivery costs are vulnerable to inflation. In costing the projects, a level of contingency has been built into each scheme to mitigate this risk as well as negotiating fixed price contracts wherever possible. Close monitoring of the programme seeks to ensure that inflationary pressures are identified early on and can be managed within the overall financial provisions.
Legislative	Changes in statute and regulations will impact on both the scope and costs of capital projects as they must comply with legislation. The Council must horizon scan and remain aware of any changes in the pipeline which might affect projects and makes amendments accordingly.
Procurement	The Councils procurement strategy ensures that the principles and practices associated with procuring works, goods and services consistently achieves value for money and actively contributes to the Councils priorities. It also ensures that legislative requirements are met.
Market	The programme is complex, and the successful delivery of various aspects depends to a large extent on the commercial market. In particular, income from capital investments and capital receipts may be affected. Professional advice and valuations are sought to mitigate this risk.
Externally Led Projects	Increasingly, major projects are funded, led and delivered by or in partnership with developers, neighbouring authorities, or Government departments. Whilst such funding and projects can support the delivery of our objectives, the Council strives to ensure that any commitment to such projects does not detract from our ability to fund and prioritise smaller local investment on the Island.

Internal capacity	The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field to ensure that the Council has access to knowledge and skills commensurate with its risk appetite. For large complex projects, professional external advice and services including project management, surveyors and valuers are used to undertake due diligence to understand risks and inform decision making.
Contractor capacity	It is recognised that the capacity of Island based contractors is limited and the delivery of one significant project can often impact on capacity to deliver others. Similarly, off island contractors can be unwilling to commit to relocating or accommodating staff, transport of goods and materials etc, or they may price contracts to reflect these resulting in significantly higher costs. These issues have been well documented as the 'island factor' and the Council continues to argue its case for differential funding to account for this.
Contractor Failure	Our reliance on a limited number of contractors either based on the island or willing to work on the island, could lead to project delays or additional and abortive costs should a contractor fail. This is particularly the case where works or materials are of a specialist nature. The Council's procurement process seeks to ensure that suitable financial checks are completed before contract award, but the current financial climate impacts on the reliability of any such information.
Pandemic	The Council seeks to build in contingencies for such events into timescales but recognises that such factors may ultimately lead to delays and additional costs.