Appendix 1

Blackburn with Darwen Borough Council

Capital Strategy

2022/23 to 2024/25

BLACKBURN with DARWEN BOROUGH COUNCIL

Contents

- **<u>Background</u>**

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.

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.

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

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 2022-2025 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. Service Teams entered bids in October to include projects in the Council's capital programme. Bids were collated by the Director and Finance and his team in a report presented to the Corporate Leadership Team in December and a draft capital programme agreed. The final capital programme is presented to Finance Council for approval annually.

Quarterly monitoring and outturn reports are considered by Executive Board during the financial year.

The Council's capital spending priorities for 2022/23 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 updating its Local Plan, and the Publication Draft Local Plan, which covers the period 2018 to 2037, is currently under public 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, a place strengthened by the contributions of the different communities who live and work in the Borough. Over the period of the plan, policies and decisions should seek to deliver social, environmental and economic gains.

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

- Housing
  The Council's Housing and Economic Needs Assessment (HENA) (2021) estimates a need for 447 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 4.5% of the total residential housing stock in the Borough is empty, with 13.8% 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.

- Economic Development
  The Council's HENA (2021) sets out a realistic economic growth scenario for the Borough. It concludes a minimum need for 198,451sqm of new employment floorspace in the Borough over the period of the plan. Creation of new employment floorspace at this scale will help to facilitate net growth of around 5,000 new jobs.

  Converted to land requirements the HENA highlights that a minimum of 46.4ha of new land is required over the plan period. The HENA identifies a potential further 34.3ha of land as being justified for allocation to ensure increased choice in the market (a land buffer) and to ensure that the impact of historic and future losses of employment land is minimised.

  Alongside the provision of new strategic employment sites, the Council will focus on protecting existing employment areas.

- Town Centres and Commercial Development
  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 2022/23 including work on the renovation at Blakey Moor and Blackburn town centre redevelopment of the former Thwaites site.

- Climate Change and the Natural Environment
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 the 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 further business plans for each action, which may result in new capital schemes over the coming years.

- Health and Well-being
Improving the physical and mental health and the well-being of residents, workers and visitors is a key strategic objective of the Local Plan.

  This core policy sets out our strategic approach to helping manage new development to influence health and well-being in the most positive way possible.

- 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.

- <u>Transport and Accessibility</u>
  A number of transport evidence based documents have been prepared to support the Local Plan which appraise the potential impact of proposed growth sites on the local pedestrian, cycling public transport and highway networks. They have also identified a wide range of potential interventions and a strategy for improvements in order to adequately support new developments. The improvements range in scale from strategic to local in nature.

  The Blackburn with Darwen Local Transport Plan (LTP3) provided a long-term strategy and delivery programme of transport investment and service improvements for the period 2011-2021. A number of transport schemes identified in LTP3 have been successfully delivered, including the Freckleton Street link road, Clitheroe to Manchester rail enhancements and the Pennine Reach rapid bus transport scheme.

  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.

  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 i 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. Appropriate matters to be funded by planning contributions include, but are not limited to:
  - Affordable housing
  - Education provision
  - Transport and travel improvements
  - Highways infrastructure
  - Health infrastructure
  - Community facilities
  - Open space, public realm and leisure
  - Flood defence and water management
  - Biodiversity net gain and environmental improvements
  - Carbon reduction including decentralised energy
  - Digital infrastructure.

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.

The maximum bid of £25 million of Government funding has been secured for projects that will improve the lives of our residents. This major funding boost will allow the Darwen Town Deal Board – made up of experts who all have links to our town – to progress with a range of exciting planned projects.

It also underpins the delivery of the Darwen Investment Plan, worth £116 million, aiming to generate and safeguard over 600 jobs and create and assist over 200 businesses.

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, Darwen Town Deal)
- Development of the ICT Strategy
- Progression of the Corporate Accommodation Strategy
- Fleet Management

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
- Further development of the Digital Strategy

Further details of the Council's Capital Programme are included within **Appendix 6**.

- **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 2022/23, the Council is planning capital expenditure, excluding a one off adjustment for a change in accounting for leases, of £39.0 million, as summarised below:

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

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
Portfolio spending	21.1	24.9	30.9	23.4	17.6
Earmarked schemes	-	0.8	3.3	2.6	2.9
Contingent schemes	-	-	1.5	1.5	1.5
Total Capital Programme	**21.1**	**25.7**	**35.7**	**27.5**	**22.0**
Estimate of IFRS16 Adjustment *	-	-	45.0	-	-
Total Capital Programme	**21.1**	**25.7**	**80.7**	**27.5**	**22.0**

* £45.0 million of capital expenditure in 2022/23 arises from a change in the accounting for leases and does not represent cash expenditure.

On 1 April 2022 there is a change in accounting standards to implement a new standard, IFRS16. This change relates to assets leased by the Council on operating leases (leases where the risks and rewards of ownership do not substantially transfer to the lessee).

Previously, the cost of these leases were expensed to the Revenue Account in year as they were incurred, however, going forward, at the start of a lease agreement the Council will have to recognise an asset and liability equal to the amount of future cash flows relating to that lease, discounted at the implied interest rate for that lease or the Council's incremental rate of borrowing.

On transition at 1 April 2022 the Council will recognise an increase in assets, liabilities and Capital Financing Requirement in relation to lease agreements in place at that date. It is expected that there will be no change in the amount charged to the Revenue Account each year in respect of these leases.

Further analysis of planned capital expenditure by portfolio can be found in **Appendix 6**.

- **Capital Financing (Including MRP)**

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

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
External sources	14.5	17.3	15.3	13.5	8.1
Own resources	0.1	2.3	6.4	4.0	2.4
Debt	6.5	6.1	12.7	9.3	10.5
Debt - Leasing *	-	-	46.3	0.7	1.0
Total Capital Financing	**21.1**	**25.7**	**80.7**	**27.5**	**22.0**

* £45.0 million of capital expenditure in 2022/23 arises from a change in the accounting for leases and does not represent cash expenditure.

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

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Capital Receipts To Repay Debt	3.0	5.0	3.4	3.1	2.0
MRP	5.7	5.9	6.4	6.7	6.7

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 3.**

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 (excluding leases) is expected to increase by £2.9 million during 2022/23. 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

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
General Fund services	214.1	209.7	213.0	212.8	215.0
Debt managed by LCC	15.1	15.0	14.8	14.6	14.4
PFI projects	69.3	69.1	68.9	68.7	68.5
Total CFR (Excluding Leases)	**298.5**	**293.8**	**296.7**	**296.1**	**297.9**
Estimate of Leases CFR *	-	-	45.0	45.0	45.0
Total CFR (Including Leases)	**298.5**	**293.8**	**341.7**	**341.1**	**342.9**

* £45 million of the Capital Financing Requirement increase in 2022/23 arises from a change in the accounting for leases.

- **Asset management**

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.

The Asset Management Plan is in the process of review and development.

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 runs alongside and supports the Asset Management Plan.

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.

Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £3.4 million of capital receipts in the coming financial year as follows:

Table 5: Capital receipts in £ millions

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	Future Years Budget £m
Asset Sales	2.0	5.0	3.4	3.1	32.1
Loans Repaid	-	-	-	-	-
Sale of Investments	1.1	-	-	-	-
Total Capital Receipts	**3.1**	**5.0**	**3.4**	**3.1**	**32.1**

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 Use of Capital Receipts Policy are detailed in **Appendix 6.**

- **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. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Due to decisions taken in the past, the Council currently has £237 million borrowing at an average interest rate of 4.8% and £53 million treasury investments at an average rate of 0.08%.

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 (currently available at around 0.4%) and long-term fixed rate loans, where the future cost is known but is higher (currently 1.5% to 2.5%).

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

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m *	2023/24 Budget £m	2024/25 Budget £m
Debt (including PFI, Leases and LCC debt)	299.1	229.6	278.3	282.0	285.4
Capital Financing Requirement	298.5	293.8	341.7	341.1	342.9

* £45 million of the Capital Financing Requirement and Debt increase in 2022/23 arises from a change in the accounting for leases.

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 2020/21, 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 2021/22 and over the medium term.

Liability benchmark: 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 an investment balances are kept to a minimum level of £10 million. This benchmark is currently £131 million and is forecast to rise to £172 million over the next 3 years.

Table 7: Borrowing and the liability benchmark in £ millions

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Debt (excluding PFI, Leases and LCC debt)	224.0	156.8	163.2	169.9	176.7
Liability Benchmark	174.8	130.6	146.7	166.4	171.7

The table shows that the Authority expects to remain borrowed above its liability benchmark. This is mainly due to the additional borrowing required for the advance payment of pension costs made in April 2020.

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

	2021/22 Limit £m	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m
Authorised Limit – Borrowing	263.1	245.2	232.2	234.5
Authorised Limit – PFI, Leases and LCC Debt *	84.5	139.2	138.8	138.4
Authorised Limit – Total External Debt	347.6	384.4	371.0	372.9
Operational Boundary – Borrowing	253.1	235.4	222.2	224.5
Operational Boundary – PFI, Leases and LCC Debt *	84.5	139.2	138.8	138.4
Operational Boundary – Total External Debt	337.6	374.4	361.0	362.9

* From 2022/23 onwards the limits have been increased to allow for additional liabilities which will arise from a change in the accounting for leases.

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.

Table 9: Forecast treasury management investments in £ millions

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Short-Term Investments	59.2	36.2	26.5	13.5	15.0
Long-Term Investments	-	-	-	-	-
Total Investments	**59.2**	**36.2**	**26.5**	**13.5**	**15.0**

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.

The treasury management prudential indicators are included within the treasury management strategy, which is to be presented to Executive Board for approval on 10 March 2022.

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 10 March 2022.

- **<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, which have resulted in ownership of shares in the companies set up to deliver the objectives of these projects. These have included 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, primarily 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 of 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 5.**

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 £325.184 million at 31st March 2021. It has also set aside £2.875 million to cover risks in relation to:

- Backdated appeals against the rateable value of business ratepayers (£1.637 million)
- Injury and damage compensation claims (£1.238 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.

- **Revenue budget implications**

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 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 Actual £m	2021/22 Forecast £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m
Financing Costs (£m)	18.1	17.5	21.5	21.8	22.1
Proportion of Net Revenue Stream	10.5%	12.1%	14.3%	13.8%	14.5%

£2.5m of the increase in financing costs in 2022/23 on future years arises from a change in the accounting for leases and does not represent additional cost to the authority.

Further details on the revenue implications of capital expenditure can be found within the *Revenue Budget 2022/23, Medium Term financial Strategy and Capital Programme 2022-2025* 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 2022/23 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 4**.