Appendix 1

Blackburn with Darwen Borough Council

Capital Strategy

2021/22 to 2023/24

Contents

- **Background**

The Capital Strategy forms a key part of the Council's overall Corporate Budget Planning and provides a mechanism by which capital expenditure and investment decisions are aligned over the medium to long-term period.

The Council prepared a Capital Strategy for the first time in 2019/20, following the release of the updated *Prudential Code for Capital Finance in Local Authorities* by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2017.

This Strategy sets out the framework for all aspects of the Council's capital and investment expenditure including prioritisation, governance, funding and monitoring and risk management, and maintains links to other key strategic documents, notably the Treasury Management Strategy and Medium Term Financial Strategy.

- **Aims of the Capital Strategy and its links to the Council's Corporate Plan**

The aim of this Strategy is to ensure that the Council has overall long-term policy objectives in this area, resulting in the identification of capital strategy requirements, governance procedures and clarity in its risk appetite.

The capital strategy gives a high-level overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with an overview of how associated risks are managed, and the implications for future financial sustainability.

Capital investment plans are driven by the Council's Corporate Plan. The Corporate Plan was agreed by elected members in March 2019 and it is the Council's key strategic document.
The Corporate Plan 2019-2023 sets out the Council's core priorities and ambitions for the period and contains eight strategic priorities:

- **People:**
  - Supporting young people and raising aspirations
  - Safeguarding and supporting the most vulnerable people
  - Reducing health inequalities and improving health outcomes
- **Place:**
  - Connected communities
  - Safe and clean environment
- **Economy:**
  - Strong, growing economy to enable social mobility
  - Supporting our town centres and businesses
- **Council:**
  - Transparent and effective organisation

- **<u>Capital spending priorities and governance</u>**

The key principles for the Council's 2021-2024 capital programme are summarised below:

- Capital spending decisions reflect the aspirations and priorities included within the Corporate Plan and supporting strategies.
- Schemes to be added to the capital programme will be evaluated and prioritised by senior management prior to Executive Board / Executive Member approval.
- The full cost of any capital scheme must be established at the outset, including any financing costs and future revenue operational costs.
- Commissioning and procuring of capital schemes will comply with the requirements set out in the Council's constitution and financial regulations/ contract procurement rules.

The Council prepares its capital programme on a 3 year rolling basis, which is approved annually by Finance Council. Quarterly monitoring and outturn reports are considered by Executive Board during the financial year.

The Council's capital spending priorities for 2021/22 include:

- Transforming our systems to offer digital solutions which improve customer satisfaction by ensuring all services where appropriate are able to be accessed digitally, and to allow the Council to operate as efficiently as possible.
- Delivering the growth plan priorities of Industry and Gateways; Town Centre; and Housing.
- Maintaining and improving our highways to support economic growth and improve the connectivity of transport networks.
- Developing commercial floor space and priority housing sites.
- Creation of school places to meet the demand of pupil growth within the Borough.

Local Plan 2018 to 2037

The Council is in the process of reviewing its Local Plan, and the draft new plan, which covers the period 2018 to 2037, is currently under consultation.

The Vision: Blackburn with Darwen 2037

In 2037 Blackburn with Darwen will be a thriving, carbon neutral Borough. It will be recognised as a place of strong leadership and community cohesion. A place that has invested in its communities and infrastructure, has a high quality built and natural environment, and is strengthened by the contributions of the different communities who live and work in the Borough. Over the period of the plan, policies and decisions will have consistently demonstrated net gains in social, environmental and economic objectives set out in the Local Plan.

The Draft Local Plan Consultation outlines the strategic policy for a number of core policy themes:

- <u>Housing</u>
The Council's Housing and Economic Needs Assessment (HENA) estimates a minimum requirement for between 358 and 411 net new dwellings per annum to support the economic growth scenario for the Borough.

  Over recent years a number of new developments have started within the Borough, contributing towards fulfilling the need for residential housing in the area. The Council's Growth and Development team continue to work to identify potential sites for future developments, however the majority of this work does not fall within the Council's own capital programme.

  Currently around 5% of the total residential housing stock in the Borough is empty, with 13% of properties having stood empty for over 2 years. Empty properties in the borough can have negative environmental impact on neighbourhoods, in addition to being a wasted housing resource. Tackling empty properties supports the key priorities in the Council's Corporate Plan and the Empty Property Strategy. The Council currently has a Neighbourhood Intervention Project as part of the capital programme, which can be used to bring long-term empty properties back into use in cases where the owners have not done so themselves. This project will continue, and has the potential to grow, over the coming years.

- <u>Economic Development</u>
The Council's HENA, Employment Land Review, and Strategic Employment Site Economic Case set out the justification for planning for delivery of a range of employment land of between 57.1 – 70.5ha of land over the period of the plan. This will ensure that businesses and developers are provided with a choice of sites by size, quality and location; to ensure that land is available to meet local needs, but also to allow Blackburn with Darwen to compete for inward investment in the regional economy.

  Alongside the provision of new sites (including a new strategic employment site at Junction 5 of the M65), the Council will focus on protecting existing employment areas.

- <u>Town Centres and Commercial Development</u>
Promoting the growth of commercial development and other town centre uses such as leisure, entertainment, offices, arts, culture, tourism facilities and housing is important for maintaining the vitality and viability of existing centres in the Borough and ensuring that they continue to act as a focus for the community.

  The Council has some existing capital projects that will be ongoing in 2021/22 including work on the renovation at Blakey Moor and Blackburn town centre redevelopment of the former Thwaites site.

- <u>Climate Change and the Natural Environment</u>
The Council has set an ambitious target to become carbon neutral by 2030. Development and transport are major contributors to greenhouse gas emissions thus, if the Borough is

to achieve carbon neutrality, energy demand from existing buildings, new development and transport must be minimised and generation of energy from low carbon and renewable sources increased.

In February 2020 the Executive Board approved a Climate Emergency Action Plan, which set out the main proposals and initial actions that the Council intends to take, underpinned by the following objectives:

- Sound decisions – To use resources sustainably so as not to add to the burden of climate change emissions in Blackburn with Darwen or elsewhere.
- Resilient & attractive borough – To align policy to climate change mitigation and adaptation objectives to create sustainable places where people want to live, work and visit and capture the benefits to health and the economy from the move to a climate friendly borough.
- Lean and clean – To use energy more efficiently and generate more locally from renewable sources; cut waste and improve recycling.
- Travelling lightly – To make and facilitate the transition to cleaner, greener fuels and more active travel.
- Capturing more carbon – To store carbon naturally by increasing tree cover, protecting soils and enhancing natural habitats.

Work is ongoing to produce business plans for each action, which may result in new capital schemes over the coming years.

- Health and Well-being
  Blackburn with Darwen experiences significantly higher than average levels of poor health among its population.

  This core policy seeks to ensure that specific development proposals that come forward over the life of the Local Plan consider health and well-being in its full context.

- Design and Heritage
  Design quality and heritage are closely linked and important as they contribute towards a sense of place and making our settlements and rural areas distinctive.

  Blackburn with Darwen has a rich and varied history that is reflected in its built environment and should be protected and taken into account when considering new development. It is essential that the most important elements of the Borough's historic environment are protected as positive assets that will promote ongoing growth.

- Transport and Accessibility
  A number of Connectivity Studies have been prepared to support the Local Plan which appraise the potential impact of proposed growth sites on the local pedestrian and cycling networks. They identify a number of potential gaps in the existing highway and sustainable travel provision and recommend improvements that may be necessary in order to adequately support developments.

The Blackburn with Darwen Local Transport Plan (LTP3) provides a long-term strategy and delivery programme of transport investment and service improvements for the period 2011-2021.

Work is now progressing between the three Transport Authorities of Blackburn with Darwen, Blackpool and Lancashire to prepare a Joint Lancashire Local Transport Plan 4 (LTP4) covering the period 2021-2046. Emerging key themes are:

- Improving access into, between and within areas of economic growth and regeneration
- Improving people's health, safety, quality of life and wellbeing
- Reducing the environmental impact of transport
- Maintaining our assets.

LTP4 is programmed for adoption by March 2021.

Initial projects identified in the emerging LTP4 include electric charging vehicle points in the town centres, Blackburn Railway Station redevelopment and the development of new Public Rights of Way in and around Darwen.

- <u>Infrastructure and Delivery</u>
  The new housing, employment and other development proposed in the Local Plan will increase demands on physical infrastructure such as roads, social infrastructure such as health and education facilities, and green infrastructure such as open spaces.

  Development proposals will be expected to include or contribute to the provision, improvement or replacement of infrastructure that is required to meet needs arising from the development proposal and/or to serve the needs of the wider area. The types of infrastructure required to support developments may include:
    - Transport and Highways
    - Flood Risk Management
    - Education Provision
    - Health Services
    - Community and Leisure Facilities
    - Green Infrastructure and Natural Environment
    - Decentralised Energy.

  The Council has a number of ongoing capital schemes in respect of the creation of new school places across the Borough, as well as the various Local Transport Plan projects mentioned above.

Darwen Town Fund Deal

The Darwen Town Deal is an opportunity to kick-start the transformation of Darwen and the surrounding areas.

Up to £25 million of Government funding is available for projects which could improve the lives of residents and their life chances. As the full £25 million is not guaranteed, a Darwen

Town Deal board has been created – bringing together experts who all have close links to the area. There are rules about how the money must be spent with a strategic focus on projects that will enhance and improve Darwen for future generations to come. The bid was submitted to Government in January 2021, and we await their decision on the funding allocation.

The Government has already made £750,000 of Town Deal funding available to help bring projects forward quickly. Four schemes have been chosen by the Board to benefit, including Darwen Tower, AFC Darwen, Junction 4 Skatepark and funding to look at the feasibility of an elite cricket academy in the town.

Capital Schemes

There is a requirement for the continued funding of existing programmes of work on:

- Social Care (including an ongoing programme to provide aids and adaptations)
- School Investment/ Pupil Places Pressures
- Environmental Services (Land Remediation Scheme)
- Growth and Development Projects (including Blakey Moor Renovation, Local Transport Plan)
- Development of the ICT Strategy
- Progression of the Corporate Accommodation Strategy

In addition to the projects referred to above, funding may be required in respect of further/new projects including:

- Low Carbon and Energy Efficiency Initiatives
- Housing Initiatives
- A potential new Household Waste Recycling Centre
- Transport and Highways
- Fleet Management

Further details of the Council's Capital Programme are included within the *Revenue Budget 2021/22, Medium Term Financial Strategy and Capital Programme 2021-2024 Report* which is on the agenda of this meeting.

- **Capital Expenditure**

Capital expenditure is spending on assets such as property or vehicles that will be used for more than one year. In local government this includes spending by the Local Authority on assets owned by other bodies, and loans and grants made by the Local Authority to other bodies enabling them to buy assets. The Council has some limited discretion on what is deemed to be capital expenditure, for example assets costing below £10,000 are not capitalised and are instead charged to revenue in the year the expenditure is incurred.

For details of the Council's Capitalisation Policy, see **Appendix 2**.

In 2021/22, the Council is planning capital expenditure of £25.5 million, as summarised below:

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

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Portfolio spending	26.1	25.1	18.5	2.5	3.8
Earmarked schemes	-	0.5	5.5	2.0	2.0
Contingent schemes	-	-	1.5	1.5	1.5
Total Capital Programme	**26.1**	**25.6**	**25.5**	**6.0**	**7.3**

Further analysis of planned capital expenditure by portfolio can be found in **Appendix 3**.

- **<u>Capital Financing (Including MRP)</u>**

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
External sources	13.3	16.8	8.8	1.9	1.9
Own resources	1.1	1.0	3.4	0.8	1.8
Debt	11.8	7.8	13.3	3.3	3.6
Total Capital Financing	**26.1**	**25.6**	**25.5**	**6.0**	**7.3**

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 which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. The Council's planned MRP and use of capital receipts is as follows:

Table 3: Forecast MRP and Use of Capital Receipts To Repay Debt in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Capital Receipts To Repay Debt	2.1	3.4	5.1	3.3	-
MRP	6.5	5.7	6.0	6.6	6.8

The Council's policy for setting a "prudent" level of Minimum Revenue Provision for the repayment of debt, must be consistent with the Council's Medium Term Financial Strategy, and can be found at **Appendix 4.**

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases as new debt-financed capital expenditure is incurred and reduces with MRP, and as capital receipts are used to replace debt.

The table below shows that the CFR is expected to increase by £2.3 million during 2021/22. 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

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
General Fund services	215.9	214.8	217.4	211.3	208.5
Debt managed by LCC	15.3	15.2	15.1	14.9	14.7
PFI projects	69.5	69.3	69.1	68.9	68.7
Total CFR	**300.7**	**299.3**	**301.6**	**295.1**	**291.9**

- **<u>Asset management</u>**

To ensure that capital assets continue to be of long-term use, the Council has an Asset Management Plan in place. This ensures that land and property assets support the aims and objectives of the Council and its key services. In particular, the plan aims to:

- Enable the Council to understand the scope of its property and land assets portfolio i.e. location, suitability, condition and value.
- Maximise the beneficial and efficient use of property and land assets.

- Encourage the regular review and challenge of the continued use and ownership of property and land assets to ensure they are still delivering a rate of return and are fit for purpose.
- Ensure that buildings are properly maintained.

Asset Management Plans are normally produced every 3 to 5 years; the plan produced in 2015/16 is now in the process of review and development and is expected to be published shortly.

The Council's Asset Management Group acts as a strategic steering group, which formulates and reviews the aims and objectives of the Asset Management Plan. The group works with the Corporate Finance team in overseeing the Capital Expenditure and Capital Receipts programmes.

In line with the Council's Corporate Plan and Growth Agenda, a Development Growth Board has been developed to run alongside and support the Asset Management Plan.

The Council's current Asset Management Plan can be found at **Appendix 7**.

The Council's Highways Asset Management Strategy was revised in July 2019. This document describes the Council's strategy for the management of its highway assets, considering long-term needs as well as the short-term position to address maintenance requirements. The objectives of this strategy are:

- To direct investment in the highway related assets on the basis of 'prevention is better than cure', having consideration to the Council's priorities, risk and the current condition of the assets.
- To improve the overall condition and explore the most cost effective maintenance treatments, based on the whole life of the assets.
- To facilitate the development of cost-effective forward works programmes over a number of years based upon the principles of life cycle planning.
- To ensure the Council adheres to its duty of care under the Highways Act 1980.

The Council's current Highways Asset Management Strategy can be found at **https://blackburn.gov.uk/roads-and-highways/highways-asset-management**.

- **Asset disposals**

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or may be used to repay debt. At present the Council also has the authority to spend capital receipts on the revenue costs of service transformation projects until 2021/22, following a Government capitalisation direction giving all councils more flexibility in their use of capital receipts.

Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £5.1 million of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	Future Years Budget £m
Asset Sales	2.1	2.4	5.1	3.3	33.5
Loans Repaid	-	-	-	-	-
Sale of Investments	-	1.1	-	-	-
Total Capital Receipts	**2.1**	**3.5**	**5.1**	**3.3**	**33.5**

The Council plans to continue to utilise all of the capital receipts generated from the disposal of land and property in support of the Minimum Revenue Provision i.e. to repay debt.

Further details of planned asset disposals, together with the Council's Flexible Use of Capital Receipts Policy are detailed in **Appendix 3.**

- **Treasury management**

The Council produces a Treasury Management Strategy, which is approved annually by the Executive Board.

The Capital Strategy and Treasury Management Strategy are closely linked as the capital programme determines the borrowing need for the Council. This is part of the long-term cash flow planning to ensure that the Council can meet its capital spending requirements.

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 is met through borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

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

Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities, leases and transferred debt from local government reorganisation) are shown below, compared with the capital financing requirement (see above).

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

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	Future Years Budget £m
Debt (including PFI and LCC debt)	311.5	299.1	293.6	278.3	276.1
Capital Financing Requirement	300.7	299.3	301.6	295.1	291.9

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Council's debt was in excess of the capital financing requirement temporarily at the end of 2019/20, this was due to slippage on some capital schemes, and additional borrowing required for the advance payment of pension costs made in April 2020. The effects of the advance payment of pension costs will cease by the end of 2022/23, at which point debt is anticipated to return to normal levels, when compared to the capital financing requirement. As can be seen from Table 6, the Council expects to comply with this guidance from 2020/21 and over the medium term.

The authorised limit and operational boundary are calculated based on the projected capital financing requirement of the Council and an allowance for other short-term borrowing needs.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. 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

	2020/21 Limit £m	2021/22 Limit £m	2022/23 Limit £m	Future Limit £m
Authorised Limit – Borrowing	286.0	263.1	244.2	228.7
Authorised Limit – PFI and LCC Debt	84.8	84.5	84.2	83.8
Authorised Limit – Total External Debt	370.8	347.6	328.4	312.5
Operational Boundary – Borrowing	276.0	253.1	234.2	218.7

Operational Boundary – PFI and LCC Debt	84.8	84.5	84.2	83.8
Operational Boundary – Total External Debt	360.8	337.6	318.4	302.5

The authorised limit and operational boundary are calculated based on the projected capital financing requirement of the Council and an allowance for other short-term borrowing needs.

Treasury investment strategy: Treasury investments arise from receiving cash before it is required to be 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, i.e. 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 could be 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 if required at short notice.

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to mitigate the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff within the Finance Team, who must act in line with the Treasury Management Strategy approved by Executive Board each year. A regular officer group (Treasury Management Group) also review treasury management activity and operational decisions. Quarterly reports on treasury management activity are presented to the Audit and Governance Committee, which is responsible for scrutinising treasury management decisions. Treasury management activities are also reported on each quarter to the Executive Board within the quarterly Corporate Budget Monitoring reports.

Further details of the Council's borrowing and treasury investments can be found in the Treasury Management Strategy which is to be presented to Executive Board for approval on 11 March 2021.

- **<u>Other investment and long term liabilities</u>**

In addition to the treasury investments referred to in the section above, the Council may also make loans and investments for service purposes, and may purchase and maintain property for investment purposes. The Investment Strategy included at Appendix 6 focuses on these other, non-treasury investments.

Service investments
These investments, including loans and shareholdings, are made for their contribution toward service delivery objectives. For example, the Council could advance relatively small loans to local businesses and local residents for community and economic benefits. In light of the public service objective, the Council is willing to take more risk in making service investments than it is with treasury investments, however it still aims for such investments to contribute to its corporate priorities.

The Council has entered into joint ventures and partnerships previously, which have resulted in ownership of shares in the companies set up to deliver the objectives of these projects. These have included Building Schools for the Future – Private Finance Initiatives and joint ventures with development companies. These are held as long-term investments for the Council, but with the primary objective being their contribution towards service delivery.

Governance: Decisions on service investments are made by the Director of Finance, the Executive Member for Finance and Governance or the Executive Board, in line with the Council's constitution. Most loans and shares are capital expenditure and purchases will therefore be approved as part of the capital programme.

Commercial investments
Historically, the Council has invested in commercial property, largely for regeneration purposes, but has also received financial gain in the form of rental income.

As there are financial and wider economic returns, the Council accepts higher risk on commercial investment than on treasury investments. The principal risk exposures include: vacancies, rent arrears and a fall in capital value. These risks are managed by the Council's Asset Management Group as part of their regular review of the continued ownership of property and land assets to ensure they are still delivering a rate of return and are fit for purpose.

Governance: Decisions on commercial investments are made by the Strategic Director (Place), the Executive Member for Finance and Governance or the Executive Board in line with the Council's constitution. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme.

Further details on service and commercial investments are included in the Investment Strategy in **Appendix 6.**

Liabilities

In addition to the debt detailed in Table 6 above, the Council is committed to making future payments to cover its pension fund deficit (valued at £253.074 million at 31st March 2020), and other liabilities arising from the Council's PFI contracts under the Building Schools for the Future programme (£63.414 million at 31st March 2020). It has also set aside £2.547 million to cover risks in relation to:

- Backdated appeals against the rateable value of business ratepayers (£1.600 million)
- Injury and damage compensation claims (£0.947 million)

The Council is also at risk of having to settle additional insurance claims, not provided for in the list above, in relation to the "Scheme of Arrangement" between local authorities and the administrators of Municipal Mutual Insurance. The Council has not put aside any funds for this purpose because the potential liability is less certain and the amount cannot be measured reliably. It does, however, disclose this item as a "contingent liability" in the Statement of Accounts.

Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance. The risk of liabilities crystallising and requiring payment is monitored by the Finance Team together with budget holders, and significant potential liabilities are reported quarterly to Executive Board within the quarterly Corporate Budget Monitoring reports.

- **<u>Revenue budget implications</u>**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as the Financing Cost; within the Prudential Indicators, 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

	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Main Programme capital financing costs as a proportion of Net Revenue Stream	7.03%	8.50%	9.06%	8.91%
BSF PFI capital financing costs as a proportion of Net Revenue Stream	3.53%	4.10%	4.30%	4.25%
Prudential Indicator for ratio of financing costs to Net Revenue Stream	**10.56%**	**12.60%**	**13.36%**	**13.16%**

Further details on the revenue implications of capital expenditure can be found within the *Revenue Budget 2021/22, Medium Term financial Strategy and Capital Programme 2021-2024* report which is on the agenda of this meeting

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable as set out in the *Robustness of the 2021/22 Budget and the Recommended Level of Reserves* report which is on the agenda of this meeting.

- **Knowledge and skills**

The Council's approach to ensuring that the requisite knowledge and skills are held and demonstrated when making capital expenditure, borrowing and investment decisions, includes:

- Employment of professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
- Training for council members to aid informed decision-making and effective scrutiny.
- Engagement of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, and other appropriate advisors as required.

The intention is that by building a solid knowledge base for both Officers and Members, they are fully informed when taking decisions to realise corporate objectives. Specialist support from external advisors strengthens the decision making process and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

- **Prudential indicators**

The Prudential Code provides a framework to ensure that the capital investment plans of the Council are affordable, prudent and sustainable. The Prudential Indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators, and should be considered in parallel with the Treasury Management Indicators required by the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*.

In setting or revising its Prudential Indicators, the Council must have regard to the following matters:

- service objectives – alignment with the Council's strategic plan
- stewardship of assets – asset management planning
- value for money – option appraisal
- prudence and sustainability – risk and implications for external debt and whole life costing
- affordability – the amount of money the Council can afford to borrow and the impact on revenue budgets

Although a number of Prudential Indicators have been referred to already in the body of this report, the full list of indicators is detailed in **Appendix 5**.

BLACKBURN WITH DARWEN BOROUGH COUNCIL - CAPITALISATION POLICY

Unless expenditure qualifies as capital it will normally fall outside the scope of the Prudential Framework and will be charged to revenue in the period that the expenditure is incurred. If expenditure meets the definition of capital, there may be opportunities to finance the outlay from capital receipts or by spreading the cost over future years' revenues.

There are three routes by which expenditure can qualify as capital under the Prudential Framework:

- The expenditure results in the acquisition, construction or enhancement of non-current assets (tangible and intangible) in accordance with "proper practices"
- The expenditure meets one of the definitions specified in regulations made under the 2003 Local Government Act.
- The Secretary of State makes a direction that the expenditure can be treated as capital expenditure.

Capitalisation under proper practices

Proper practices are defined to include *the Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). The Code is published annually and its provisions relating to capitalisation are based on IAS 16 *Property, Plant and Equipment*.

Expenditure on acquisitions and construction work is analysed to decide whether it satisfies the accounting rules for recognising a non-current asset in the Council's Balance Sheet. The amount capitalised generally comprises the purchase price plus any expense directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples include:

- acquisition of land and site preparation.
- acquisition, construction, preparation or replacement of roads, buildings and other structures.
- acquisition, installation or replacement of movable or immovable plant, machinery, apparatus and vehicles.
- acquisition of non-current assets that do not have physical substance but are identifiable and are controlled by the Council as a result of past events i.e. the Council will receive future economic benefits or service potential as a result of enforceable rights, such as a legal title or licence (intangible assets)

Capitalisation can include subsequent expenditure on existing assets, where the value of the asset is enhanced by:

- lengthening substantially the life of the asset.
- increasing substantially the open market value of the asset.
- increasing substantially the extent to which the asset can be used for a function of the Council.

Assets may also be recognised (at fair value) under leases, PFI contracts and similar agreements.

The Council has some limited discretion on what is deemed capital expenditure, for example assets costing below £10,000 (the de-minimis amount) are not capitalised and are charged to revenue in the year the expenditure is incurred.

Regulations made under the Local Government Act 2003

Special arrangements exist in local government for the extension of the accounting definition of capital expenditure. Regulation 25 of the 2003 regulations (as amended) allows certain expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this provision is to enable payments to be funded from capital resources rather than charged to the General fund and impact on that year's council tax.

Capital expenditure within the 2003 regulations includes:

- The giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the Council, be capital expenditure (except for advances made to officers as part of their terms or conditions of employment or in connection with their appointment).
- The repayment of any grant or other financial assistance given to the Council for the purposes of expenditure which is capital expenditure.
- The acquisition of share capital in any body corporate (except for investments in Money Market Funds or an investment in a real estate investment trust).
- Expenditure incurred on works to any land or building in which the Council does not have an interest, which would be capital expenditure if the Council had an interest in that land or building.
- Expenditure incurred on the acquisition, production or construction of assets for use by or disposal to a person other than the Council which would be capital expenditure if those assets were acquired, produced or constructed for use by the council.

Revenue expenditure funded from capital under statute (REFCUS)

This term relates to payments that would otherwise be revenue expenditure but are treated as capital expenditure for the reasons above, and are financed from capital resources.

The underlying revenue nature of the expenditure means that it is debited or charged to the Comprehensive Income and Expenditure account when it is incurred. The statutory provision to treat the expenditure as capital allows the debit against the General Fund to be reversed and posted to the Capital Adjustment Account, so that there is no impact on the Council's "bottom line".

The adjustment that is made between the accounting basis and the funding basis is reflected in the Movement in Reserves Statement within the Council's statutory accounts.

Capitalisation directions

The Secretary of State for Housing, Communities and Local Government has powers to direct that expenditure that would not otherwise be capital, should be treated as such. As the treatment of revenue expenditure as capital is contrary to the normal accounting requirement that long-term borrowing or capital receipts should only be used for capital investment, the

Secretary of State advises authorities that they must meet strict criteria before a direction will be given. These criteria are set out each year in a guidance note.

In December 2015, the Government issued a capitalisation direction allowing councils to use capital receipts more flexibly by using such receipts to fund “qualifying expenditure” on a project where incurring up-front costs would generate ongoing savings. In February 2021 government announced the continuation of the capital receipts flexibility programme until 2024/25.

The capitalisation directions permit local authorities to treat revenue expenditure “incurred on projects designed to reduce future revenue costs and/or transform service delivery” as capital expenditure during the six financial years from 2016/17 to 2021/22. This capital expenditure may only be funded from new capital receipts arising from asset sales after 31st March 2016.

The statutory guidance (published in 2016) includes examples of eligible projects to transform service delivery or deliver efficiency savings, including:

- Integrated services across different functions
- Shared services across different authorities
- New ways of working such as digital service delivery
- Joint working such as joint procurement or selling services to other authorities

Examples of the revenue costs that might be incurred on these projects might include:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others).

The guidance is clear that only initial set-up costs may be capitalised, not on-going running costs.

- **CAPITAL PROGRAMME 2021-2024**

Capital expenditure

In 2021/22, the Council is planning capital expenditure of £25.493 million as summarised below:

Table 1: Estimates of Capital Expenditure in £ thousands

	2019/20 Actual £'000	2020/21 Forecast £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000
Health and Adult Social Care	1,941	1,164	2,594	1,614	1,614
Children, Young People and Education	2,387	5,282	5,800	763	2,013
Environment	106	1,687	333	-	-
Public Health and Wellbeing	1,145	-	-	-	-
Growth and Development	18,672	14,781	6,133	150	150
Digital and Customer Services	1,403	728	1,254	-	-
Finance and Governance	482	1,475	2,347	-	-
Portfolio Spending	**26,136**	**25,117**	**18,461**	**2,527**	**3,777**
Corporate ICT	-	122	2,000	-	-
Vehicles	-	352	532	-	-
Corporate Property Investment	-	-	3,000	2,000	2,000
Earmarked Schemes*	**-**	**474**	**5,532**	**2,000**	**2,000**
Asset Management	-	-	1,500	1,500	1,500
Contingent Schemes**	**-**	**-**	**1,500**	**1,500**	**1,500**
Total Capital Expenditure	**26,136**	**25,591**	**25,493**	**6,027**	**7,277**

*** Earmarked schemes** – These are programmes that the Council is committed to undertaking. As specific schemes are identified, reports are prepared to obtain appropriate approvals and budgets are allocated to portfolios.

**** Contingent schemes** – These are schemes or programmes the Council may wish to undertake in future years if proposals are affordable. Detailed proposals and business cases will be required.

The programme is predominantly comprised of existing commitments including investment in:

- our local transport plan
- aids and adaptations through provision of disabled facilities grants
- regeneration of the borough, including our scheme at Blakey Moor to enhance the town centre in Blackburn and support the improvement of leisure facilities and a night time economy and Blackburn town centre redevelopment of the former Thwaites site
- facilitating housing and business growth
- support of continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings
- support of our accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space.
- schools capital programme existing schemes and creation of additional school places required within the Borough

Allocations are included for:

- potential investment in existing assets

Within the capital programme there is also a Property Investment Fund, which enables the Council to invest in land and property should the opportunity arise.

Further details of individual capital schemes included within the Council's capital programme are included as an appendix to the *Revenue Budget 2021/22* report, elsewhere on this agenda.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ thousands

	2019/20 Actual £'000	2020/21 Forecast £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000
Government Grants	10,076	10,774	8,574	1,877	1,877
External Contributions	3,196	6,028	231	-	-
Revenue Contribution	1,073	1,040	3,381	750	1,750
Borrowing	11,791	7,749	13,307	3,400	3,650
Total Capital Financing	**26,136**	**25,591**	**25,493**	**6,027**	**7,277**

Planned asset disposals

The Asset Management Group monitors asset disposals and generation of capital receipts throughout the year. Capital receipts are generated through the sale of land and property no longer used by the Council and / or in order to facilitate commercial or housing development.

The MRP estimates that are included within the Council's 2021/22 Budget and MTFS are based on the following estimates of capital receipts:

	2019/20 Actual £'000	2020/21 Forecast £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000
Disposal of Land and Property	2,116	2,358	5,052	3,259	33,501
Sale of Investments	-	1,081	-	-	-
Total Capital Receipts	**2,116**	**3,439**	**5,052**	**3,259**	**33,501**

The Council plans to continue to utilise the majority of any capital receipts generated from the disposal of land and property in support of the Minimum Revenue Provision i.e. to repay debt.

Flexible use of capital receipts strategy

The statutory guidance (published in 2016) states that for each financial year, a local authority should ensure it prepares a Flexible use of Capital Receipts Strategy. The guidance states that as a minimum, the Strategy should list each project for which the Council plans to make use of the flexibility and on a project by project basis, it should detail the expected savings/service transformation that it is expected to deliver. It also states that the Strategy should report the impact on the local authority's Prudential Indicators for the forthcoming year and subsequent years. The Strategy should be presented to Full Council for approval. The flexibility originally only applied to new capital receipts arising from 1st April 2016 until 31st March 2022. In the Local Government Finance Settlement, approved in February 2021, the Ministry for Housing, Communities and Local Government announced an extension of 3 years to 2025.

The Council has no specific plans to use capital receipts flexibly for 2021/22 at this point in time. Should these plans change, an updated strategy will be presented to Full Council for approval as required.

MINIMUM REVENUE PROVISION (MRP) STATEMENT

Introduction

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as 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 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 MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP, but authorities retain flexibility over their determination of what is prudent.

The proposed methodologies for use within Blackburn with Darwen Borough Council are set out below and reflect the basic principles set out in the guidance, along with some locally determined and prudent modifications to make the MRP more straightforward to calculate.

Proposed MRP Policy Statement for 2021/22

The following MRP Policy is proposed, under guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) is as follows:

(a) *For capital expenditure financed from debt arising up to 2007/08 and all new Government-supported borrowing arising from 2007/08 and thereafter -* to spread the cost outstanding at the end of 2014/15 over 50 years (from 2015/16 through to 2064/65), but to use the annuity variant, based on the average Public Works Loan Board (PWLB) annuity rates prevailing in 2014/15.

(b) *For capital expenditure that is self-financed from debt arising in 2007/08 and thereafter -* to charge the expenditure over the expected useful life of the relevant asset ("the Asset Life Method"), but to use the annuity variant, based on the average PWLB annuity rates prevailing in the year of the expenditure (rather than charging on a straight line basis over the asset life).

(c) *For 'on-balance sheet' Private Finance Initiative (PFI) contracts* - to use the annuity variant of the Asset Life Method, using the annuity rates built into the financing arrangements for the contracts. This means that the MRP will relate to the estimated asset life and may not match the value written down each year against the balance sheet liability of the respective lease or PFI contract.

(d) *For assets acquired by leases* – MRP will be determined as being equal to the principal element of the rent or charge that goes to write down the balance sheet liability.

(e) *For historic debt that was entered into prior to unitary authority status and is managed by Lancashire County Council (LCC)* - to spread the cost using an annuity variant, based on the average PWLB annuity rates prevailing in 2014/15, over 50 years (up to 2064/65), in alignment with the profile for historic supported borrowing.

(f) *In those cases where asset lives cannot be readily determined* - to use a default period of 20 or 25 years in line with government guidance. However the Council may make its own determination in exceptional circumstances, if the recommendation of the guidance would not be appropriate.

(g) *Where loans are made to other bodies for their capital expenditure* – to charge no MRP. However, the capital receipts generated by the repayments on those loans will be put aside to repay debt instead.

Change in Policy from Previous Years

The above policies in respect of capital expenditure financed from debt arising up to 2007/08 and all new Government-supported borrowing arising from 2007/08 and thereafter and historic debt that was entered into prior to unitary authority status and is managed by Lancashire County Council (LCC) represent a change from those reported in the MRP statement presented for 2020/21. The proposed policies for 2021/22 are for MRP to be charged over 50 years from 2015/16 using an annuity variant, based on the PWLB rate prevailing in 2014/15. Previously MRP has been charged over the same period but on a straight-line basis.

The annuity method makes provision for an annual charge to the General Fund which, unlike the current straight-line method, takes account of the time value of money. The annual MRP charges made by using the annuity method results in a consistent charge over an asset's life, taking into account the real value of the annual charges when they fall due.

It is proposed that these changes in policy are implemented for 2020/21 and subsequent years.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Capital expenditure incurred during 2021/22 will not be subject to a MRP charge until 2022/23.

Therefore, in the determination of MRP, the Council will be both:

(a) **prudent** - working within the principle that debt be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits, and

(b) **practical** - making detailed determinations where the impact of the calculation will be material, but allowing a more general approach if that would be reasonable.

PRUDENTIAL INDICATORS FOR 2021/22

Introduction

Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Chartered Institute of Finance and Accountancy (CIPFA) Prudential Code provides a framework to ensure that the capital investment plans of the Council are affordable, prudent and sustainable.

The Prudential Indicators recommended in the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators, and should be considered in parallel with the Treasury Management Indicators required by the CIPFA *Code of Practice on Treasury Management in the Public Services*.

The Prudential Indicators provide a broad framework to be considered alongside robust forecasting procedures embedded into the budget process of the Council. Forecasts should be regularly updated as the capital programme develops, and proposals should be considered in terms of their impact on the overall corporate position, ensuring that prudence and affordability are taken into account.

Prudential Indicators in relation to previous years' actuals are taken directly from information in the Council's statement of accounts. The Prudential Indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. The forward-looking Prudential Indicators include indicative figures for years two and three to allow decisions to be made with an appreciation of future trends. It is recognised that these will be subject to change but exist to promote a move away from the focus on annual decision making towards longer-term strategies.

Procedures are in place to monitor performance against the forward-looking indicators in order to highlight significant deviations from expectations.

Prudential Indicators for prudence

Estimates of Capital Expenditure in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Portfolio Spending	26.1	25.1	18.5	2.5	3.8
Earmarked Schemes	-	0.5	5.5	2.0	2.0
Contingent Schemes	-	-	1.5	1.5	1.5
General Fund Services	**26.1**	**25.6**	**25.5**	**6.0**	**7.3**

Total capital spend in later years may be higher than currently forecast – however only spend funded from borrowing will impact on the Council's CFR.

Estimates of Capital Financing Requirement in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
General Fund Services	215.9	214.8	217.4	211.3	208.5
Debt Managed by LCC	15.3	15.2	15.1	14.9	14.7
PFI Projects	69.5	69.3	69.1	68.9	68.7
Total CFR	**300.7**	**299.3**	**301.6**	**295.1**	**291.9**

The Council must make reasonable estimates of the "total Capital Financing Requirement" – that is an estimate of the debt outstanding in respect of capital expenditure, including LCC debt and that relating to the recognition of assets acquired under PFI projects, at the end of each of the next three financial years. The LCC element relates to debt still managed by the County Council in respect of services transferred when Blackburn with Darwen became a Unitary Authority. The Other Long Term Liabilities in relation to PFI schemes are in respect of schools built under the Building Schools for the Future programme.

Authorised limit and operational boundary for external debt in £ millions

	2020/21 Limit £m	2021/22 Limit £m	2022/23 Limit £m	Future Limit £m
Authorised Limit – Borrowing	286.0	263.1	244.2	228.7
Authorised Limit – PFI and LCC Debt	84.8	84.5	84.2	83.8
Authorised Limit – Total External Debt	370.8	347.6	328.4	312.5
Operational Boundary – Borrowing	276.0	253.1	234.2	218.7
Operational Boundary – PFI and LCC Debt	84.8	84.5	84.2	83.8
Operational Boundary – Total External Debt	360.8	337.6	318.4	302.5

Gross Debt and the Capital Financing Requirement in £ millions

	2019/20 Actual £m	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Debt (including PFI and LCC debt)	311.5	299.1	293.6	278.3	276.1
Capital Financing Requirement	300.7	299.3	301.6	295.1	291.9

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Council's debt was in excess of the capital financing requirement temporarily at the end of 2019/20, this was due to slippage on some capital schemes, and additional borrowing required for the advance payment of pension costs made in April 2020. The effects of the advance payment of pension costs will cease by the end of 2022/23, at which point debt is anticipated to return to normal levels, when compared to the capital financing requirement. As can be seen from the table above, the Council expects to comply with this guidance in 2020/21 and onwards in the medium term.

Prudential Indicators for affordability

Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

The incremental cost of any additional, unsupported borrowing required for new schemes to be added to the programme is not expected to be material on the 2021/22 budgets and as such has will have negligible impact on Council Tax. All new proposals are subject to the Council's governance and financial regulations and are reported accordingly, identifying the revenue costs associated with such schemes as applicable.

Estimates of proportion of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, there are revenue budget implications i.e. interest payable on loans and MRP repayments, offset by any investment income receivable. The net annual charge is known as financing costs i.e. the cost of financing capital expenditure.

The Council must estimate the proportion of the revenue budget taken up in financing costs, by comparing financing costs to the net revenue stream i.e. the amount available to fund the Council's revenue budget from Council Tax, business rates and general government grants.

The Indicator below is calculated on the basis that all of the Capital Programme, including Contingent elements, is delivered and assumes no reduction in SFA when projecting the future Net Revenue Stream beyond 2021/22.

	2020/21 Forecast £m	2021/22 Budget £m	2022/23 Budget £m	2023/24 Budget £m
Main Programme capital financing costs as a proportion of Net Revenue Stream	7.03%	8.50%	9.06%	8.91%
BSF PFI capital financing costs as a proportion of Net Revenue Stream	3.53%	4.10%	4.30%	4.25%
Prudential Indicator for ratio of financing costs to Net Revenue Stream	**10.56%**	**12.60%**	**13.36%**	**13.16%**

The Council's capital financing costs in respect of BSF PFI schemes – both MRP and financing charges (interest elements) – are included, but this cost is largely covered by central government grant and does not put a pressure on Council resources.

It remains the case that a significant proportion of the net revenue budget is taken up in supporting the Main Programme part of the Capital Programme.

INVESTMENT STRATEGY 2021/22

Introduction

This investment strategy focuses on the Council's strategy in respect of non-treasury management investments.

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as ***treasury management investments***),
- to support local public services by lending to or buying shares in other organisations (***service investments***), and
- to earn investment income (known as ***commercial investments*** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the Treasury Management Strategy, to be presented to Executive Board on 11th March 2021 for consideration and approval.

Non-Treasury Management investments

The Council may also make loans and investments for service purposes, and may purchase property for investment purposes. The investment strategy focuses on these other investments, which are included within the second and third categories above.

- **Service Investments: Loans**

Contribution: The Council could advance relatively small loans to local businesses and local residents for community and economic benefits. For example, the capital programme includes a number of schemes where loans are given to support home owners unable to fund essential property repairs to bring properties back into use.

Security: The risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, the loans to home owners are registered as a charge against the property at the Land Registry which will be removed by the Council once full repayment of the loan has been made.

Risk assessment: The main purpose of these service loans is not to make a financial rate of return for the Council; it is to support the key priorities in the Council's Corporate Plan and the Empty Property Strategy. Bringing empty homes back into use will support the sustainability of the neighbourhood and provide much needed housing for people in housing need. It also contributes to reducing the potential for anti-social behaviour by re-occupying long-term empty homes.

- **Service Investments: Shares**

Contribution: The Council may invest in the shares of its partners to support local public services and stimulate local economic growth.

The Council had a 5% shareholding in Blackburn with Darwen and Bolton Local Education Partnership Limited, which was formed in order to deliver the capital investment elements of the Building Schools for the Future programme. The Council had also invested in Blackburn with Darwen and Bolton Phase 1 Holdings Limited, Blackburn with Darwen and Bolton Phase 1 Limited, Blackburn with Darwen and Bolton Phase 2 Holdings Limited, Blackburn with Darwen and Bolton Phase 2 Limited, which are special purpose companies established solely to deliver the new schools at Pleckgate, Witton Park and Blackburn Central with Crosshill under the Private Finance Initiative. All of these investments have been sold during 2020/21.

The Council has also a minority shareholding in a Special Purpose Vehicle together with a local developer for the purposes of acquiring a specific vacant site, which has had a history of stalled development activity and incidents of anti-social behaviour, vandalism and trespass, the SPV will prepare the site for future development by 3rd parties. The proposed development will contain a mix of employment and residential end uses, which will directly support growth in jobs and housing.

Security: One of the risks of investing in shares is that they fall in value, meaning that the initial outlay may not be recovered. In order to limit this risk, an upper limit of £100,000 has been set in relation to investment in company shares where there is no direct service benefit arising.

Risk assessment: The Authority assesses the risk of loss before entering into such shareholdings by ensuring the Council's risk exposure is quantified and capped at the proposed initial investment. The main purpose of these shareholdings is not to make a financial rate of return for the Council; it is to support the key priorities in the Council's Corporate Plan and the service delivery objectives of its Growth agenda.

Non-specified Investments: Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

- **<u>Commercial Investments: Property</u>**

The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as *property held **solely** to earn rentals or capital appreciation or both.* Commercial properties owned by the Council are held for regeneration, planning reasons and estate management purposes in addition to earning rental income, therefore, they have been classified as property, plant and equipment within the accounting statements.

Government guidance in the context of this investment strategy has a different view and defines property to be an investment if it is held **primarily or partially** to generate a profit.

Contribution: The Council invests in local commercial property with the dual purpose of supporting the local economy and generating rental income to support expenditure spent on local public services. The main categories of property investments held are as follows:

- Industrial estates
- Business centres
- Sundry commercial property
- Sundry shops
- Agricultural tenancy
- Industrial/ commercial development sites
- Residential development sites
- Vacant land

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council, and would be included here for completeness.

The Council does not have any such liabilities at present.