Appendix 1

Blackburn with Darwen Borough Council

Capital Strategy

2024/25 to 2026/27

Contents

1. Background

1.1 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.

1.2 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.

2. Aims of the Capital Strategy and its links to the Council's Corporate Plan

2.1 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.

2.2 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.

2.3 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. An update on progress with the delivery of the Corporate Plan was provided to Policy Council in November 2023.

2.4 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.

2.5 In support of these core missions, and to ensure the Council is an effective and efficient organisation, there are the following supporting missions:-

- Being an innovative and forward thinking Council; and
- Tackling the budget challenge.

3. Capital spending priorities and governance

3.1 The key principles for the Council's 2024-2027 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 within that, the Financial Procedure Rules and Contract Procurement Rules).

3.2 The Council prepares its capital programme on a 3-year rolling basis. Service teams enter bids each October to include projects in the Council's capital programme. Bids are collated by the Strategic Director Finance and Resources 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.

3.3 Quarterly monitoring and outturn reports are considered by Executive Board during the financial year. A Capital Assurance Group (CAG) has been established to monitor delivery of the Capital Programme in year.

3.4 In the context of both the Council's Corporate Plan and the Financial Strategy, the Council's capital spending priorities for 2024/25 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 2021 to 2037

3.5 The Council's Local Plan was updated and submitted to the Government's Planning Inspectorate on 5th August 2022 for examination to determine that it was sound and legally compliant. The Planning Inspectorate appointed two Planning Inspectors who conducted public hearings which took place between 31st January and 2nd March 2023. This was followed by a further consultation period on a series of draft Main Modifications, held between August and October 2023. The examination process concluded with the issuing of the Inspector's report on 11th December 2023, and the Local Plan was subsequently adopted by the Council at the Council Forum meeting on 25th January 2024.

The Vision: Blackburn with Darwen 2037

3.6 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 will seek to deliver social, environmental and economic gains.

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

<u>Housing</u>

3.8 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.

3.9 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.

3.10 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 2024/25, and has the potential to grow over the coming years.

Economic Development

3.11 The Council's Housing and Economic Needs Assessment (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.

3.12 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.

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

Town Centres and Commercial Development

3.14 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.

3.15 The Council has some existing town centre development projects that will be completed during 2024/25 including redevelopment of the former Thwaites site, and work is ongoing on the Darwen Town Deal scheme, which includes regeneration projects in Darwen Town Centre, and the relocation of Morrisons and subsequent development of the site in Blackburn town centre. Work is also planned to commence during the year on the Blackburn Town Centre Levelling Up scheme.

Climate Change and the Natural Environment

3.16 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.

3.17 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.

3.18 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

3.19 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

3.20 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.

3.21 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

3.22 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.

3.23 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.

3.24 The Blackburn with Darwen Local Transport Plan (LTP3) provides a long-term strategy and delivery programme of transport investment and service improvements for the borough. A number of transport schemes identified in LTP3 have been successfully delivered, and a report outlining the proposed schemes to be delivered in 2024/25, all of which directly accord with LTP3, will be presented to the Executive Borad in March.

Infrastructure and Delivery

3.25 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.

3.26 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

3.27 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

3.28 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.

3.29 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:

<u>Darwen Town Centre</u>

3.30 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.

<u>Employment Growth and Business Innovation</u>

3.31 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

3.32 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

3.33 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.

Levelling Up Fund

3.34 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.

3.35 The walking and cycling element of the scheme will provide around 18km of improved facilities throughout South East Blackburn, along six identified routes. Feasibility studies have been completed for each of the six routes and preliminary design works commenced in early 2024. These will be followed by a number of stakeholder engagement events to obtain feedback and comments about the proposed routes. Detailed design work will then follow, along with work to obtain all necessary approvals, including planning approval if required. It is anticipated construction works will commence late 2024.

3.36 The second key element of the Growth Axis Transport Package scheme will deliver highway improvement works to the M65 Junction 5 and Guide Junction. Balfour Beatty have been appointed as the Design & Build Contractor for the project, and they have recently administered a tender process to appoint the lead designer.

3.37 In his 2023 Spring budget, the Chancellor further announced that the Council had also been successful in securing an additional £20 million of LUF funding to support the creation of a skills and education campus in Blackburn Town Centre. Work is planned to commence on this scheme during 2024/25.

3.38 The Council's capital programme includes a total of £18.5 million of match funding for the two LUF schemes, £5 million of which will come from developer contributions received under S106 of the Town and Country Planning Act 1990.

Levelling Up Partnership

3.39 As part of the Spring Budget 2023, Blackburn with Darwen was identified as a place selected to form a Levelling Up Partnership (LUP) with the Department of Levelling Up, Housing and Communities (DLUCH). Since being selected as a LUP partner, the Council has been working with officials from DLUCH to develop an investment package for a range of priority areas based around the opportunities and challenges in the Borough.

3.40 The amount of available investment is still to be confirmed but is likely to comprise mainly capital funding. The detailed package of investments is currently with Government with a view to securing formal agreement. If successful, it will further support the Blackburn Town Centre cultural investment programme, as well as providing further improvements to the physical and social environment and supporting entrepreneurship and growing the local economy.

Long Term Plan for Towns

3.41 Alongside the successful bid for Town Deal funding, last October the Government announced that the Council will receive funding and support worth £20m for investment in a long term plan for Darwen. The Long Term Plan for Towns is intended to bring together community leaders, business people and local bodies to forge their Town's future together, alongside side funding needed to deliver for their communities in the long term.

3.42 The investment will be in the form of an endowment-style fund paid over a 10-year period comprising both capital and revenue funding and Towns will have the freedom to develop plans that meeting local priorities across the broad investment themes of: Safety and Security, High Street, Heritage and Regeneration and Transport and Connectivity. A Towns Taskforce will be established by DLUCH to provide assistance with the development of a Town Plan.

3.43 Towns are required to Long Term Plan to DLUCH by 1st August 2024

Other Capital Schemes

3.44 There is a requirement for the continued funding of existing programmes of capital work, including:

- 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;
- Development of the ICT and Digital Strategy;
- Progression of the Corporate Accommodation Strategy;
- Fleet Management.

3.45 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.

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

4. Capital Expenditure

4.1 Capital expenditure is where the Authority spends money on assets, such as property or vehicles, which 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.

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

In 2024/25, the Council is planning capital expenditure, excluding a one-off adjustment due to a change in accounting for leases, of £75.2 million, as summarised below:

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

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Portfolio spending	15.6	36.5	71.0	56.7	19.8
Earmarked schemes	-	3.0	3.2	1.5	1.5
Contingent schemes	-	2.2	1.0	1.0	1.0
Total Capital Programme	**15.6**	**41.7**	**75.2**	**59.2**	**22.3**
Estimate of IFRS16 Adjustment *	-	-	45.0	-	-
Total Capital Programme	**15.6**	**41.7**	**120.2**	**59.2**	**22.3**

* £45.0 million of capital expenditure in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure.

4.3 On 1st April 2024 there is a change in accounting standards due to the implementation of 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).

Currently, the costs of these leases are expensed to the Revenue Account during the year in which they are 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 at the Council's incremental rate of borrowing.

On transition at 1st April 2024 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.

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

5. Capital Financing (Including MRP)

5.1 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 Initiatives). The planned financing of the above expenditure is as follows:

Table 2: Capital Financing in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
External sources	10.4	23.8	40.7	37.0	-
Own resources	3.0	1.7	9.5	0.1	5.0
Debt	2.2	14.8	23.2	22.1	17.3
Debt - Leasing	-	1.4	46.8	-	-
Total Capital Financing	**15.6**	**41.7**	**120.2**	**59.2**	**22.3**

* £45.0 million of capital expenditure in 2024/25 arises from a change in the accounting for leases and does not represent cash expenditure.

5.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore reduced 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

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Capital Receipts To Repay Debt	4.4	6.0	3.5	3.9	4.6
MRP	6.2	6.4	6.6	6.8	7.1

5.3 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.**

5.4 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 repay debt.

5.5 The table below shows that the CFR (excluding leases) is expected to increase by £13.3 million during 2024/25. 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

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
General Fund services	197.5	200.4	214.1	225.2	230.5
Debt managed by LCC	14.8	14.5	14.3	14.1	13.9
PFI projects	68.9	68.7	68.5	68.2	67.9
Total CFR (Excluding Leases)	**281.2**	**283.6**	**296.9**	**307.5**	**312.3**
Estimate of Leases CFR *	-	-	**45.0**	**45.0**	**45.0**
Total CFR (Including Leases)	**281.2**	**283.6**	**341.9**	**352.5**	**357.3**

* £45 million of the Capital Financing Requirement increase in 2024/25 arises from a change in the accounting for lease and does not represent cash expenditure.

6. Asset management

6.1 The Council adopted a new Strategic Asset Management Plan (SAMP) in 2023. Effective asset management is essential to supporting the Council's strategic priorities and outcomes, with asset rationalisation presenting emerging opportunities across the estate to reduce revenue costs and improve service efficiencies. In this context, it is essential the Council takes a strategic view of the asset base to deliver on our corporate priorities, support the growth of the Borough, and achieve best consideration and return from our assets. An approach also encouraged by Government and consistent with national guidance.

6.2 The SAMP covers a 3-year framework and sets out how the Council will manage its land and property assets, delivering on the following objectives: -

- achieve corporate objectives and improve service delivery;
- set out the scope of the Councils property assets portfolio;
- assist in maximising the beneficial use of property assets;
- promote service benefits such as accessibility, user satisfaction and comfort;
- generate carbon and budget efficiencies;
- encourage continuous review and challenge of use and ownership of property assets; and
- ensure that buildings are maintained in line with statutory requirements.

6.3 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. In line with the Council's Corporate Plan and Growth Agenda, a Growth Board runs alongside and supports the Asset Management Plan.

6.4 A Capital Assurance Group was created during financial year 2023/24. The Group brings together key Capital Scheme Managers and the Corporate Finance team in order to oversee the Capital Expenditure and Capital Receipts programmes.

Council Assets

6.5 The Council's asset base includes approximately 200 buildings, and 400 land parcels and comprises the operational estate (utilised for the delivery of Council services), the investment estate (land and buildings which generate income), and the community estate (which comprises parks, public open space, community buildings and allotments).

2023 Asset Review (Phase 1)

6.6 The Growth and Development Department, in conjunction with all other Council Departments, has progressed an Asset Review to identify opportunities for service improvement and revenue savings to help support the Council's Medium Term Financial Plan. The Review, in Phase 1, initially considered 65 of the Council's key buildings from the operational estate and assessed the assets against service needs to identify opportunities for co-location, service relocation or intensification of existing assets.

6.7 Table 5 below lists a summary of the conclusions from the Asset Review (Phase 1) and identifies the proposed interventions for each asset. Approval is now sought to allow officers to commence with more detailed engagement work, including the provision of support for service relocations, where required. Where disposal is recommended, this may be achieved via a lease or sale.

Table 5: Schedule of Asset Review (Phase 1) Interventions

No.	Asset	Recommendation
1	Kentmere Outdoor Education Centre	Alternative service provision and disposal
2	The Limes	Service relocation and disposal
3	Daisyfield Swimming Pool	Progress to demolition
4	Darwen Resource Centre	Service relocation and disposal
5	Shadsworth Leisure Centre	Surplus asset and progress to demolition
6	Davyfield Depot – Bungalow Offices	Service relocation and disposal

6.8 There will be no change to service provision arising from the implementation of these interventions.

6.9 Phase 2 of the Council's Asset Review will commence in 2024/25.

6.10 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.

6.11 The Council's current Highways Asset Management Strategy can be found at Blackburn with Darwen Asset Highways Management Strategy.

7. Asset disposals

7.1 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 £3.5 million of capital receipts in the coming financial year as follows:

Table 6: Capital Receipts in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Asset Sales	4.4	6.0	3.5	3.9	4.6
Loans Repaid	-	-	-	-	-
Sale of Investments	-	-	-	-	-
Total Capital Receipts	**4.4**	**6.0**	**3.5**	**3.9**	**4.6**

7.2 The Council plans to continue to use 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.

7.3 Further details of planned asset disposals, together with the Council's Use of Capital Receipts Policy are detailed in **Appendix 6.**

8. Treasury management

8.1 The Council produces a Treasury Management Strategy, which is approved annually by the Executive Board, normally in March of each year.

8.2 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.

8.3 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.

8.4 At the time of writing the Council currently has £199.1 million borrowing at an average interest rate of 5.4% and £86.7 million treasury investments at an average rate of 3.7%.

Borrowing strategy:

8.5 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 5.35% to 5.75%) and long-term fixed rate loans, where the future cost is known but is higher (currently 5.67% to 6.29%).

8.6 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.

8.7 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 7: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Debt (including PFI, Leases and LCC debt)	208.2	196.8	235.2	245.2	256.3
Capital Financing Requirement	281.2	283.6	341.9	352.5	357.3

* £45 million of the Capital Financing Requirement and Debt increase in 2024/25 arises from a change in the accounting for leases.

8.8 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term (up to 3 years). As can be seen from Table 6, the Council expects to comply with this guidance in the medium term.

Liability benchmark:

8.9 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 £75 million and is forecast to rise to £141 million over the next 3 years.

Table 8: Borrowing and the Liability Benchmark in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Debt (excluding PFI, Leases and LCC debt)	138.0	129.6	126.5	140.3	155.1
Liability Benchmark	97.2	74.8	116.5	126.5	130.7

8.10 The table shows that the Authority expects to remain borrowed above its liability benchmark in the short term. The significant gap in 2022/23 and 2023/24 is due to low levels of capital expenditure offset by high value capital receipts during those years, therefore reducing the borrowing requirement. It is anticipated that capital expenditure will increase significantly from 2024/25, and that new borrowing will be required from 2025/26 onwards.

Affordable borrowing limit:

8.11 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 9: Prudential Indicators: Authorised Limit and Operational Boundary for External Debt in £ millions

	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m
Authorised Limit – Borrowing	227.7	233.6	244.6	249.9
Authorised Limit – PFI, Leases and LCC Debt *	84.1	128.3	127.9	127.4
Authorised Limit – Total External Debt	311.8	361.9	372.5	377.3
Operational Boundary – Borrowing	217.7	223.6	234.6	239.9
Operational Boundary – PFI, Leases and LCC Debt *	84.1	128.3	127.9	127.4
Operational Boundary – Total External Debt	301.8	351.9	362.5	367.3

* From 2024/25 onwards the limits have been increased to allow for additional liabilities which will arise from a change in the accounting for leases.

8.12 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:

8.13 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.

8.14 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 10: Forecast Treasury Investments in £ millions

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Short-Term Investments	50.8	64.8	20.0	23.8	34.4
Long-Term Investments	-	-	-	-	-
Total Investments	**50.8**	**64.8**	**20.0**	**23.8**	**34.4**

Risk management:

8.15 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.

8.16 The treasury management prudential indicators are included within the Treasury Management Strategy, which is to be presented to Executive Board for approval on 7th March 2024.

Governance:

8.17 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Strategic Director Finance and Resources 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.

8.18 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 7th March 2024.

9. Other investment and long term liabilities

9.1 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

9.2 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.

9.3 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:

9.4 Decisions on service investments are made by the Strategic Director Finance and Resources, 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

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

9.6 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 decline 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:

9.7 Decisions on commercial investments are made by the Strategic Director of Growth and Development in consultation with the Strategic Director Finance and Resources, 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 conducted before investment is made.

9.8 A new indicator was added to the Prudential Code from financial year 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 11: Prudential indicator: Proportion of Net income from Commercial and Service Investments to Net Revenue Stream

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Net income from Commercial and Service Investments (£m)	1.1	0.8	0.8	0.8	0.9
Proportion of Net Revenue Stream	0.7%	0.4%	0.4%	0.4%	0.4%

9.9 Further details on service and commercial investments are included in the Investment Strategy in **Appendix 5**.

Liabilities

9.10 In addition to the debt detailed in Table 6 above, the Council has set aside £2.998 million to cover risks in relation to:

- Backdated appeals against the rateable value of business ratepayers (£1.875 million)
- Injury and damage compensation claims (£1.123 million)

9.11 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:

9.12 Decisions on incurring new discretional liabilities are taken by Service Managers in consultation with the Strategic Director Finance and Resources. 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.

10. Revenue budget implications

10.1 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 12: Prudential Indicator: Proportion of Financing Costs to Net Revenue Stream

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Investment Income (interest receivable)	(1.3)	(4.2)	(3.0)	(1.0)	(0.8)
Interest payable	11.7	11.5	11.9	12.5	12.0
MRP (Excluding adjustment for leases)	6.2	6.4	6.6	6.8	7.1
Total Financing Costs (Excluding leases)	**16.6**	**13.7**	**15.5**	**18.3**	**18.3**
MRP due to change in accounting for leases	-	-	2.5	2.5	2.5
Total Financing Costs (Including leases)	**16.6**	**13.7**	**18.0**	**20.8**	**20.8**
Proportion of Net Revenue Stream	10.3%	7.7%	9.4%	10.2%	9.8%

£2.5 million of the increase in financing costs in 2024/25 and future years arises from a change in the accounting for leases and does not represent additional cost to the authority.

10.2 Further details on the revenue implications of capital expenditure can be found within the General Fund Revenue Budget 2024/25 (and update to Financial Strategy 2024/25) report which is elsewhere on the Agenda for this meeting.

10.3 **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 Strategic Director Finance and Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable as set out in the Statement on Robustness of the Council's Budget Calculations for 2024/25 and the Adequacy of Financial Reserves report which is on elsewhere on the agenda of this meeting.

11. Knowledge and skills

11.1 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 Councillors 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.

11.2 The intention is that by building a solid knowledge base for both Officers and Councillors, 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.

12. Prudential indicators

12.1 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*.

12.2 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 and sound project management
- 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

12.3 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**.