Appendix 1

Blackburn with Darwen Borough Council

Capital Strategy

2023/24 to 2025/26

Contents

BLACKBURN with DARWEN BOROUGH COUNCIL

- **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.

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 requirements, governance procedures and clarity in its risk appetite.

The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is 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 December 2022 and is the Council's key strategic document. The Corporate Plan 2023-2027 sets out the Council's core priorities and ambitions for the period and contains four core missions:

- A more prosperous borough where no-one is left behind.
- Every child and young person to have the opportunities to fulfil their potential.
- Deliver our Climate Emergency Action Plan.
- Build healthier, happier and safer communities.

- **Capital spending priorities and governance**

The key principles for the Council's 2023-2026 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 of 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 2023/24 include:

- Delivering the growth plan priorities of Industry and Gateways; Town Centre; and Housing.
- Creation of school places to meet the demand of pupil growth within the borough.
- Providing adaptations to help people live in their own homes.
- 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.
- Maintaining and improving our highways to support economic growth and improve the connectivity of transport networks.
- Developing commercial floor space and priority housing sites.

Local Plan 2018 to 2037

The Council's Local Plan has been updated and was submitted to the Government's Planning Inspectorate on 5th August 2022 for examination to determine that it is sound and legally compliant. As part of the examination, public hearings have taken place (in early February 2023) following which Planning Inspectors will produce a report summarising the outcome of the examination and any recommended changes required to the Plan. Subject to the Planning Inspector's report, it is for the Council to adopt the Plan.

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

- <u>Housing</u>
  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.

  Maximising the potential of the borough's existing housing stock is important. Empty properties in the borough can have a 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 in 2023/24, and has the potential to grow over the coming years.

- <u>Economic Development</u>
  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.

  Regarding 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.

- <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 town centre development projects that will be completed during 2023/24 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 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. This is complimented by the work of the People's Jury on Climate Change that has produced a series of recommendations for the Council to consider. These recommendations were presented to the Council Forum in January 2023 and it was agreed they would be used to update the Council's Climate Change Emergency Action Plan.

- 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 in the plan recognises the important link between the natural and built environment and long-term health and wellbeing outcomes, and 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>
  An effective transport network is needed to support a strong economy and community, and is a key part of the borough's 'Balanced Growth' strategy. The Local Plan must ensure that new development is located in the most sustainable locations and is accessible by a choice of active travel modes, including walking, cycling and public transport.

  To this end, a number of transport evidence based documents were prepared to support the Local Plan which appraised the potential impact of proposed growth sites on the local pedestrian, cycling public transport and highway networks. They also identified a wide range of potential interventions and a strategy for improvements in order to adequately support new developments. The improvements range in nature and scale from strategic to local.

  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. 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 developments 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 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 Deal Fund

In September 2019, Darwen was one of the original 100 (now 101) towns across England invited by the Government to develop an innovative regeneration plan and potentially secure a Towns Fund allocation of up to £25 million, and in July 2021, the Town Deal Board were informed that they had been successful in securing the maximum allocation of £25 million.

The Darwen Town Deal is an opportunity to kick-start the transformation of Darwen and the surrounding areas, and the key elements of the delivery programme include:

- Darwen Town Centre

This includes projects to refurbish and re-purpose Darwen's important heritage buildings, including the Market Hall and The Library Theatre, and improve the settings of their buildings and their connections within the centre. This will also include new residential development, new retail space, new cultural, learning and community opportunities, and new landscaping and environmental improvements.

- Employment Growth and Business Innovation

A range of exciting projects which build on Darwen's proud and still strong manufacturing strengths. These will provide modern business premises to support the creation of new jobs for both existing and new businesses. The new Advanced Manufacturing Research Centre, which is part of Sheffield University, is a real coup for Darwen and will extend the town's research and development capacity in new composite technologies and play an important role in regional business growth. The relocation, retention and expansion of Perspex International to a new site in Darwen will safeguard jobs and help establish a new production centre and research facilities to support their global operation.

- Destination Darwen

The town's fantastic setting as a gateway to the West Pennine Moors came through very strongly in the public consultation as something local people wanted to cherish and improve. Proposals to create new and improved connections linking the Town Centre, residential neighbourhoods, our parks and the Moors will develop into detailed plans. These trails will encourage active travel – particularly walking and cycling – and outdoor exercise options for residents as well as encouraging new visitors, boosting the local economy.

- East Lancashire Sports Village
  This initiative will be spearheaded by new sporting facilities at Darwen Cricket Club, AFC Darwen and J4 Skatepark, with the latter capable of hosting national and international events, and providing training facilities for our Olympic stars of the future which are accessible to all.

Detailed business cases for the agreed projects were submitted to the Government in August 2022, and approved towards the end of the year, and project delivery has now begun. Although there are some early wins with smaller projects such as J4 Skatepark improvements and Darwen Cricket Club well underway, work on the major projects will be starting at pace in 2023/24 to develop detailed designs and the delivery strategies.

Levelling Up Fund

In January 2023 the Government announced the results of the second round of their Levelling Up Fund (LUF). Blackburn with Darwen was successful in securing £20 million for its Growth Axis Transport Package, a scheme to invest in Blackburn's infrastructure in the Southeast area of the town to tackle congestion and give local people more, better options to walk and cycle around the city.

The LUF bid for the development of Blackburn town centre was unsuccessful.

In addition to the £20 million LUF funding, match funding of £7.5 million has been built into the Council's capital programme over the next three years. This may be used to support the successful LUF scheme or, if alternative match funding options can be sourced in this area, it could be used to fund a redesigned regeneration scheme in the town centre.

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, LUF Project)
- 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
- Further development of the Digital Strategy

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

- **<u>Capital Expenditure</u>**

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets

For details of the Council's Capitalisation Policy, see **Appendix 2**.
In 2023/24, the Council is planning capital expenditure of £42.3 million, as summarised below:

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Portfolio spending	17.0	26.2	36.9	25.5	38.3
Earmarked schemes	0.3	2.4	3.1	3.4	0.8
Contingent schemes	-	-	2.3	1.0	-
Total Capital Programme	**17.3**	**28.6**	**42.3**	**29.9**	**39.1**

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
External sources	12.8	18.6	15.0	13.1	26.7
Own resources	2.0	3.8	7.0	1.9	0.1
Debt	2.5	4.9	19.6	13.9	12.3
Debt - Leasing	-	1.3	0.7	1.0	-
Total Capital Financing	**17.3**	**28.6**	**42.3**	**29.9**	**39.1**

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 are as follows:

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Capital Receipts To Repay Debt	5.1	4.0	5.6	2.6	3.0
MRP	6.3	6.3	6.6	6.9	7.0

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 £7.5 million during 2023/24. 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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
General Fund services	205.6	200.7	208.6	213.4	216.1
Debt managed by LCC	14.9	14.7	14.5	14.3	14.1
PFI projects	69.1	68.9	68.7	68.5	68.2
Total CFR	**289.6**	**284.3**	**291.8**	**296.2**	**298.4**

- **Asset management**

To ensure that capital assets continue to be of long-term use, the Council has a Strategic 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 Strategic Asset Management Plan has recently been reviewed and updated and is due to be presented to the Executive Board for approval on the 9th March 2023.

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 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 Blackburn with Darwen Asset Highways Management Strategy.

- **Asset disposals**

When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be used to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £5.6 million of capital receipts in the coming financial year as follows:

Table 5: Capital Receipts in £ millions

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	Future Years Budget £m
Asset Sales	5.1	4.0	5.6	2.6	3.0
Loans Repaid	-	-	-	-	-
Sale of Investments	-	-	-	-	-
Total Capital Receipts	**5.1**	**4.0**	**5.6**	**2.6**	**3.0**

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.

At the time of writing the Council currently has £215 million borrowing at an average interest rate of 5.1% and £72 million treasury investments at an average rate of 1.8%.

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 short-term loans (currently available at around 3.75% to 4.25%) and long-term fixed rate loans, where the future cost is known but is higher (currently 4.5% to 5.0%).

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Debt (including PFI, Leases and LCC debt)	299.1	208.0	211.8	215.2	218.2
Capital Financing Requirement	289.6	284.3	291.8	296.2	298.4

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from Table 6, the Council expects to comply with this guidance in 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 and investment balances are kept to a minimum level of £10 million. This benchmark is currently £105 million and is forecast to rise to £149 million over the next 3 years.

Table 7: Borrowing and the Liability Benchmark in £ millions

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Debt (excluding PFI, Leases and LCC debt)	161.8	138.0	144.6	151.5	158.3
Liability Benchmark	129.6	105.3	142.2	146.5	148.8

The table shows that the Authority expects to remain borrowed above its liability benchmark, particularly in the short term. This is partly due to the additional borrowing required for the advance payment of pension costs made in April 2020, but the gap in 2022/23 is also due to low levels of capital expenditure offset by high value capital receipts during the year, therefore reducing the borrowing requirement.

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

	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m
Authorised Limit – Borrowing	245.3	228.1	232.8	235.5
Authorised Limit – PFI, Leases and LCC Debt	84.1	83.7	83.3	82.9
Authorised Limit – Total External Debt	329.4	311.8	316.1	318.4
Operational Boundary – Borrowing	235.3	218.1	222.8	225.5
Operational Boundary – PFI, Leases and LCC Debt	84.1	83.7	83.3	82.9
Operational Boundary – Total External Debt	319.4	301.8	306.1	308.4

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 Investments in £ millions

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Short-Term Investments	42.2	42.7	12.4	15.0	19.5
Long-Term Investments	-	-	-	-	-
Total Investments	**42.2**	**42.7**	**12.4**	**15.0**	**19.5**

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 9th March 2023.

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 to the Executive Board each quarter as part of 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 9th March 2023.

- **Other investment and long term liabilities**

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 5** 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.

With financial return being the main objective, 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 Growth and Development in consultation with the Director of Finance, 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. The Strategic Director of Growth and Development is responsible for ensuring that adequate due diligence is carried out before investment is made.

A new indicator was added to the Prudential Code for 2023/24 which compares net income from commercial and service investments 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 Net income from Commercial and Service Investments to Net Revenue Stream

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Net income from Commercial and Service Investments (£m)	0.9	0.5	0.5	0.5	0.5
Proportion of Net Revenue Stream	0.6%	0.3%	0.3%	0.3%	0.3%

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 £243.239 million at 31st March 2022). It has also set aside £4.386 million to cover risks in relation to:

- Backdated appeals against the rateable value of business ratepayers (£2.285 million)
- Injury and damage compensation claims (£2.101 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. 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 11: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m
Financing Costs (£m)	17.8	17.0	18.0	19.4	19.7
Proportion of Net Revenue Stream	11.9%	11.3%	10.6%	11.1%	11.0%

Further details on the revenue implications of capital expenditure can be found within the *Revenue Budget 2023/24, Medium Term financial Strategy and Capital Programme 2023-2026* 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 2023/24 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**.