

## **Report of the Director of Finance to the meeting of Executive to be held on 21 February 2023 and Council to be held on 23 February 2023**

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### **Subject:**

**Capital Investment Plan 2023-24 to 2026-27**

### **Summary statement:**

Section A of this report presents the Council's Capital Investment Plan 2023-24 to 2026-27.

Section B presents an updated Capital Strategy for 2023-24. This strategy underpins the spending proposals within the Capital Investment Plan.

Section C presents the Investment Strategy for 2023-24.

### **Equality & Diversity:**

The budget proposals set out clearly the need for equality to be considered as part of the Budget Strategy. As in previous years full Equality Impact Assessments have been produced for all budget proposals and full consultation with relevant groups has been undertaken. The outcome of consultation will be considered and reported upon before the 2023-24 budget is approved.

The Capital Investment Plan supports the delivery of Council priorities.

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Christopher Kinsella  
Director of Finance

### **Portfolio:**

**Corporate**

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### **Overview & Scrutiny Area:**

**Corporate**

## **1. SUMMARY**

- 1.1 This report proposes the Council's Capital Investment Plan (CIP) from 2023-24 to 2026-27. The report also includes for 2023-24: The Capital Strategy (Section B) and the Investment Strategy (Section C).
- 1.2 This report is part of the overall 2023-24 budget proposal for the Council which also includes:
- The Council's Revenue Estimates for 2023-24 (Document AU)
  - Allocation of the Schools Budget 2023-24 Financial Year (Document AV)
  - Housing Revenue Account (Document AX)
  - Section 151 Officer's Assessment of the proposed budgets (Document AY)

## **2. OVERVIEW**

- 2.1 **SECTION A** of this report outlines the 2023-24 to 2026-27 Capital Investment Plan (CIP). This includes:
- Capital Investment Plan - Background
  - The Capital Schemes
  - Minimum Revenue Provision (MRP)
  - The Prudential Indicators
- 2.2 **SECTION B** of this report sets out the 2023-24 Capital Strategy. This includes:
- Guiding Principles
  - Governance Framework for Capital Decisions
  - Capital Resources to support Capital Expenditure
  - Flexible Use of Capital Receipts
  - Commercial Property Investments
  - Loans to External Organisations
  - Asset Management Planning
  - Risks
  - Prudence, Affordability, Sustainability
  - Skills & Knowledge
  - Capital Strategy Actions
- 2.3 **SECTION C** updates the 2023-24 Investment Strategy.

## **SECTION A: CAPITAL INVESTMENT PLAN 2023-24**

### **3. CAPITAL INVESTMENT PLAN - BACKGROUND**

- 3.1 The Capital Investment Plan (CIP) is the Council's budget for expenditure on long-term infrastructure items, such as buildings and vehicles. These items are one-off, so need to provide value to the Council across a number of financial years; the items are also paid for across different financial years.

3.2 Expenditure in the CIP therefore differs significantly from that in Revenue Estimates – these estimates present ongoing expenditure, such as salaries, used up and funded within one financial year.

3.3 The CIP is governed by statutory requirements set out in the 2003 Capital Regulations. The key points are:

- Capital expenditure within the CIP provides benefits to Council residents that lasts for more than one financial year, such as a new sports centre.
- The construction process, for example a new sports centre, can also stretch across a number of financial years. For these reasons the CIP budget is presented as a rolling programme across a number of future years.
- Capital expenditure can only be funded from a limited number of sources: external grants (designated by the grant provider as for a capital purpose); funding provided by the Revenue Estimates (Direct Revenue Financing); funding from reserves and borrowing.
- All the above funding sources involve paying for capital expenditure directly and immediately, except when borrowing is required. The borrowing principal and the related interest charges are repaid gradually through successive Revenue Estimates. The impact of the borrowing principal and interest payments are known technically as capital financing charges.
- There are some further points to note around capital financing charges. The provision of funding for the principal repayments is governed by strict rules. These rules determine how this funding is identified and set aside within successive years of the Revenue Estimates. The rules are known technically as the Minimum Revenue Policy (MRP). This funding is set aside irrespective and unrelated to the actual principal repayments, which is managed within the Council's Treasury Management Strategy.
- Interest charges on the borrowing are charged to the Revenue Estimates based on the year to which these relate.
- Capital Expenditure is monitored using what are called Prudential Indicators. These aim to measure and weigh the Council's level of indebtedness and any impacts on the Revenue Estimates for future generations. This check is due to the importance of ensuring value from capital expenditure: it significantly impacts both on service provision and finances for many years in the future.
- Updates to the Prudential and Treasury Management Codes were published by CIPFA in December 2021. The Department for Levelling Up Housing and Communities (DLUHC) had tightened up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and closed access to all PWLB borrowing if such schemes are included in a council's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

- 3.4 One other point about borrowing is the overall purpose from the Council's perspective. One purpose is to fund one-off expenditure to deliver an ongoing improvement to service provision for the residents' districts (The Council calls this Corporate Borrowing).
- 3.5 Sometimes the purpose of the one-off expenditure is to enable the same service provision to be delivered more efficiently: for example, the Council could purchase vehicles as opposed to paying to rent them. Such borrowing schemes are known as "Invest to Save" because the capital financing costs are mitigated by the savings they generate in the Revenue Estimates.

#### 4. THE CAPITAL SCHEMES

- 4.1 As noted above, the CIP is always a rolling programme, because it continues across financial years. Therefore, the starting point for the proposed 2023-24 CIP is the quarter 3 monitoring position for the 2022-23 CIP. This is shown in Table 1 below:

**Table 1: Quarter 3 Capital Investment Plan 2022-23**

Scheme Description	Q2 Re-profiled Budget 2022-23	Changes	Re profile Budget 2022-23	Spend 31 Dec 2021	Budget 23-24	Budget 24-25	Budget 25-26 onwards	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Health and Wellbeing	3.0	0.3	3.3	1.0	2.5	3.3	4.8	13.9
Children's Services	13.6	0	13.6	6.6	11.6	3.3	1.2	29.7
Place - Economy & Development Services	51.1	0	51.1	18.4	46.6	27.3	10.4	135.4
Place - Planning, Transport & Highways	40.9	16.6	57.5	35.5	72.1	38.0	120.2	287.8
Place - Other	18.8	0.1	18.9	9.6	26.7	23.1	14.8	83.5
Corp Service – Estates & Property Services	39.9	4.5	44.4	31.4	13.1	10.4	4.8	72.7
<b>TOTAL - Services</b>	<b>167.3</b>	<b>21.5</b>	<b>188.8</b>	<b>102.5</b>	<b>172.6</b>	<b>105.4</b>	<b>156.2</b>	<b>623.0</b>
Reserve Schemes & Contingencies	3.1	-0.5	2.6	0	72.7	108.1	79.3	262.7
<b>TOTAL</b>	<b>170.4</b>	<b>21.0</b>	<b>191.4</b>	<b>102.5</b>	<b>245.3</b>	<b>213.5</b>	<b>235.5</b>	<b>885.7</b>

- 4.2 In order to draw up the 2023-24 CIP proposed changes are:

- Ongoing schemes continued for the additional 2026-27 year added to the CIP.
- New schemes for CIP.
- Removal / reduction of budget for a number of schemes.

- 4.3 The first change is the ongoing schemes continued into 2026-27. These are detailed below:

- Replacement of Vehicles - £3m
- Property Programme - £4m
- General contingency for unforeseen capital expenditure - £1m
- IT - £2m

4.5 The new schemes proposed for the CIP are set out and described in Table 2 below.

Table 2: New proposed schemes for the 2023-24 CIP

<b>Proposed Scheme</b>	<b>Total Budget £000</b>	<b>Description / Benefit</b>
<b>Children's Services</b>		
PCS1 Children's Residential Care	5,200	The investment would cover 'small group' homes, staying close provision for 17+ year olds, and emergency provision. The capital cost is expected to be c£5.2m and would be funded by savings that will result from the freeing up of capacity and reduced need for costly external residential provision. It would replace a current reserve scheme with a budget of £3.149m.
PCS2 Area office	800	New area office accommodation funded by corporate borrowing.
<b>Place</b>		
PCS3 Bereavement Strategy – Stage 2	6,000	This is continuation of the delivery of the Bereavement Strategy. It will be funded by corporate borrowing.
<b>Corporate Resources</b>		
PCS4 City Centre Regeneration	18,000	Additional funding for regeneration purposes. The additional costs will be funded through corporate borrowing.
PCS5 Inflation Contingency	10,000	The existing capital programme has been impacted by inflationary price increase with some substantial increases in construction related activity. BCIS indicate an 8% annual increase in costs as at Quarter 3 2022. The anticipated trend at the moment is for the increase to continue, with an easing of price increases only anticipated to show around the end of 2024.
		The Inflation Contingency is proposed to be allocated to schemes where value engineering or other options are not able to mitigate cost pressures and retain the scheme viability and secure desired outcomes. It is proposed the utilisation of the Inflation Contingency be delegated to the Strategic Director, Corporate Resources as the senior director responsible for Estates, Finance; Legal and Procurement services. The additional costs will be funded through corporate borrowing.
PCS6 IT Software	965	Three schemes to implement new technologies to reduce the associated cyber security risks and to increase the level of protection for Council networks, systems and data.
<b>TOTAL</b>	<b>40,965</b>	

- 4.6 In addition to the schemes above there are other possible schemes that are at a very early stage of development. The budget position means only invest to save schemes should be considered for further capital investment. Further work and investigations will be completed during 2023-24 and they will be brought to Executive for approval.
- 4.7 The proposed new schemes in Table 2 are at different stages as regards the development of the relevant business cases. Points to note are:
- The 2023-24 Property Programme and IT software schemes have already been subject to a business case and reviewed by the Project Advisory Group.
  - The utilisation of the Inflation Contingency is proposed to be delegated to the Strategic Director, Corporate Resources.
  - The remaining schemes are subject to further work and a detailed, costed business case. These new schemes are held in a Reserves & Contingencies section of the CIP and as such cannot be released to budget managers until the presentation of full project appraisals to the Project Appraisal Group and approval from Executive.
- 4.8 Due to the challenging financial situation, and the need to ensure the revenue impact of the capital programme is reduced, the Council has reviewed the level of capital investment needed and has been able to identify reductions in some areas of the existing capital budget. There is the potential to free up resources in the CIP by either deleting or delaying some of these projects.
- 4.9 The proposals include the removal / reduction of budget for a number of schemes. A description of these schemes is provided in the table below.

**Table 3: Proposed Budget reductions**

<b>Scheme</b>	<b>Proposed Budget reductions £'000</b>	<b>Current Position</b>
<b>Children's Service</b>		
Lap tops	1,800	Originally included to invest capital funding in Digital Inclusion for Disadvantaged Children & Young People by investing in an infrastructure to support the programme. It is proposed to reduce the budget to £0.4m over two years.
Digital strategy	400	Original budget of £1.2m was approved in 2020 to provide electronic devices to disadvantaged children. Part of the budget has been used but where possible, alternative funding sources were used.

		It is proposed to reduce the budget to £0.3m over the next three years.
<b>Place</b>		
Alternative fuel centre & Vehicles	6,030	Remove in full from the CIP the Alternative Fuel Centre scheme costed at £6.0m, following an alternate private sector led proposal.
Blight Sites	675	£0.465 m of the £1.14m Budget for Blight Sites will be used on the former Manor House site, Manningham and Cragg Street schemes. The remaining budget will be removed and any future schemes will be developed as separate capital bids.
King George V Playing Fields	1,020	Currently no plans are in place for this scheme so it is proposed that it is removed completely from the CIP. It will be revisited once plans are developed.
<b>Corporate Resources</b>		
District Heat	12,815	Plans for a district heat network in Bradford City Centre are now being implemented by a private developer. A scheme completed by the Council is no longer required, however some amounts the capital programme to enable the conversion of council buildings to receive heat from the district heat network.
Strategic Acquisitions	23,460	Changes to the Prudential Code mean that it is no longer possible to invest in schemes, that are solely income generating ones. CIP Reserve Schemes currently include £43.5m for Strategic Acquisitions and it is proposed that this is reduced to £20m. Any new approved schemes for the remaining budget will need to meet the new Code requirements. Also any new scheme would still need to be invest to save on the funding.
Keighley One Public Estate	17,000	Now included as part of another scheme. A reduced budget of £1m will remain for potential Council works.
Museum Store	500	A new proposal linked to the City of Culture is to be developed and a replacement for the Museum Store will be considered as part of this.
City Hall	4,500	A budget reduction of £4.5m is proposed due to the original scheme no longer going ahead. A revised scheme is being developed and the budget will be

		revisited once plans are further developed
<b>Total</b>	<b>68,200</b>	

- 4.10 The proposed 2023-24 to 2026-27 Capital Investment Plan is a rolling programme including the quarter 3 2022-23 capital budget, with the addition of the new schemes detailed in Table 2 and removal of budgets in Table 3. This is set out in Appendix 1, along with a funding analysis.
- 4.11 Currently in reserve schemes there is £6m additional budget above current Basic Needs and SEND Capital Grants for additional required SEND provision across the district. It is funded by corporate borrowing and will be used to complete a number of SEND expansions across both the mainstream school sector and SEND schools. The budget is required to allow for the development of up to three proposed schemes. Once the initial design and development works have been completed, the necessary statutory processes will commence, including approval from Executive and an update will be provided to the Project Appraisal Group.
- 4.12 The Executive, at its meeting of November 1 2022, approved the opening of a Housing Revenue Account (HRA) in the financial year 2023-24. The HRA is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services paid for from the general fund. HRA capital expenditure is therefore recorded separately. The HRA business plan is being developed and there will be further updates to the Housing Capital Plan once this has been approved.
- 4.13 The proposed CIP includes £865m of capital investment in the District (£836m General Fund and £29m Housing Revenue Account). The profile of capital expenditure will continue to be updated as projects develop through the stages and/or if the resourcing position changes.

## **5 MINIMUM REVENUE PROVISION (MRP) POLICY**

- 5.1 It is a statutory requirement for Full Council to set the Minimum Revenue Provision (MRP) policy each year. As noted, it is a technical term but refers to the rules governing how much funding is set aside from successive Revenue Estimates each year to repay debt.
- 5.2 The overall purpose of the policy is to charge the costs of capital schemes to current and future years in proportion to the amount of service benefit delivered in each year. The aim is to allocate costs between time periods and different generations in a fair and reasonable way. This means:
- Costs are charged only when schemes are in operation and not in the construction phase.
  - Costs are generally allocated over the expected timespan in which any scheme is operational.
  - The policy only relates to the repayment of borrowing: the elements of schemes funded directly, for example by grants or revenue contributions, do not cause



any future funding pressures on the Revenue Estimates.

- 5.3 The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued in 2018. The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- 5.4 An external review of the Council's MRP policy was recently undertaken. The objective of the review was to provide the Council with an independent check that the MRP Strategy and Policy are fit for both the current and future spending plans. It also provides the necessary challenge to ensure that any potential options are not missed when considering the capital financing decisions for new capital expenditure ensuring that the provision remains prudent and compliant with statutory guidance.
- 5.5 Regulations require Full Council to approve an MRP statement in advance of each year. The Policy may be revised during the year by full Council or the appropriate body of Members where required.
- 5.6 Regulations allow the Council to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.
- 5.7 Full Council is recommended to approve the following MRP statement amendment for the 2022-23 financial year:
- Change the calculation of MRP for supported borrowing from a straight line method to an annuity basis over 36 years (the remaining average life of the overall asset base).
  - Change the calculation of MRP for unsupported borrowing from an asset life straight line basis to an asset life annuity basis using an annual weighted average calculation. Estimated asset life periods will be determined under delegated powers.
  - Change the calculation of MRP for PFI contracts from an asset life straight line basis to an asset life annuity basis.
- 5.8 Full Council is recommended to approve the following MRP statement for the 2023-24 financial year:
- For supported borrowing MRP will be calculated using an Asset Life annuity basis on the remaining average life of the overall asset base.
  - For all unsupported borrowing MRP will be calculated using an Asset Life annuity basis. Estimated asset life periods will be determined under delegated powers.
  - MRP in respect of PFI contracts will be calculated by the amount that writes down the balance sheet liability unless the asset life is considerably longer than

the PFI contract, where MRP will be calculated on an asset life annuity basis.

- MRP in respect of finance leases will equal the repayment amount for the year.
- There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

5.9 The proposed policy is set out in Appendix 2. There are changes for the 2022-23 and 2023-24 years.

5.10 The main elements of the policy set out in Appendix 2 are set out below:

- Pre 2008 debt, which cannot be distinguished against specific assets, was being repaid over 50 years on an equal instalment basis. This has been amended from 2022-23 to an asset life annuity basis.
- All other debt and PFI liabilities is amended to be repaid on an annuity asset life basis: as determined by the expected lifespan of each individual asset.
- The policy also provides some discretion to the Section 151 officer in determining debt repayments. However, this is subject to the relevant scheme meeting targets.

5.11 The guidance provides several options for calculating a prudent MRP. Straight line and annuity methods over the asset's useful life are the most commonly used methods. By changing to annuity asset life the Council is in line with legislation and other local authorities. The annuity asset life method seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset.

## **6. PRUDENTIAL INDICATORS**

6.1 The Prudential Indicators are calculated on the basis that the CIP in future years is delivered in full and that there is no slippage.

6.2 The 2003 Capital Regulations authorise Councils to borrow for a capital purpose only. This is subject to tests of sustainability and affordability, using the Prudential Indicators. CIPFA published the revised Prudential and Treasury Codes in December 2021 and formal adoption is required in the 2023-24 financial year.

6.3 One key Prudential Indicator, is a measure of the Council's outstanding debt. Outstanding debt is the Council's cumulative borrowing less any funding for debt repayment set aside within the Revenue Estimates. This Prudential Indicator is called the Capital Financing Requirement (CFR). The indicator is shown in Table 4a over.

Table 4a: Capital Financing Requirement (CFR)

	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Capital Financing Requirement</b>	<b>699</b>	<b>709</b>	<b>773</b>	<b>854</b>	<b>920</b>	<b>930</b>
General Fund - Increase in borrowing	35	83	104	92	38	60
General Fund - Less MRP and other financing movements	-25	-19	-23	-26	-28	-29
<b>Closing Capital Financing Requirement</b>	<b>709</b>	<b>773</b>	<b>854</b>	<b>920</b>	<b>930</b>	<b>961</b>

6.4 Table 4a shows:

- The actual CFR at 31 March 2022 was £709m. This figure is also shown in the Council's draft statement of accounts and is being externally audited.
- The CFR is projected to increase, peaking at £961m at 31 March 2026-27. There is an increase when borrowing in year for a capital purpose is more than the amounts set aside to fund the principal repayments.
- The borrowing is estimated (apart from 31/03/2022) based on the proposed 2023-24 CIP, as set out in Appendix 1.
- Outstanding debt increases when new borrowing is higher than the principal payments charged to the Revenue Estimates.

6.5 When the Council borrows cash, this is nearly always from the Public Works Loan Board (PWLb). However, cash borrowing is significantly lower than the CFR. A reconciliation between the CFR and the Council's loans is shown below in the Prudential Indicator for the external debt projection:

Table 4b: External Debt Projection

	<b>31/03/22</b>	<b>31/03/23</b>	<b>31/03/24</b>	<b>31/03/25</b>	<b>31/03/26</b>	<b>31/03/27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Capital Financing Requirement</b>	<b>709</b>	<b>773</b>	<b>854</b>	<b>920</b>	<b>930</b>	<b>961</b>
General Fund - Private Finance Initiative	-147	-139	-130	-121	-111	-101
<b>External Borrowing</b>	<b>-373</b>	<b>-455</b>	<b>-546</b>	<b>-641</b>	<b>-663</b>	<b>-714</b>
<i>Under-borrowing</i>	189	179	178	158	156	146
Available for Investment (inc earmarked reserves)	329	200	170	170	170	170
External Investments	-208	-50	-40	-40	-40	-40
Working Capital	68	29	48	28	26	16

	189	179	178	158	156	146
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6.6 Regarding Table 4b over:

- External borrowing increases generally when the CFR increases but remains lower than the CFR.
- The amount by which External debt is lower than the CFR is called under-borrowing. For example, under-borrowing is estimated to be £179m at 31 March 2023.
- The reasons for the under-borrowing are reconciled in table 4b. One significant reason is that some of the borrowing is in the form of a lease arrangement (the Private Finance Initiative) rather than cash. The other is that the Council borrows from its own internal earmarked reserves, rather than borrowing, because it is less expensive. As Council usable reserves are forecast to reduce over future years in line with planned commitments, the internal borrowing will also reduce resulting in external borrowing that will need to be required to fund the CFR.

6.7 As noted, the increase in the CFR drives the increase in external debts. This CFR increase in turn is caused by that part of the CIP funded from borrowing. The element of the CIP funded from borrowing is shown in the performance indicator below:

Table 4c: Analysis of Capital Spend Requiring Borrowing

	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Estimate £m	31/03/25 Estimate £m	31/03/26 Estimate £m	31/03/27 Estimate £m
General Fund	-	-	232	203	76	134
Housing Revenue Account*	-	-	5	10	10	4
<b>Total Capital Spend</b>	<b>105</b>	<b>191</b>	<b>237</b>	<b>213</b>	<b>86</b>	<b>138</b>
General Fund - Capital Spend not funded from borrowing	70	108	133	121	48	78
<b>Capital spend funded from borrowing</b>	<b>35</b>	<b>83</b>	<b>104</b>	<b>92</b>	<b>38</b>	<b>60</b>

\*Separate HRA only from 01-04-2023

6.8 Another Prudential Indicator measures the impact of the Capital Financing Costs (debt repayments and interest) on the Revenue Estimates. This impact measures the annual costs as a ratio as the Net Expenditure Requirement shown in the 2023-24 Revenue Estimates (Document AU).

6.9 This Indicator is called the ratio of capital financing costs to the Net Revenue Stream. The indicator is shown in Table 5 over, together with a separate analysis for Invest to Save schemes:

Table 5: Ratio of Capital Financing costs to the Net Revenue Stream

	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>	<b>2026-27 Estimate £m</b>
<b>Total Capital Financing Costs</b>	<b>51.6</b>	<b>56.8</b>	<b>63.8</b>	<b>66.1</b>	<b>67.2</b>
Projected Net Revenue Stream	388	441	441	441	441
<b>Ratio: Capital Financing costs to Net Revenue Stream</b>	<b>13.3%</b>	<b>12.9%</b>	<b>14.5%</b>	<b>15.0%</b>	<b>15.2%</b>
<i>Invest to Save element of Total Capital Financing Costs</i>	6.3	6.5	7.7	7.9	8.4
<i>Invest to Save contribution to Ratio to Net revenue Stream</i>	1.6%	1.5%	1.6%	1.8%	1.9%

6.10 Key points about the above Prudential Indicator are:

- The estimated ratio of capital financing costs to the Net Expenditure Requirement increases between 2023-24 and 2026-27.
- Most of the increase in the ratio is driven by borrowing for Invest to Save schemes. Such schemes should generate mitigating savings which are not shown in the Prudential Indicator.
- The Prudential Indicator reflects a number of assumptions including: that interest rates are 3.5% in 2022-23, 4.1% in 2023-24, 3.9% in 2024-25, 3.2% in 2025-26 and 3.2% in 2026-27. The costs shown are particularly sensitive to unforeseen changes to interest rates.
- A reconciliation between the Prudential Indicator and the capital financing costs shown in the Revenue Estimates Budget is also shown in the table below:

Table 6: Capital Financing Costs in the Revenue Estimates Budget

	<b>2021-22 Actual £m</b>	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>	<b>2026-27 Estimate £m</b>
<b>Total Capital Financing Costs</b>	<b>57.3</b>	<b>51.6</b>	<b>56.8</b>	<b>63.8</b>	<b>66.1</b>	<b>67.2</b>
Direct Funding Schemes	3.5	0	0	1.0	1.0	1.0
PFI interest virement	-16.5	-15.9	-15.2	-14.6	-13.9	-13.1
PFI virement	-7.9	-8.6	-8.8	-9.0	-10.1	-10.7
Prudential borrowing virement	-6.2	-6.3	-6.9	-10.2	-14.1	-15.3
<b>Corporate Capital Financing Costs within Revenue Estimates</b>	<b>30.2</b>	<b>20.8</b>	<b>25.9</b>	<b>31.0</b>	<b>29.1</b>	<b>29.1</b>

6.11 Items of expenditure such as PFI interest and the PFI Lease virement are treated as capital expenditure under accounting rules and therefore come within the remit

of the Prudential Indicator. However, this expenditure is already included elsewhere in the Revenue Estimates.

- 6.12 Similarly, borrowing for self-financing schemes is being funded from services, as set out in the Prudential borrowing virement shown in Table 6 above.
- 6.13 All the Prudential Indicators, including additional analysis, are set out fully in Appendix 3 of this report.
- 6.14 An increase in capital spend funded by borrowing generates a requirement to take out new loans and increases the corporate revenue capital financing costs (Table 6). For any new schemes the additional increase in debt cost should be met from schemes that generate savings, or avoid revenue costs or provide income streams. The Council will continue to pursue external funding through capital grant opportunities.
- 6.15 Additional corporate borrowing will impact on Revenue budgets and any additional costs for schemes already in the plan will also have to be considered. The proposed CIP means that the Council Prudential Indicators are increasing and uncertainty over costs means there will need to be a continued review considering the affordability and deliverability of the CIP. The overall capital programme position will be kept under review and any new information regarding funding allocations will be presented to Members in future reports.

## **7 FINANCIAL & RESOURCE APPRAISAL**

- 7.1 The finance and resourcing implications are set out in the body of this report.

## **8 RISK MANAGEMENT AND GOVERNANCE ISSUES**

- 8.1 The risk implications are set out in the body of this report.

## **9 LEGAL APPRAISAL**

- 9.1 The report complies with the Council's statutory obligations and the requirement to follow statutory guidance.

## **10 OTHER IMPLICATIONS**

### **10.1 SUSTAINABILITY IMPLICATIONS**

There are no direct sustainability implications arising from this report, sustainability implications are considered as part of individual capital project appraisals

### **10.2 GREENHOUSE GAS EMISSIONS IMPACTS**

There are no direct impacts arising from this report

### **10.3 COMMUNITY SAFETY IMPLICATIONS**

There are no direct impacts arising from this report

#### **10.4 HUMAN RIGHTS ACT**

None

#### **10.5 TRADE UNION**

None

#### **10.6 WARD IMPLICATIONS**

None.

#### **10.7 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE**

None

#### **10.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT**

None

#### **10.9 NOT FOR PUBLICATION DOCUMENTS**

None

### **11 RECOMMENDATIONS**

- 11.1 That the Executive are asked to note the contents of this report and to have regard to the information contained within this report when considering the recommendations to make to Council on the Capital Investment Plan for 2023-24.
- 11.2 That the updated Capital Plan for 2023-27, be approved; (Appendix A). Commitments against reserve schemes and contingencies can only be made after a business case has been assessed by the Project Appraisal Group and approved by Executive.
- 11.3 That Specific approval be given for the following schemes to commence following a detailed review by the Project Appraisal Group:
- The 2023-24 Property Programme has a proposed total cost of £4m and this will be funded by corporate borrowing.
  - IT software – three schemes are planned to improve IT security. The cost of the capital spend is £0.965m and it will be funded by corporate borrowing.

In addition:

- £6m from Reserve schemes for SEND provision across the district funded by corporate borrowing. It will be used to complete a number of SEND expansions across both the mainstream school sector and SEND schools. The budget is required to allow for the development of up to three proposed schemes. Once the initial design and development works have been completed, the necessary statutory processes will commence, including approval from Executive and an update will be provided to the Project Appraisal Group.
- The utilisation of the Inflation Contingency as set out in this report be delegated to the Strategic Director of Corporate Resources. The additional costs will be funded through corporate borrowing.

11.4 That the amendment to the 2022-23 Minimum Revenue Provision Policy and the proposed 2023-24 MRP policy set out in Appendix 2 is approved.

11.5 That delegated authority is given to Section 151 Officer to repay debt on an annuity basis, for chosen properties purchased during or after 2018-19. Delegated authority could only be exercised if two conditions are met:

1. the asset retains or increases its value;
2. the return from the capital scheme is sufficient to repay the capital sum invested.

11.6 That the Capital Strategy (including Prudential Indicators), set out at Appendix 3, be approved.

11.7 That the Flexible Use of Capital Receipts Strategy as presented at Appendix 4 - is recommended to the Executive to:

- Approve the Flexible use of Capital Receipts policy for 2022-23 and 2023-24 as outlined in Appendix 4 section 2.2.
- Delegate powers to the Section 151 office in consultation with the Leader to vary the values outlined in Appendix 4 section 2.2 subject to the value of Capital receipts achieved in 2023-24, whilst ensuring compliance with the Direction from DHLUC outlined in section 2.1.

## **12 APPENDICES**

Appendix 1: The 2023-24 to 2026-27 Capital Investment Plan

Appendix 2: Proposed change to the Minimum Revenue Policy

Appendix 3: Supporting Tables for the Capital Strategy

Appendix 4: Flexible Use of Capital Receipts



**SECTION B: CAPITAL STRATEGY 2023-2024**

# **Capital Strategy 2023-24**

## **1 CAPITAL STRATEGY (BACKGROUND)**

- 1.1 The Council's Capital Strategy is a policy framework for the development; management and monitoring of its capital investment plan.
- 1.2 In respect of timeframes, the strategy is also both a plan for the current year and the long-term, with emphasis on the next ten years.
- 1.3 The strategy is the means by which the Council ensures compliance with mandatory statutory guidance contained in the Prudential Code for Capital Finance in Local Authorities. The headline message delivered by the Code is the requirement for the Council to consider key judgement criteria of Prudence, Affordability and Sustainability when making and reviewing decisions about the use of its capital resources.
- 1.4 The simple purpose of the strategy is also to ensure that capital expenditure is deployed in such a way as to maximise the provision of the services needed by Council residents. Delivering this purpose involves selecting and project managing capital schemes; while coordinating their implications for risk, treasury and resourcing.
- 1.5 Capital Expenditure is defined as expenditure on the acquisition, creation or enhancement of assets that have a useful life or more than one year. This means items of expenditure on buildings, vehicles and substantial equipment. Local Government also has the statutory right to include within this definition, expenditure on assets owned by third parties, or loans given to third parties.
- 1.6 Capital expenditure schemes are also constructed, financed and used to deliver services across multiple financial years; so each one is a substantial commitment by the Council.
- 1.7 CIPFA published the revised Prudential and Treasury Codes in 2021. The changes look to strengthen the requirements regarding borrowing for commercial projects to ensure Local Authorities are not borrowing in advance of need, with a view to primarily making a profit / financial return.
- 1.8 The Council does not currently have any capital investments which fall within this commercial category and the current CIP does not have any commercial schemes. The new Code does not introduce restrictions on councils borrowing for purposes essential to their core aims, such as for housing and regeneration projects, or for treasury management purposes.
- 1.9 Other changes are to ensure Local Authorities' capital investment remains sustainable and to facilitate these two new prudential indicators together with the replacement of an existing indicator have been proposed as set out below:
  - New prudential indicator: external debt to net revenue stream ratio
  - New prudential indicator: income from commercial and service investments to net revenue stream
  - Replacing "Gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.
- 1.10 These changes will be reflected in the Treasury Management Strategy and be reflected as appropriate when developing future capital programmes.

## 2 GUIDING PRINCIPLES

- 2.1 To ensure the efficient use of all of its assets the Council will not permit any project to be included in its Capital Investment Plan (CIP) unless it furthers its strategic priorities and objectives. These strategic priorities include the statutory duties that Councils are responsible for undertaking.
- 2.2 Overall, the following principles will apply to all capital investment decisions:
  - I. They should reflect the priorities identified in the Council Plan and its supporting strategies.
  - II. They will be prioritised by availability of resources and allocated funding, and supported by a business case review.
  - III. Priority will be given to schemes financed from capital grants or Invest to Save income streams.
  - IV. The cost of financing each capital scheme will be incorporated into the relevant annual policy, resources strategy and budget (e.g. Capital Investment Plan 2023-24 to 2026-27).
  - V. Commissioning and procuring for capital schemes will be legally compliant, which will be established by early and appropriate due diligence.

## 3 LINKS TO COUNCIL POLICIES, STRATEGIES AND OBJECTIVES

- 3.1 The Council's **Capital Plan** covers a four-year period: the latest proposed in this report will cover 2023-2027. The proposed commitments in the programme reflect the Council Plan:
  - i. Better Skills, More Good Jobs and a Growing Economy
  - ii. Decent Homes
  - iii. Good Start, Great Schools
  - iv. Better Health, Better Lives
  - v. Safe, Strong and Active Communities
  - vi. A Sustainable District
  - vii. An Enabling Council

## 4 Housing Revenue Account (HRA)

- 4.1 The (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately within the accounts. The Executive, at its meeting of November 1 2022, approved the opening of a Housing Revenue Account (HRA) in the financial year 2023-24. This was in response to a direction issued by the Department for Levelling Up Housing and Communities (DLUHC) in relation to council's owning more than 200 units of housing. Bradford District presently owns just 406 units out of approximately 34000 social housing units in the Bradford district.
- 4.2 In order to open an HRA, the Council will also need to develop a HRA Business Plan. The Business Plan is being developed with assistance from external consultants and sets out the strategic plan for managing and maintaining the council's housing stock.

It also details the short to medium term plans and priorities for housing and asset management services and provides a long term (30 year) forecast on stock investment and financial planning. Furthermore, it gives an economically sustainable strategy with which to go forwards, meeting the statutory health and safety requirements, improving the decency of homes, providing more homes and starting the journey towards carbon neutrality. Officers, together with suitably qualified and experienced housing consultants, are presently developing the Business Plan which will be presented for approval by Executive during March 2023.

## **5 GOVERNANCE FRAMEWORK FOR CAPITAL DECISIONS**

- 5.1 The Council's relevant democratic decision-making and scrutiny processes are set out in its Constitution and include:
- i. A **Council Plan** which sets out strategic priorities.
  - ii. Approval of the **Capital Strategy, Treasury Management Strategy and Capital Investment Programme**, including the prudential indicators referred to within them.
  - iii. The current **Capital Investment Plan (CIP)**. Each scheme in the CIP is approved by both the Executive and Full Council. The CIP is monitored by the appropriate responsible officer, finance and the Project Appraisal Group (PAG) in order to detect and deal with any variances to the plan. Updates are reported to the Executive on a regular basis.
  - iv. The Council's **Financial Regulations**. Under these regulations the PAG will assess unfunded capital expenditure proposals. Schemes funded from capital grants or Direct Revenue Financing can be progressed and approved directly by the Director of Finance. Any new capital expenditure proposals that are not wholly funded from capital grants or by the proceeds of sale of land must be either financed directly from the Revenue Estimates or be formally authorised from an identified capital scheme or approved additional borrowing.
  - v. A mandatory **Capital Business Case** to identify the projected running costs and financing costs of the relevant asset and assess its affordability.
  - vi. The **Project Appraisal Group (PAG)**. Currently its membership comprises finance, legal, procurement, project management and property expertise and it is chaired by the Director of Finance. Its prime responsibility is to review the Capital Business Case.
  - vii. Investment assets are subject to specific approval processes, involving the Investment Advisory Group, discussed below.
  - viii. There is also discussion and a review underway to develop the support provided around project delivery as well as processes around contract management.

## **6 CAPITAL RESOURCES TO SUPPORT CAPITAL EXPENDITURE**

- 6.1 Proposed future schemes are set out in the **Capital Investment Plan 2023-24**, due to be considered by Full Council on 23 February 2023.
- 6.2 Schemes not funded directly by grants, receipts from asset disposals or reserves generate **Capital Financing Costs**, which have to be paid for out of the annual Revenue Estimates (Document AU for 2023-24). Capital Financing Costs derive

from the cumulative effect of previous years' borrowing to fund capital investment; net of amounts previously paid. These costs are not impacted by the current year capital expenditure: they can only be matched against service benefit when the related asset is operational.

- 6.3 **Invest to Save (self-financing) schemes** generate savings or additional income in the Revenue Estimates which offset the Capital Financing Costs. Such schemes and their related savings or additional income are projected to have an increasing impact on the Revenue Estimates and the Medium Term Financial Strategy in future years.
- 6.4 **Corporate Borrowing schemes do not generate savings or additional income in the Revenue Estimates.** Such schemes are chosen for their direct delivery of service provision. Of course, in practice individual schemes can generate some savings or additional income but also require a corporate borrowing contribution.
- 6.5 **Capital Receipts** are usually restricted to use for:
- i) Financing new capital investment.
  - ii) Reducing borrowing under the Prudential Framework.
  - iii) Paying a premium charged in relation to any amounts borrowed.
  - iv) Meeting any liability in respect of credit arrangements.
  - v) Meeting disposal costs (not exceeding 4% of the receipt).
- 6.5.1 In general, capital receipts arising from the disposal of housing assets and for which account is made within the Housing Revenue Account (HRA), are governed by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. In summary the regulations require that receipts arising from:
- i) Right to Buy (and similar) sales may be retained to cover the cost of transacting the sales and to cover the debt on the properties sold, but a proportion of the remainder must be surrendered to Central Government; and
  - ii) All other disposals may be retained in full provided they are spent on affordable housing, regeneration or the paying of housing debt.
- 6.6 **Flexible Use of Capital Receipts**
- 6.6.1 As part of the Local Government Finance Settlement (LGFS) in March 2016, the Secretary of State for Housing, Communities and Local Government provided Local Authorities with the opportunity to use capital receipts to fund the revenue costs of transformation. This flexibility was then extended to 2021-22 as part of the 2018-19 LGFS. Alongside the Final LGFS in February 2021, this flexibility was extended for a further three-year period (2022-23 to 2024-5). The Council intends to utilise £3.0m of capital receipts to fund elements of transformational agenda in line with the Directive guidance. Therefore, in 2022-23 the first £3.00m of unfettered receipts will be used to support the revenue budget via the financing of transformational projects.

- 6.6.2 The Flexible Use of Capital Receipts is designed to offset the revenue cost of transformational projects which are expected to deliver future ongoing revenue savings for either the Council or other public sector delivery partners.
- 6.6.3 In order to take advantage of this freedom and flexibility, the Council must act in accordance with the statutory guidance issued by the Secretary of State. This guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. The Council's Flexible Use of Capital Receipts Strategy is included in Appendix 4.

## **7 COMMERCIAL ACTIVITY AND PROPERTY INVESTMENTS**

- 7.1 A commercial property investment strategy was approved by Executive on 4 April 2017. This permitted investment in commercial property both to create long term income generation; or to promote economic development, service provision and regeneration within the District.
- 7.2 Since 2017, the former Ministry of Housing, Communities and Local Government (MHCLG) announced a number of changes in relation to borrowing for commercial property investments. These are summarised below:
- From 1 April 2018, Local Authorities were required to approve an Investment Strategy at Full Council. The definition of Local Authority investments was also updated to include investment property and loans to third parties and related companies.
  - It was also announced (1 April 2018) that Local Authorities were no longer able to borrow in advance of their Capital Financing Requirements, solely for the purpose of investment yield. The impact was to restrict commercial investment where Councils' actual cash or finance lease borrowing was equal to their underlying need to borrow for a capital purpose (The Capital Financing Requirement). This did not apply to Bradford Council. Bradford internally borrowed from earmarked reserves, so that actual borrowing is below the Capital Financing Requirement (See Table 4b Capital Investment Programme 2023-24 to 2026-27)
  - On 10 September 2019, the MHCLG increased the interest rate on borrowing by 1%. The reason given for this increase was to reduce the level of borrowing by Local Authorities for the purpose of acquiring commercial property portfolios.
  - On 11 March 2020, the Government rescinded the 1% interest increase but only for borrowing related to the construction of social housing. The Government also announced a consultation on Local Authorities' commercial property portfolios.
  - On 26 November 2020, the MHCLG rescinded the 1% increase on all borrowing from the PWLB. However, at the same time, the results of the consultation were that councils seeking to borrow from the PWLB will now have to confirm they are not borrowing primarily for yield at any point or from any source for a period of 3 years. Compliance is monitored by reviewing capital plans; in Bradford's case, the Capital Investment Programme 2023-24 to 2026-27.
- 7.3 As a result, Bradford can no longer invest in commercial property solely to create income generation. The prior criteria for investment in strategic acquisitions (see

Criteria B below) has now been updated (see Criteria A below):

### **Criteria A**

- i A proven ability to promote economic development, service provision and regeneration within the District.

### **Criteria B**

- i. Risks associated with the investment
- ii. The likelihood of being able to sell the investment in extremis
- iii. The location of the investment, with preference being firstly within the District and secondly within the Leeds City Region
- iv. The security of direct rental payments, with consideration given to the reliability of tenants
- v. The income stream from the investment, current and potential
- vi. The potential increase to the capital value of the investment
- vii. The sector in which the investment is made, e.g. retail or warehouses
- viii. The detailed business case for investment

## **8 LOANS TO EXTERNAL ORGANISATIONS**

- 8.1 The Council may make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a strategy for local regeneration and economic growth. In such cases, a realistic assessment of potential policy gains could justify the loan even when liquidity and security considerations might indicate that it is not prudent.
- 8.2 In such cases, a cost may be chargeable to the Revenue Estimates, either in accordance with the Council's Minimum Revenue (MRP) Policy or, alternatively, an expected credit loss model in line with IFRS 9 (financial instruments) would be required.
- 8.3 Loans to external organisations are covered under the Council's MRP policy because as noted above, they fall within the Local Authority definition of capital expenditure. The Council's MRP Policy sets out that the Capital Financing Costs can only be fully met from the loan repayments under the following conditions:
  - The loan repayment schedule covers the full cost of the original loan.
  - That there continues to be confidence that loan repayments will be repaid.
  - That the external organisation adheres to the loan schedule.
- 8.4 In addition, a loan to an external organisation may reduce the interest income received into the Revenue Estimates. This will happen when the interest charged on the loan is less than the amount that would be received from an alternative investment.
- 8.5 Technical accounting rules may also require applying the credit loss model. This calculates a nominal cost to the Council equivalent to the monetary value of the difference between the interest charged on the external loan and the commercial

rate. However, currently the Council is entitled to make an adjustment, so that there is no real impact in the Revenue Estimates.

## 9 ASSET MANAGEMENT PLANNING

- 9.1 The Council Estate Management Service manages its existing assets to reduce costs and maximise service benefit according to objectives listed in the Estates Strategy, which is currently being reviewed and updated to link to this Capital Strategy and to quantify the cost of repair and maintenance costs against the savings from extending the lives of Council buildings from 2023-24 onwards. The Council has increased its funding in the Property Programme by an additional £2million per annum for the next five years which would improve the Council's estate and reduce its backlog maintenance.
- 9.2 The review will also cover disposals of buildings. As noted, the receipt from such disposals are a regulated funding source for the Capital Investment Programme. The fact that the property has been sold, can also reduce the repair and maintenance on the Council's estate. Table 5 (in Appendix 3) summarises the Council's achievements in rationalising the estate between 2009-10 and 2022-23.
- 9.3 The Council's Estates Strategy, is close to being finalised and will be implemented in 2023-24, in the short term, to mitigate rising energy costs, some buildings are being mothballed whilst a permanent strategy is finalised for the Council's city centre office estate.

## 10 RISKS

- 10.1 In considering the Capital Investment Programme 2023-24 to 2026-27 and the Capital Strategy, there are a number of key risks. These are summarised below:
  - **Interest rates are higher than expected.** The current estimate of capital financing costs is based on interest rate forecasts. Such forecasts are inherently subject to change. Such changes could significantly increase capital financing costs.
  - **Overspends.** The capital projects could overspend, or alternatively the expected funding may be lower than expected. This will reduce value for money and increase the future costs charged to the Revenue Estimates.
  - **Project delivery impaired.** As well as the financial impacts, poor project delivery reduces the quality of service provision for residents.
  - **Unanticipated Revenue Consequences of Capital Investment.** There could be additional costs in the Revenue Estimates that are not fully anticipated in the Business Case; for example, additional repair and maintenance costs.
  - **Obsolete assets.** Technological changes, changes in Local Government or different choices could make an asset obsolete, reducing the expected service provision. If this causes a reduction in the expected life of the asset, debt repayments may need to be made out of the Revenue Estimates over a shorter period of time.
  - **Invest to Save schemes rely on over-optimistic revenue projections.** The revenue savings or income generation forecasted from a scheme may not materialise. This is a particular risk, because as noted above, budget projections for the Revenue Estimates are increasingly reliant on such forecasts.
  - **Change to regulations.** The Government may change current regulations, so that the financial impact of debt and borrowing on the Revenue Estimates could increase.
  - **Committed Capital Expenditure.** During the construction phase, new information



may become available, for example as a result of a site investigation or other circumstances, which prevents a scheme progressing. In such circumstances, the committed costs add no value and are written off against the Revenue Estimates.

- **The value of property reduces and/or it is more difficult to dispose of property.** The anticipated capital receipts in the CIP are over-optimistic, more borrowing is required and Capital Financing Costs increase.
- **Actual or prospective loans to external parties are not repaid.** If external loans are not repaid, they will have to be written off, with the cost charged directly against the Revenue Estimates. Such write offs could increase costs unexpectedly.
- **Change in Government Policy.** There are assumptions in the CIP that some Government grants are recurring. If these assumptions are incorrect, the Council will have to choose between reducing service provision or using additional financial resources.

10.2 The policy framework in the Capital Strategy aims to mitigate the risks identified above. Other risk mitigations are set out in the proposed Capital Strategy actions.

## 11. PRUDENCE, AFFORDABILITY, SUSTAINABILITY

11.1 As noted, the updated Prudential Code for Capital Finance in Local Authorities issued in December 2021 requires the Council to consider the key judgement criteria of Prudence, Affordability and Sustainability when considering the Capital Programme.

11.2 Some considerations around this are:

- At 1 April 2022, the Council had £1,016m of long-term assets, when valued according to their potential to provide service provision to the Council. Outstanding debt on these assets is £709m (CFR balance).
- The CIP 2022-23 to 2026-27 proposes £865m of new capital expenditure: funded by £488m of capital grants and miscellaneous items; £160m of Invest to Save borrowing; and £217m of corporate borrowing. Individual schemes are detailed in Appendix 1 by department and analysed according to their individual funding requirements.
- Interest rates have risen in the last year and further increases are forecast.
- Other potential risks are outlined in the Risk section above (see Section 10 Risks).
- The CIP is a rolling programme. Current schemes include those approved as part of the budget process last year and individual schemes progressed, developed and approved at Executive during the current financial year. Each scheme's contribution to the Council's service provision and its resource requirement is assessed individually.
- The Prudential indicators set out in Appendix 3, Table 4, show the ratio of capital financing costs to the net revenue requirement increasing from 12.9% to 15.2% between 2023-24 to 2026-27.
- The increase in the ratio of capital financing costs is mitigated within the Medium Term Financial Strategy by: savings and income generation from the Invest to Save schemes; some technical accounting adjustments also impact on the profile of the repayments of debt for the Public Finance Initiative.

11.3 Overall the Capital Financing Requirement (CFR) of £709m will be paid for from Capital Financing Costs charged to future revenue estimates. The proposed CIP 2023-24 to 2026-27 requires substantial new borrowing, increasing the CFR and the amount of funding set aside from future revenue estimates.

- 11.4 The projected CFR and Capital Financing Costs are shown in detail by the Prudential Indicators. These are used to test the affordability of the proposed CIP.
- 11.5 Most of the Council's long-term borrowing is from the PWLB; which was £292.3m at 1 April 2022. Also Salix Finance Limited provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £19.1 million interest free loans to fund the £45 million approved street lighting replacement scheme in the Council's capital plan. At 1 April 2022 the Council has received £5.2m from Salix loans.
- 11.6 A further £146.1m of borrowing relates to the private finance initiative with a private company and will be repaid from future contracted lease payments.
- 11.7 Borrowing decisions are made on a cash flow basis so are not directly aligned with the Capital Financing Costs charged to the Revenue Estimates. In practice, the Council's earmarked reserves are used to reduce actual borrowing. This is because borrowing costs are higher than the interest the Council received on its investments. The relationship between the CFR, earmarked reserves and other assets and liabilities is summarised in Table 6, Appendix 3.

## **12 SKILLS AND KNOWLEDGE**

- 12.1 The Council has professionally qualified staff across a range of disciplines including finance, legal and property. A programme of continuous professional development (CPD) is undertaken and employees attend courses on an ongoing basis to keep abreast of new developments and skills. The Council establishes project teams from all the professional disciplines across the Council as and when required.
- 12.2 The Council uses external advisors where necessary in order to complement the knowledge its own officers hold. Some of these advisors are contracted on long-term contracts or are appointed on an ad-hoc basis when necessary. The Council currently employs Link Asset Services as treasury management advisors and PWC as VAT advisors. This approach ensures the Council has access to specialist expertise when needed to support its staff, commensurate with its risk appetite.
- 12.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Director of Finance.

## **13. CAPITAL STRATEGY ACTIONS**

- 13.1 These are intended to align the Council's operations with the CFR, and are listed in Table 10 of the Capital Strategy Appendix 3. The Actions represent the programme for implementation of the Capital Strategy, which as a high-level document omits much operational detail in favour of a strategic overview of how the Council will manage and optimise its use of its capital assets.

# **Investment Strategy 2023-24**

## **INVESTMENT STRATEGY**

### **1. BACKGROUND:**

This strategy document sets out the Council's annual Investment Strategy as is required by the 3rd Edition of the Section 15 guidance on local government finance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 in 2018. It covers the budget year 2022-23 onwards. The overall objective of the strategy is to provide high-level guidance on acquiring and managing investments in order to improve the financial resilience of the Council, the income base for its services and to ensure that its financial assets are applied efficiently for the benefit, improvement or development of the area through the acquisition, retention and management of good quality investments and the granting of loans.

The 2011 Localism Act provides a general power of competence which permits local authorities to do anything they consider likely to promote or improve the economic, social and environmental well-being of their area. This means that the annual Investment Strategy closely links to the Council's Economic Strategy in order to deliver economic growth, tackle inequality and create change in the area that benefits everyone.

This Investment Strategy also provides an update for recent announcements. The former Ministry of Housing, Communities and Local Government (MHCLG) has determined that councils seeking to borrow from the PWLB can no longer incur capital expenditure primarily for yield at any point or from any source for a period of 3 years.

CIPFA published the revised Prudential and Treasury Codes in December 2021 and formal adoption is required for the 2023-24 financial year.

### **2. INVESTMENTS – DEFINITION**

The section 15 guidance issued on 1 April defined investments as including both financial assets and commercial property, held primarily for yield.

The guidance was issued in part as a response to the increasing investment of Local Authorities in commercial property. As such, commercial property was specifically identified as falling within the terms of the guidance and this strategy.

Most of the Council's commercial property portfolio is historic, with just two additional investment acquisitions in recent times and none in 2021-22. At 1 April 2022, this investment property portfolio was valued at £51.9m (2021-22 unaudited statement of accounts), a small proportion of overall long-term assets of £1,016m.

The definition of an investment also covers loans made by the Council to one of its wholly-owned companies, a joint venture, or to a third party. However, this strategy does not cover investments managed within the treasury management scheme of delegation. These are considered within the annual Treasury Management Strategy.

### **3. KEY STRATEGIC PRINCIPLES**

This Investment Strategy sets objective criteria for any investment. These are listed below:

- i. Is within the General Power of Competence (2011 Localism Act)
- ii. Transparency and democratic accountability
- iii. Contribution
- iv. Use of indicators
- v. Security, Liquidity and Yield
- vi. Investment Limit

#### **3.1 Transparency and democratic accountability:**

The Council is required to prepare at least one annual Investment Strategy that contains the details specified in the 2018 guidance and is approved by full Council.

#### **3.2 Contribution to Council's overall purposes:**

Investments made by local authorities can currently be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other Investments, which are not held for treasury management purposes.

Investments held for treasury management purposes usually comprises short term lending to banks, financial institutions and other local authorities, when the Council has a cash surplus. These are managed within Treasury Management Strategy, so do not need to be considered within this Investment Strategy.

Other investments previously made by the Council are property investments and loans to third parties. Future decisions will be assessed on the contribution made, using the criteria set out below. A key measure of contribution will be the delivery of service provision, as set out in the General Power of Competence within the Localism Act: therefore. the supporting business case assessment should demonstrate that the investment forms part of a project in the Council's Plan or some other formal statement of the Council's strategic or policy aims.

The full criteria to measure contribution and make investment decisions (as included in the Capital Strategy is set out below:

#### **Criteria A**

- i. A proven ability to promote economic development, service provision and regeneration within the District.

#### **Criteria B**

- i. Risks associated with the investment
- ii. The likelihood of being able to sell the investment in extremis
- iii. The location of the investment, with preference being firstly within the District and secondly within the Leeds City Region
- iv. The security of direct rental payments, with consideration given to the reliability of tenants

- v. The income stream from the investment, current and potential
- vi. The potential increase to the capital value of the investment
- vii. The sector in which the investment is made, e.g. retail or warehouses
- viii. The detailed business case for investment

i. Falls within the General Power of Competence (where an investment is classified as contributing to regeneration or local economic benefit)

ii. Yield

iii. Regeneration

iv. Economic benefit/business rates growth

v. Responding to local market failure

vi. Treasury management

vii. Invest to Save Schemes capacity to reduce costs or generate additional income from an asset (including a sensitivity analysis to test the robustness of the expected savings).

All business case proposals for property investments will be evaluated by the Project Appraisal Group, including using the key strategic principles and the contribution criteria.

As noted, the Council can no longer invest in commercial property primarily for yield. However, yield is important criteria where service provision can be financed, or partly financed by savings or income generation. This is also consistent with the Capital Strategy, which aims to encourage the identification of Invest to Save (or self-financing) schemes.

### **3.3 Investment indicators:**

The Council proposes to adopt a system of quantitative indicators to guide and inform investment decisions relating to Other Investments. The Council initially adopted the indicators proposed within the Guidance. These indicators will be reported upon and reviewed.

The Council's proposed range of indicators (Section 7) will allow members and other interested parties to understand the total exposure from borrowing and investment decisions. They will cover both the Council's current position and the expected position assuming all planned investments for the following year are completed. They will not take account of Treasury Management investments which will continue to be reported within the Treasury Management report.

### **3.4 Security, Liquidity and Yield:**

In this context, Security means protecting the capital sum invested from loss; and Liquidity means ensuring the funds invested are available for expenditure when needed. Yield is the expected return of the investment over its lifetime, and can be expressed either in financial terms or as the achievement of policy or strategic aims.

In considering Other Investments, the balance between security, liquidity and yield will be considered as part of the business case, alongside the contribution the Other Investment can make to achieving policy objectives.

### **3.5 Investment Limit**

The Council will from time to time set one or more Investment Limits and keep them under review. The Council will use prudential borrowing to fund Other Investments / strategic acquisitions. Currently interest rates remain at a low level and the rental income /

Contribution from Other Investments should more than cover the associated debt costs, whilst also providing a net yield to support the Council's revenue budget. The Council has the ability to fix interest over the long-term which removes the risk of interest rate volatility.

Provision of £20 million has been included in the capital programme, phased across the programme and funded by prudential borrowing. Any new approved schemes for this budget will need to meet the new Prudential Code requirements. A small £0.7m budget is also included, as part of the Leeds City Region Revolving Investment Fund.

#### **4. GOVERNANCE ARRANGEMENTS**

The Council has set up an Investment Advisory Board to consider specific business cases in relation to investing in Other Investments / strategic acquisitions. The core group consists of:

- ☐ Leader of the Council – (Chair)
- ☐ Cllr Alex Ross Shaw – portfolio holder for Regeneration, Planning & Transportation
- ☐ A representative nominated by the Leader of the Conservatives
- ☐ Cllr Jeanette Sunderland – Leader of Liberal Democrat & Independent Group
- ☐ Strategic Director of Corporate Resources
- ☐ Strategic Director of Place
- ☐ Director of Finance / s151 Officer
- ☐ Assistant Director Estates & Property
- ☐ City Solicitor / Monitoring Officer

Other officers will attend as relevant to the specific business case.

#### **5. RISK ASSESSMENT**

Any capital expenditure falling within the definition of investment (but excluding Treasury Management) will be risk assessed as follows:

- i. Whether, and if so, on what terms the Council uses external advisors as treasury management advisors, property investment advisors or any other relevant persons. In each case such engagements will be on the Council's standard terms and conditions unless there is an agreed exception, as is provided for under No. 20 of the Council's Contract Standing Orders.
- ii. The outcome of any monitoring by the Council of the quality of advice provided by its external advisors.
- iii. To what extent, if at all, any risk assessment is based on credit ratings issued by credit ratings agencies, and the reliability of such ratings given the current degree of engagement between the rating agency and the market under assessment.
- iv. Where credit ratings are used, how frequently they are monitored and the procedures for taking action if credit ratings change.
- v. What other sources of information are used to assess and monitor risk.
- vi. Any specific property-related risks – covenant strength, lease period/s, condition, maintenance costs, etc.

Risk Assessment will be undertaken as part of business case considerations and regularly reviewed.

## 6. CAPACITY, SKILLS AND CULTURE

The Investment Strategy Guidance requires that Councillors and Officers involved in investment decisions need the appropriate capacity, skills and information to enable them to take an informed decision as to whether or not to enter into a specific investment. As part of this, the Council will procure specialist legal and financial support as required.

## 7. PRUDENTIAL INDICATORS

As noted above, the Council has a historic portfolio of investment property. This has been expanded with two investments in property, with the intention of making a profit that will be spent on local public services. These assets fall under the definition of Investment Properties in the CIPFA Accounting Code and are valued at fair value in the accounts in accordance with IFRS13. Fair value is when an asset is valued at its highest and best use.

### Overall Return

	<b>2021-22</b>
	<b>£m</b>
Rental income	-2.0
Service charges	-0.2
Repairs and Maintenance	0.26
Capital Financing costs & other	0.4
<b>Total return</b>	<b>-1.54</b>
<i>Source 2021-22 Draft Statement of Accounts</i>	

The value of the Council's investment property as at 31 March 2022 was £51.9m, making a return of 3.0%. The historic investment property has been revalued upwards above its purchase cost, so taking this into account, the return would be higher. This means historic spend on investment property is supporting the current revenue estimates.

No new acquisitions were completed in 2021-22 and one of the recent investment acquisitions is no longer in this category due to a change in operational use. This asset is not included in current prudential indicators.

### Debt to Net Service Expenditure (NSE) Ratio

This indicator measures the gross debt associated with the recent property investment as a percentage of the Council's net expenditure requirement, where the Net Expenditure Requirement is a proxy for the size and financial strength of a council.



	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000
Gross Debt	6,219	6,111	6,000
Net Service Expenditure	432,935	388,000	441,000
Debt to NSE Ratio	1.4%	1.6%	1.4%

The indicator shows the proposed debt level for the Council's recent investment. It shows that the debt ratio from investment in a property portfolio will be approximately less than 2% of the Council's net revenue budget if the investment in this property is funded solely from borrowing. There is no specific debt that can be identified against the Council's historic portfolio. No additional investments are assumed in the indicator at present, in the light of DLUCH guidance.

### **Income to NSE Ratio**

This indicator measures the Council's dependence on the income from property investments to deliver core functions.

The income generated from all property investments will fund 0.6% of the Council's' net service expenditure over the medium term. This shows that the Council's reliance on income from property investments is low.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000
Commercial Income	2,200	2,500	2,500
Net Service Expenditure	432,935	388,000	441,000
Commercial Income to NSE Ratio	0.5%	0.6%	0.6%

### **Investment Cover Ratio**

This indicator measures the total net income from the recent property investment compared to interest expense.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate
Investment Cover Ratio	0.6	1.8	1.8

The indicator shows that net income is expected to be higher than the interest expense in future years.

### **Loan to Value Ratio**

This indicator measures the amount of debt compared to the total asset value. In the period immediately after purchase it is normal for the directly attributable costs of purchasing commercial property investments to be greater than the realisable value of the asset (for

example, because of non value adding costs such as stamp duty and fees). The Loan to value ratio should gradually decrease, reflecting the assumption that property values will remain constant while borrowings will be repaid.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate
Loan to value Ratio	1.7	1.6	1.6

### Target Income Returns

This indicator shows net revenue income compared to equity and is a measure of the achievement of the property portfolio.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate
Target Income Returns	1.5%	4.1%	4.2%

### Gross and Net Income

The net income targets are included in the Council's financial projections. The achievement of target income streams will be managed as part of the Council's standard budget monitoring process. Targets are dependent upon further investments being made. The indicator shows the proposed income for the Council's recent investment.

	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000
Gross Income	255	355	355
Net Income	89	246	244

### Operating Costs

Operating costs relate to the cost of the Council's internal Estate Management function in relation to managing assets acquired under the property investment strategy.

Additional operating costs may be incurred as a result of the purchase of investment properties. Any such costs will be factored into financial appraisals as part of the purchase assessment to ensure that target net rates of return are achieved. This indicator may therefore be revised if further investments are made.

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Operating Costs	400	400	400

## Vacancy Levels and Tenant Exposures

	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Void periods	0%	0%	0%

The target of 0% reflects the strong tenant covenant strengths that will be required under the property investment strategy. Void periods will be factored into financial appraisals as part of the assessment criteria where relevant, therefore this indicator may be revised once investments have been made.

## Appendix 1

CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Health and Wellbeing</b>										
CS0237a	Great Places to Grow Old	1,080	1,500	2,500	2,961	1,124	0	0	9,165	9,165
CS0237c	Keighley Rd Residential Care Valley View	295	0	0	0	0	0	295	0	295
CS0373	BACES	818	750	750	750	0	0	0	3,068	3,068
CS0239	Community Capacity Grant	558	0	0	0	0	558	0	0	558
CS0311	Autism Innovation Capital Grant	19	0	0	0	0	19	0	0	19
CS0312	Integrated IT system	44	0	0	0	0	44	0	0	44
CS0523	Electrical work at residential homes	31	0	0	0	0	31	0	0	31
CS0532	Changing Places Toilets P1 & P2	145	230	0	0	0	255	0	120	375
CS0535	Beckfield Resource Centre	213	0	0	0	0	0	0	213	213
CS0536	Medication and Care Records System	85	0	0	0	0	0	0	85	85
<b>Total - Health and Wellbeing</b>		<b>3,288</b>	<b>2,480</b>	<b>3,250</b>	<b>3,711</b>	<b>1,124</b>	<b>907</b>	<b>295</b>	<b>12,651</b>	<b>13,853</b>
<b>Children's Services</b>										
CS0022	Devolved Formula Capital	643	0	0	0	0	643	0	0	643
CS0030	Capital Improvement Work	105	100	100	100	0	405	0	0	405
CS0240	Capital Maintenance Grant	6,479	3,194	0	0	0	9,673	0	0	9,673
CS0244a	Primary Schools Expansion Programme	842	1,000	0	0	0	1,842	0	0	1,842
CS0244b	Silsden School	651	600	0	0	0	1,251	0	0	1,251
CS0244c	SEN School Expansions	2,102	3,000	1,684	0	0	6,786	0	0	6,786
CS0362	Secondary School Expansion	669	0	0	0	0	669	0	0	669
CS0364	Capital Items	21	0	0	0	0	0	0	21	21
CS0421	Healthy Pupil Capital Grant	44	0	0	0	0	44	0	0	44
CS0436	Children's Homes	400	0	0	0	0	0	0	400	400
CS0488	Digital Strategy	100	100	100	0	0	0	0	300	300

CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0500	TFD	724	500	0	0	0	0	0	1,224	1,224
CS0531	Bingley Grammar Expansion	500	3,000	1,500	1,100	0	6,100	0	0	6,100
<b>Total - Children's Services</b>		<b>13,280</b>	<b>11,494</b>	<b>3,384</b>	<b>1,200</b>	<b>0</b>	<b>27,412</b>	<b>0</b>	<b>1,945</b>	<b>29,358</b>
<b>Place - Economy &amp; Development Services</b>										
CS0136	Disabled Housing Facilities Grant	5,686	3,000	4,058	4,058	4,058	20,860	0	0	20,860
CS0137	Development of Equity Loans	706	700	700	700	0	0	0	2,806	2,806
CS0144	Empty Private Sector Homes Strat	1,000	0	0	0	0	1,000	0	0	1,000
CS0250	Goitside	0	0	178	0	0	0	0	178	178
CS0496	Towns Fund Keighley & Shipley	139	0	0	0	0	139	0	0	139
CS0527	Towns Fund Keighley P2	6,646	13,946	10,100	1,500	0	32,192	0	0	32,192
CS0526	Towns Fund Shipley P2	7,061	7,763	9,065	44	0	23,933	0	0	23,933
CS0084	City Park	192	0	0	0	0	0	0	192	192
CS0085	City Centre Growth Zone	1,322	0	0	0	0	0	0	1,322	1,322
CS0291	One City Park	14,080	16,000	2,902	0	0	6,990	15,134	10,858	32,982
CS0228	Canal Road	0	100	0	0	0	0	0	100	100
CS0266	Super connected Cities	829	0	0	0	0	0	0	829	829
CS0265	LCR Revolving Econ Invest Fund	0	658	0	0	0	0	0	658	658
CS0107	Markets	0	21	0	0	0	0	0	21	21
CS0363	Markets - City Centre	13,080	4,458	325	0	0	3,800	0	14,063	17,863
CS0411	Parry Lane	122	0	0	0	0	0	0	122	122
<b>Total - Place - Economy &amp; Development Services</b>		<b>50,863</b>	<b>46,646</b>	<b>27,328</b>	<b>6,302</b>	<b>4,058</b>	<b>88,914</b>	<b>15,134</b>	<b>31,149</b>	<b>135,197</b>
<b>Place - Planning, Transportation &amp; Highways</b>										
CS0178	Ilkley Moor	14	0	0	0	0	14	0	0	14
CS0285	Blight Sites	290	175	0	0	0	0	0	465	465
CS0071	Highways S106 Projects	441	0	0	0	0	441	0	0	441
CS0372	Countryside S106 Projects	150	200	0	0	0	350	0	0	350
CS0095	Bridges	3	0	0	0	0	3	0	0	3
CS0099	Integrated Transport	69	0	0	0	0	69	0	0	69
CS0168	Connecting the City (Westfield)	4	0	0	0	0	4	0	0	4
CS0172	Saltaire R/bout Cong& Safety Works	15	0	0	0	0	15	0	0	15
CS0282	Highways Strategic Acquisitions	176	0	0	0	0	176	0	0	176

CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0293	West Yorks & York Transport Fund	8,396	11,322	12,937	0	89,897	122,552	0	0	122,552
CS0396	WYTF Corr Imp Projects	293	4,331	2,100	2,000	943	9,667	0	0	9,667
CS0512	Bradford Beck	1,571	1,000	450	0	0	1,511		1,510	3,021
CS0296	Pothole Funds	1,979	0	0	0	0	1,979	0	0	1,979
CS0306a	Strategic Transport Infrastructure Priorities	0	965	0	0	0		0	965	965
CS0302	Highways Prop Liab Redn Strat	47	0	0	0	0	47	0	0	47
CS0319	Challenge Fund	404	0	0	0	0	404	0	0	404
CS0323	Flood Risk Mgmt	532	0	0	0	0	532	0	0	532
CS0370	LTP IP3 Safer Roads	23	0	0	0	0	23	0	0	23
CS0386	Cycling & Walking Schemes LTP3	17	0	0	0	0	17	0	0	17
CS0398	Bfd City Ctre Townscape Heritage	1,397	1,000	0	0	0	2,224	0	173	2,397
CS0430	Hwys Maint Fund Oct18	214	0	0	0	0	214	0	0	214
CS0432	Steeton/Silsden Crossing	21	0	0	0	0	21	0	0	21
CS0450	CILS payments	106	0	0	0	0	106	0	0	106
CS0453	IP3 Safer Roads 19-20	4	0	0	0	0	4	0	0	4
CS0454	Area Comm ITS 19-20	0	0	0	0	0	0	0	0	0
CS0434	Smart Street Lighting	4,972	29,573	5,261	0	0	0	39,806	0	39,806
CS0455	IP4 projects	1,135	0	0	0	0	1,135	0	0	1,135
CS0456	WY Integrated UTM Centre	0	0	0	0	0	0	0	0	0
CS0464	Ben Rhydding Railway Station Car Park	0	0	1,042	750	259	2,051	0	0	2,051
CS0467	Transforming Cities Fund (TCF)	8,267	0	0	0	0	8,267	0	0	8,267
CS0469	IP4 Safer Roads 20-21	143	0	0	0	0	143	0	0	143
CS0470	IP4 Safer Roads 21-22	635	0	0	0	0	635	0	0	635
CS0529	Safer Rds 22-23	1,165	1,164	1,164	1,164	1,164	5,821	0	0	5,821
CS0483	Motorcycle Parking	40	0	0	0	0	40	0	0	40
CS0486	Active Travel Fund Programme	1,329	0	0	0	0	1,329	0	0	1,329
CS0494	City Centre Bollards	5	0	0	0	0	0	0	5	5
CS0502	Corridor Improvement Prog (CIP2)	252	0	0	0	0	252	0	0	252
CS0477	CCTV Infrastructure	698	0	0	0	0	0	0	698	698
CS0533	UTMC – CRSTS Traffic Mgmt System	1,150	1,150	1,150	1,150	1,150	5,750	0	0	5,750
CS0539	Traffic Management	230	0	0	0	0	0	230	0	230
CS0542	UTMC – CRSTS Traffic Mgmt System22-23	10,657	10,657	10,657	10,657	10,657	53,285	0	0	53,285
<b>Total Place - Planning, Transportation &amp; Highways</b>		<b>46,844</b>	<b>61,537</b>	<b>34,761</b>	<b>15,721</b>	<b>104,070</b>	<b>219,081</b>	<b>40,036</b>	<b>3,816</b>	<b>262,933</b>

Dept of Place - Clean Air Zone

CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0471	Clean Air Zone	10,847	10,335	3,000	0	0	24,182	0	0	24,182
<b>Total Place - Clean Air Zone</b>		<b>10,847</b>	<b>10,335</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>24,182</b>	<b>0</b>	<b>0</b>	<b>24,182</b>
<b>Dept of Place - Waste, Fleet &amp; Transport</b>										
CS0060	Replacement of Vehicles	3,000	0	0	0	0	0	3,000	0	3,000
CS0517	Electric vehicles	200	608	355	18	0	0	300	881	1,181
CS0435	Sugden End Landfill Site	42	0	0	0	0	0	0	42	42
CS0415	Shearbridge Depot Security	66	0	0	0	0	0	0	66	66
CS0359	Community Resilience Grant	3	0	0	0	0	3	0	0	3
CS0497	Climate Change Initiatives – Vehicles	105	0	0	0	0	105	0	0	105
CS0503	Environmental Delivery Works	183	0	0	0	0	0	0	183	183
<b>Total Place - Waste, Fleet &amp; Transport</b>		<b>3,599</b>	<b>608</b>	<b>355</b>	<b>18</b>	<b>0</b>	<b>108</b>	<b>3,300</b>	<b>1,172</b>	<b>4,580</b>
<b>Dept of Place - Neighbourhoods &amp; Customer Services</b>										
CS0378	Customer Services Strategy	30	20	0	0	0	0	0	50	50
CS0506	Ilkley Parking	26	0	0	0	0	0	26	0	26
CS0510	Ilkley Footbridge	35	0	0	0	0	0	0	35	35
CS0151	Building Safer Communities	17	0	0	0	0	17	0	0	17
<b>Total Place - Neighbourhoods &amp; Customer Services</b>		<b>108</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>26</b>	<b>85</b>	<b>128</b>
<b>Dept of Place - Sports &amp; Culture</b>										
CS0487	Alhambra Theatre Lift	2	0	0	0	0	0	0	2	2
CS0162	Capital Projects - Recreation	73	15	0	0	0	13	0	75	88
CS0530	LDP (Active Bradford)	247	400	50	0	0	697	0	0	697
CS0229	Cliffe Castle Restoration	8	0	0	0	0	8	0	0	8
CS0004	S106 Recreation	7	0	0	0	0	7	0	0	7
CS0501	Parks Development Fund	471	0	0	0	0	471	0	0	471
CS0504	Cricket Nets	172	0	0	0	0	172	0	0	172
CS0404	Sports Pitches	160	28	0	0	0	71	0	117	188
CS0537	Silsden Park Section 106 Projects	224	0	0	0	0	224	0	0	224
CS0489	Playable Spaces	1,365	500	0	0	0	350	0	1,515	1,865
CS0403	Bereavement Strategy	9,228	10,025	4,200	1,000	0	0	7,000	17,453	24,453

CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0277	Wyke Community Sport Hub	1,170	0	0	0	0	0	0	1,170	1,170
CS0508	Theatres Website	45	0	0	0	0	45	0	0	45
CS0245	Doe Park	68	0	0	0	0	68	0	0	68
CS0461	Shipley Gym extension & equipment	51	0	0	0	0	0	0	51	51
CS0356	Sedbergh SFIP	118	0	0	0	0	0	0	118	118
CS0354	Squire Lane	1,228	15,000	18,510	10,000	3,700	20,000	19,410	9,028	48,438
CS0482	Marley Replacement Pitch	5	0	0	0	0	5	0	0	5
CS0458	Doe Park Drainage	40	0	0	0	0	0	0	40	40
CS0395	Ilkley Fencing - West Holme Fields	26	0	0	0	0	0	0	26	26
CS0498	Libraries IT Infrastructure	165	0	0	0	0	0	60	105	165
CS0509	Libraries (Equipment/Shelving)	172	0	0	0	0	172	0	0	172
CS0534	Libraries Locality Hubs (LIF)	100	100	0	0	0	200	0	0	200
<b>Total Place - Sports &amp; Culture</b>		<b>15,145</b>	<b>26,068</b>	<b>22,760</b>	<b>11,000</b>	<b>3,700</b>	<b>22,503</b>	<b>26,470</b>	<b>29,700</b>	<b>78,673</b>

<b>Corp Resources - Estates &amp; Property Services</b>										
CS0094	Museum Store	0	0	0	0	0	0	0	0	0
CS0333	Argus Chambers / Britannia Hse	151	0	0	0	0	0	0	151	151
CS0511	Property Programme 21-22	1,191	0	0	0	0	0	0	1,191	1,191
CS0528	Property Programme 22-23	2,003	2,000	0	0	0	0	0	4,003	4,003
CS0540	ISG Door Router	17	0	0	0	0	17	0	0	17
CS0460	Mitre Court CPU Property & Equip	30	0	0	0	0	0	0	30	30
CS0230	Beechgrove Allotments	0	0	0	148	0	148	0	0	148
CS0050	Carbon Management	209	0	0	0	0	0	0	209	209
CS0476	Carbon and Other Mngmt Efficiencies P2	450	800	500	750	0	0	0	2,500	2,500
CS0420	Electric vehicle charging Infr (Taxi Scheme)	659	0	0	0	0	659	0	0	659
CS0495	Bradford LAD Scheme	5,379	0	0	0	0	5,379	0	0	5,379
CS2000	DDA	40	50	81	0	0	0	0	171	171
CS0381	Godwin St	12,312	3,000	2,000	0	0	570	15,242	1,500	17,312
CS0409	Coroner's Court and Accommodation	1,015	0	0	0	0	0	0	1,015	1,015
CS0445	Core IT Infrastructure	2,400	4,000	2,360	0	0	0	0	8,760	8,760
CS0515	IT – End to End	330	0	0	0	0	0	0	330	330
CS0514	Birksland - Mail & Print Machine	72	0	0	0	0	0	0	72	72
CS0520	Regeneration Opportunity	16,500	2,500	5,500	4,000	0	4,000	0	24,500	28,500
CS0521	Buttershaw Youth Centre	30	0	0	0	0	0	0	30	30



CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0522	Children's Homes Capital Works	294	0	0	0	0	0	0	294	294
CS0525	Baildon Library	945	500	0	0	0	1,000	0	445	1,445
<b>Total Corp Resources – Estates &amp; Property Services</b>		<b>44,027</b>	<b>12,850</b>	<b>10,441</b>	<b>4,898</b>	<b>0</b>	<b>11,773</b>	<b>15,242</b>	<b>45,201</b>	<b>72,216</b>
<b>Reserve Schemes &amp; Contingencies</b>										
CS0395z	General Contingency	439	1,000	1,000	1,000	0	0	0	3,439	3,439
CS0397z	Property Programme	0	2,000	2,000	4,000	4,000	0	0	12,000	12,000
CS0399z	Strategic Acquisition	0	5,000	5,000	5,000	5,000	0	20,000	0	20,000
CS0400z	Keighley One Public Sector Est	0	200	400	400	0	0	1,000	0	1,000
CS0402z	Canal Road Land Assembly	0	450	0	0	0	0	0	450	450
CS0401z	Depots	0	0	2,000	1,000	0	0	0	3,000	3,000
CS0404z	Sports Pitches	286	2,500	4,250	1,748	0	2,383	0	6,401	8,784
CS0489z	Playgrounds	587	2,750	500	0	0	1,035	0	2,802	3,837
CS0405z	City Hall	0	500	3,000	3,500	500	2,000	3,000	2,500	7,500
CS0408z	City Village - Top of town	0	0	2,675	0	0	0	0	2,675	2,675
CS0060z	Vehicles	0	3,000	3,000	0	0	0	6,000	0	6,000
CS0060zb	Electric vehicles/ New street cleansing	0	623	0	0	0	0	623	0	623
CS0472z	District Heating	0	0	750	750	0	0	0	1,500	1,500
CS0473z	Renewable Energy (Solar Farm)	0	1,000	3,000	1,000	0	2,000	3,000	0	5,000
CS0474z	Transforming cities fund	0	13,737	44,090	9,444	0	67,271	0	0	67,271
CS0480z	Flood Alleviation	0	200	0	0	0	0	0	200	200
CS0484z	New Reserve	0	2,000	0	0	0	0	0	2,000	2,000
<b>2021-22 Schemes</b>										
CS0488z	Lap tops for Children	0	200	200	0	0	0	0	400	400
CS0244z	SEND	500	3,000	2,000	500	0	0	0	6,000	6,000
CS0482z	Marley Playing Field	500	0	0	0	0	0	0	500	500
<b>2022-23 Schemes</b>										
CS0060w	Vehicles	0	0	0	3,000	0	0	3,000	0	3,000
CS0395w	Contingency	0	0	2,500	0	0	0	0	2,500	2,500
CS0538w	Energy efficiency	250	500	500	500	250	0	0	2,000	2,000
CS0144w	Empty Private Sector Homes Strategy	0	1,000	1,000	1,000	1,000	4,000	0	0	4,000
CS0408	Top of Town	74	0	0	0	0	0	0	74	74
<b>2023-24 Schemes</b>										
CS0395f	Children's Homes	0	3,000	1,400	800	0	0	5,200	0	5,200

CS Ref	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CS0395i	Inflation Contingency	0	5,000	5,000	0	0	0	0	10,000	10,000
CS0395e	City Centre Regeneration	0	8,000	10,000	0	0	0	0	18,000	18,000
CS0395j	Area office accommodation	0	800	0	0	0	0	0	800	800
CS0395l	IT software	0	500	465	0	0	0	0	965	965
CS0395m	Bereavement Strategy	0	3,000	3,000	0	0	0	0	6,000	6,000
CS0445f	IT Programme	0	0	0	0	2,000	0	0	2,000	2,000
CS0060f	Vehicles	0	0	0	0	3,000	0	3,000		3,000
CS0397f	Property Programme	0	0	0	0	4,000	0	0	4,000	4,000
CS0395g	Contingency	0	0	0	0	1,000	0	0	1,000	1,000
<b>Total - Reserve Schemes &amp; Contingencies</b>		2,636	59,960	97,730	33,642	20,750	78,789	44,823	91,106	214,718
<b>TOTAL - General Fund</b>		<b>190,637</b>	<b>231,998</b>	<b>203,009</b>	<b>76,492</b>	<b>133,702</b>	<b>473,686</b>	<b>145,326</b>	<b>216,825</b>	<b>835,837</b>

	Scheme Description	Revised 22-23 Budget	2023-24 Budget	2024-25 Budget	2025-26 Budget	2026 Onwards	Specific Grants, cap receipts, reserves	Invest to Save Funding	Corporate Borrowing	Budget Total
<b>HRA</b>										
CS0237b	Keighley Rd Extra Care Fletcher Court	62	0	0	0	0	0	0	62	62
CS0308	Afford Housing Programme 15 -18	176	0	0	0	0	176	0	0	176
<b>Total - Housing</b>		<b>238</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>176</b>	<b>0</b>	<b>62</b>	<b>238</b>
<b>Reserve Schemes &amp; Contingencies</b>										
CS0407z	Affordable Housing	0	5,000	10,000	10,000	4,224	14,430	14,794	0	29,224
<b>Total - Reserve Schemes &amp; Contingencies</b>		<b>0</b>	<b>5,000</b>	<b>10,000</b>	<b>10,000</b>	<b>4,224</b>	<b>14,430</b>	<b>14,794</b>	<b>0</b>	<b>29,224</b>
<b>TOTAL - HRA</b>		<b>238</b>	<b>5,000</b>	<b>10,000</b>	<b>10,000</b>	<b>4,224</b>	<b>14,606</b>	<b>14,794</b>	<b>62</b>	<b>29,462</b>

## **Appendix 2: Proposed change to the Minimum Revenue Policy**

1.1 The Local Government Act 2003 requires the Council to make a provision for the repayment of borrowing used to finance its capital expenditure, known as the Minimum Revenue Provision (MRP).

1.2 The MRP is the amount of principal capital repayment that is set aside each year in order to repay the Capital Financing Requirement (CFR) based on the requirement of statutory regulation and the Council's own accounting policies.

1.3 The Council is required to state as part of its budget process the policy for determining its MRP. The method for calculating the MRP on each category of debt is outlined below:

a) From 1 April 2022 the policy for charging MRP on historic supported borrowing is on the annuity asset life method calculated over the remaining 36 years.

b) Unsupported or prudential borrowing MRP is based on the Asset Life method – that is, the expenditure financed from borrowing is divided by the expected asset life. From 1 April 2022 the MRP is calculated on the annuity basis.

c) Since 2009-10 the appropriate financing costs for the Council's Building Schools for the Future (BSF) Private Finance Initiative (PFI) schemes have been included in MRP calculations. In 2018-19 the MRP policy for PFI assets was brought into line with the main MRP Policy and the charge of the principal to the revenue account is now over the life of the school building assets. As per the main borrowing from the 1 April 2022 this is on an annuity asset life basis.

d) Finance lease MRP is equal to the principal repayment.

e) Asset lives are reviewed on an ongoing basis to match the MRP charge to the Revenue Estimates with the service benefit derived from the asset.

f) Where the Council has made property investments [or an invest to save investment] during or after 2018-19, the Section 151 Officer may choose to repay debt over the asset life using the annuity method. This is subject to an in house valuation that the investment property has retained or increased in value. Further it is subject to the condition that the in-year yield is above the average for Treasury Investments and this is expected to continue into the future.

g) Where capital expenditure involves repayable loans or grants to third parties no MRP is required where the loan or grant is repayable. By exception, on the basis of a business case and risk assessment, this approach may be amended at the discretion of the Director of Finance.

1.4 The CFR represents the amount of capital expenditure that has been financed from borrowing, less any amounts that the Council has set aside to repay that debt through the MRP. Borrowing may come from loans taken from the Public Works Loan Board (PWLb) or commercial banks, finance leases (including PFI) or from the use of the Council's own cash balances.

1.5 External debt can be less than the CFR. External debt cannot exceed the CFR (other than for short term cash flow purposes or cash flow management.)

1.6 There is an International Financial Reporting Standards requirement that assets funded from finance leases (including PFI deals) are brought onto the balance sheet. This also includes the liability as well as the asset. Therefore, the term borrowing does not just include loans from the Public Works Loan Board and banks, but also the liability implicit in PFI and other finance leases. IFRS 16 is due to be implemented from the 1 April 2024 and as a result, more of the Council's leases will be treated as finance leases. Therefore, more of the costs of these leases will be included in capital financing costs for the purposes of calculating the Prudential Indicator.

1.7 The CIP will need to be reviewed through the planning cycle to ensure it remains affordable within revenue resources and to take account of the actual implementation of capital schemes.

1.8 Loans to third parties for a capital purpose can be repaid with the repayments providing the following conditions are met: the capital scheme is self-financing; that there is overall confidence that the loan will be repaid; that the third party adheres to the agreed repayment schedule.

## APPENDIX 3: CAPITAL STRATEGY TABLES

**Table (i)**

**Asset Balance Sheet values as at 31 March 2022**

<b>Category</b>	<b>Value as at 31 March 2022 £'000</b>
Council Dwellings	36,465
Land & Buildings	519,320
Vehicles, Plant, Furniture & Equipment	25,797
Infrastructure	254,063
Community Assets	54,146
Surplus Assets	16,162
Assets Under Construction	20,045
Heritage Assets	37,648
Investment Property	51,959
Intangible Assets	221
Assets held for sale	269
<b>Total</b>	
<i>Source: Draft Statement of Accounts 2021-22</i>	<b>1,016,095</b>

**Table (ii)**

**Capital Investment Plan 2023-24**

	<b>2022-2023</b>	<b>2023-2024</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27 onwards</b>	<b>Total</b>
<b>Funding:</b>	£m	£m	£m	£m	£m	£m
Grants	103	127	116	46	74	466
Miscellaneous	5	6	5	2	4	22
Borrowing	83	104	92	38	60	377
<b>Total Spend:</b>	<b>191</b>	<b>237</b>	<b>213</b>	<b>86</b>	<b>138</b>	<b>865</b>

**Table (iii)**

**Split of Invest to Save Borrowing**

	<b>2022-2023</b>	<b>2023-2024</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27 onwards</b>	<b>Total</b>
<b>Funding:</b>	£m	£m	£m	£m	£m	£m
Borrowing: Invest to Save	34	44	40	16	26	160
Borrowing: Other	49	60	52	22	34	217
<b>Total borrowing estimate</b>	<b>83</b>	<b>104</b>	<b>92</b>	<b>38</b>	<b>60</b>	<b>377</b>

**Table (iv)**

**Capital financing costs**

	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
	£m	£m	£m	£m	£m
MRP, excluding PFI	16.1	19.8	22.7	24.4	25.7
MRP PFI, finance lease	3.4	3.4	3.5	3.6	3.6
Old West Yorkshire Waste debt	0.2	0.2	0.2	0.2	0.2
Interest on external borrowing	16.5	18.3	23.0	24.1	24.7
Interest on PFI	15.9	15.3	14.6	14.0	13.2
Premium on debt repayment	0.3	0.3	0.3	0.3	0.3
Investment income	-0.8	-0.5	-0.5	-0.5	-0.5
<b>Total Capital Financing Costs</b>	<b>51.6</b>	<b>56.8</b>	<b>63.8</b>	<b>66.1</b>	<b>67.2</b>
Projected Net Revenue Stream	388.0	441.0	441.0	441.0	441.0
<b>Ratio to Net Revenue Stream</b>	<b>13.3%</b>	<b>12.9%</b>	<b>14.5%</b>	<b>15.0%</b>	<b>15.2%</b>
Invest to Save element of Total Capital Financing Costs	6.3	6.5	7.7	7.9	8.4
Invest to Save contribution to Ratio to Net Revenue Stream	<b>1.6%</b>	<b>1.5 %</b>	<b>1.6%</b>	<b>1.8%</b>	<b>1.9%</b>

**Table (v)**

**Backlog maintenance**

<b>Backlog maintenance</b>	<b>2009-10</b>	<b>2017-18</b>	<b>2019-20</b>	<b>2022-23</b>
Operational Estate £ms	83	46	44	56
Non-Operational £ms	13	8	8	10.8
<b>Total Backlog maintenance £ms</b>	<b>96</b>	<b>54</b>	<b>52</b>	<b>66.8</b>
Operational Estate size GIAm2 000s	319	228	231	231
Non-Operational Estate size GIAm2 000s	27	37	33	22
<b>Total</b>	<b>346</b>	<b>265</b>	<b>264</b>	<b>253</b>

**Table (vi):**

**Capital Financing Requirement 31 March 2022**

<b>Balance Sheet</b>	31/03/2022
	£m
<b>Capital financing Requirement</b>	<b>709</b>
Private finance Initiative & Leasing	-147
External Borrowing	-373
<b>Underlying Borrowing Requirement</b>	<b>189</b>
Investments Held	-208
Earmarked Reserves	209
General Fund Balance	66
Capital Grants Unapplied	60
Provisions/Collection Fund	-6
Working capital (deficit) / surplus	68
<b>Under-Borrowing</b>	<b>189</b>
<i>Source 2021-22 Draft Statement of Accounts</i>	

**Table vii:**  
**Projected increased in Capital Financing Requirement**

	<b>2021-22 Actual £m</b>	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>	<b>2026-27 Estimate £m</b>
<b>Opening Capital Financing Requirement</b>	<b>699</b>	<b>709</b>	<b>773</b>	<b>854</b>	<b>920</b>	<b>930</b>
Increase in borrowing	35	83	104	92	38	60
Less MRP and other financing movements	-25	-19	-23	-26	-28	-29
<b>Closing Capital Financing Requirement</b>	<b>709</b>	<b>773</b>	<b>854</b>	<b>920</b>	<b>930</b>	<b>961</b>

**Table viii:**  
**External debt indicators**

**Operational boundary**

	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>	<b>2026-27 Estimate £m</b>
Total	<b>840</b>	<b>860</b>	<b>930</b>	<b>940</b>	<b>970</b>

**Authorised limit**

	<b>2022-23 Estimate £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>	<b>2026-27 Estimate £m</b>
Total	<b>860</b>	<b>880</b>	<b>950</b>	<b>960</b>	<b>990</b>

**Table ix**  
**Capital Strategy Actions**

<b>Measure</b>	<b>Current Position</b>	<b>Potential Position</b>
Total Borrowing related to long term assets	As at 31-03-2022 £373m total borrowing is 36.7% of long terms assets of £1,016m.	CIP2023-24 to 2026-27 has £217m of Corporate Borrowing and £160m of Invest to Save (self-financing borrowing), totalling an assumed increase of £377m in borrowing to £750m.



		Assuming this increases long term assets also by £377m to £1,393m, this is 53.8% of long term assets.
Total Borrowing costs as a percentage of net budget	For 2021-22 borrowing costs of £51.5m plus Invest to Save borrowing costs of £5.8m, totalling £57.3m are 14.9% of net budget.	At 2023-24 borrowing costs of £50.3m plus invest to save of £6.5m total £56.8m. 12.9% of the net revenue budget.

**Table x**  
**Capital Strategy Actions**

<b>NUMBER</b>	<b>ISSUE</b>	<b>ACTION</b>
<b>1.</b>	Management of the Balance Sheet	A balance sheet projection and analysis is included in the Council's quarterly monitoring reports to Executive and Council. The purpose of this is to monitor the Council's assets and liabilities going forward and report on any increase in liabilities. Further, it would develop the reporting of potential financial risks to the Council in relation to the Capital Investment Plan and other expenditure.
<b>2.</b>	Loans to External Organisations	<ul style="list-style-type: none"> <li>i. A responsible officer is assigned to monitor all outstanding loans to external organisations and assess on a quarterly basis any risk of non-payment.</li> <li>ii. The rate of interest on loans to external organisations will reflect the level of risk and liquidity of them. Where additional loans are considered, the rate of interest may be above the rate at which the Council can borrow from the Public Works Loan Board. The Capital Strategy proposes that a more detailed policy is drawn up.</li> <li>iii. Loans for regeneration and local growth purposes may be granted at discounted rates (soft loans). Indicators on proportionality and total level of loans by type will be developed by the responsible officer.</li> </ul>

		<p>iv. The responsible officer will also maintain a central list of financial guarantees provided to external organisations.</p> <p>v. The purpose is to ensure that the Council's long term debts are fully repaid or any future difficulties are anticipated so mitigating action can be taken. Any loans given to an external organisation used for capital expenditure increase the Council's Capital Financing Requirement. If it looks likely that the loan will not be repaid, additional capital financing costs will be a cost pressure within the revenue estimates.</p>
3.	Forecasts of spend against the Capital Investment Plan	<p>i. Responsible finance officers will arrange departmental meetings to provide accurate capital forecasting of the 2023-24 Capital Investment Plan. As part of this to develop the Council's shared understanding of the critical paths of the capital schemes.</p> <p>ii. The Treasury Management Officer will monitor current interest rates and expectations of future rate increases on a daily basis.</p> <p>iii. The Treasury Management Officer will develop options to contractually borrow in the future at current interest rates.</p> <p>iv. A responsible officer will calculate the sensitivity of Invest to Save schemes to interest rate increases.</p> <p>v. The overall purpose is to enable the Council to take out borrowing at the most optimal time. Accurate forecasting will help the Council understand when borrowing will be required.</p> <p>vi. The purpose of the option to contractually borrow in the future at current interest rates would reduce the risk of interest rates rising. An interest rate rise would increase capital financing costs. Further the calculations for the Invest to Save schemes, embody assumptions about interest rates which may be incorrect.</p>

<p><b>4.</b></p>	<p>Investigate borrowing with annuity loans</p>	<ul style="list-style-type: none"> <li>i. The Treasury Management Officer and Business Advisor Capital will assess the optimal use of annuity loans compared to repayment at maturity loans.</li> <li>ii. The Treasury Management Officer and Business Advisor Capital also consider whether equal instalment of principal loans would be appropriate.</li> <li>iii. The purpose is to take out borrowing in a way which minimises the Council's costs. Repayment at maturity loans require the Council to repay the loan principal at the end of the period of the loan and pay annual interest on the outstanding amount. Annuity loans require the Council to make a uniform payment each year over the whole term of the loan. This method of repayment would align more closely with how capital financing costs are charged in practice to the Revenue Estimates. Such alignment could help the Council manage its cash flow, reducing overall capital financing costs. Annuity loans may be more appropriate where there is an expectation that the size of the Capital Investment Plan reduces in future years.</li> <li>iv. Equal instalments of principal loans require that an equal amount of the principal is repaid each year. The purpose of investigating this option is to ascertain whether this would reduce capital financing costs and improve cash flow.</li> </ul>
<p><b>5.</b></p>	<p>Review lease arrangements that involve an asset to determine if a purchase arrangement would be more cost effective</p>	<ul style="list-style-type: none"> <li>i. A responsible officer to review lease arrangements to determine if it would more cost effective to buy any assets outright.</li> <li>ii. The purpose is to ensure that lease arrangements are as cost effective as possible. Further the purpose is to prepare for a likely change in accounting rules which may increase the Council's capital financing costs arising from lease arrangements.</li> </ul>
<p><b>6.</b></p>	<p>Project Appraisal Group (PAG)</p>	<ul style="list-style-type: none"> <li>i. Any new proposals which are not funded from capital grants or receipts from the</li> </ul>

		<p>sale of land / buildings would have to be: either financed directly from the Revenue Estimates and vired from another capital scheme.</p> <p>ii. The quarterly monitoring of capital spend will be reported to Project Appraisal Group. As part of the Capital Strategy's aim to continually align the Capital Investment Plan with Council strategies, budget challenge sessions will be conducted with senior officers and Councillors 2023.</p> <p>iii. Post completion statements for schemes costing in excess of £10m will be brought to Project Appraisal Group to appraise value for money and achievement against the Council Plan. As part of this, a revised process for evaluating benefits will be developed during 2023-24 by the Business Advisor Capital.</p> <p>iv. Project Appraisal Group will determine whether there are opportunities to share expertise in accessing capital grants across the Council.</p> <p>v. The schemes in the 2023-24 Capital Investment are formerly linked for reporting purposes to the Council's strategies. Capital Financing Costs are modelled over the asset life as standard, under the guidance of the Business Advisor Capital.</p> <p>vi. The purpose is to minimise the Council's requirement for borrowing and to streamline the Project Appraisal Group.</p>
7.	Risk Reporting	<p>i. A responsible officer will be assigned to develop the reporting and escalation of risks arising from the Capital Investment Plan and monitoring of balance sheet liabilities. This would involve the Project Appraisal Group, the Section 151 Officer</p>

		<p>and to align with the Corporate Risk Register as appropriate.</p> <p>ii. The Council's risk appetite is low. This is consistent with the CIPFA Treasury Management Code of Practice which stipulates that investments are prioritised according to security, liquidity and yield, in that order of importance. Subject to careful due diligence, the Council will consider a moderately higher level of risk for capital schemes which meet an important objective in the Council plan and generate significant non-financial benefits for the District.</p> <p>iii. A specific risk as a VAT registered body is the recovery of exempt VAT only up to a value of 5% of all the VAT it incurs. This is known as the de-minimis limit. Monitoring and control of exempt input tax is essential for the Council as where exempt input tax exceeds the 5% limit the whole amount is irrecoverable and will represent an additional cost to the Council. Each capital investment will be closely reviewed to assess its VAT implications.</p> <p>iv. Inflation risk will be managed through close contract management. Further the Capital Investment Plan includes £1m annual contingency, plus an additional £10m for 2023-24. There is an additional risk contingency for the capital financing costs in the revenue estimates.</p> <p>v. The purpose is to ensure that risks are monitored and escalated appropriately.</p>
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## **APPENDIX 4: Flexible Use of Capital Receipts.**

### **1.0 INTRODUCTION**

- 1.1 Capital receipts can only be used for specific purposes and these are set out in Regulation 23 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 made under Section 11 of the Local Government Act 2003. The main permitted purpose is to fund capital expenditure, and the use of capital receipts to support revenue expenditure is not permitted by the regulations.
- 1.2 The Secretary of State is empowered to issue directions allowing expenditure incurred by local authorities to be treated as capital expenditure. Where such a direction is made, the specified expenditure can then be funded from capital receipts under the Regulations.
- 1.3 The Secretary of State for Communities and Local Government issued guidance in March 2016, giving local authorities greater freedoms with how capital receipts could be utilised. This Direction allows for the following expenditure to be treated as capital; *“expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.”*
- 1.4 In order to take advantage of this freedom, the Council must act in accordance with the Statutory Guidance issued by the Secretary of State. This Guidance requires the Council to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy, with the strategies included within future Annual Budget documents with Full Council approval. The Local Government Finance Settlement for 2022-23 extended these capital receipts flexibilities for a further three year years which will cover the period up to and including 2024-25.
- 1.5 There is no prescribed format for the Strategy, but the underlying principle is to support the delivery of more efficient and sustainable services by extending the use of capital receipts to finance costs of efficiency initiatives that deliver significant savings. A list of each project should be incorporated in the strategy along with the expected savings each project is expected to realise.
- 1.6 The Strategy should also include the impact of this flexibility on the affordability of borrowing by including updated Prudential Indicators. The Council's current capital programme assumes the use of £2m corporate capital receipts as a source of funding. For the 2023-24 CIP this has been removed from the Prudential Indicators with an annual revenue impact of £0.4m.

### **2.0 FLEXIBLE USE OF CAPITAL RECEIPTS**

- 2.1 Government has provided a definition of expenditure which qualifies to be funded from capital receipts. This is: *“Qualifying expenditure is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.”*

- 2.2 In total £3.00m of expenditure will be funded through capital receipt flexibilities in 2022/23 and this will contribute towards the delivery of c£36m in savings next year. The schedule below in Table 1 presents the projects to transform services that will be funded through flexible use of capital receipts, and associated revenue savings or future cost avoidance. In some cases, there is a direct link between a project and the realisable financial benefit. In others, the project contributes to enabling the savings in other business cases or provide a wider benefit, which would not otherwise be realised. Some of the expenditure incurred in 2022-23 will significantly contribute towards the realisation of c£36m of budgeted savings in future years through the transforming the way that the Council delivers some of its services.

Table 1 Projects to be funded from capital receipts

<b>Project Description</b>	<b>2022/23 £m</b>	<b>Savings 2022/23 £m</b>	<b>2023/24 £m</b>	<b>Savings 2023/24 £m</b>
Restructure costs associated with staff leaving	1.00		0.55	
Fraud & Corruption targeting	0.10		0.10	
ICT Service Updates	0.55		1.00	
Transformation Team & Finance Team costs	1.10		1.10	
Cash and banking Automation	0.05		0.05	
CMT staff time spent on Transformational projects	0.20		0.20	
Total:	3.00		3.00	

- 2.3 Capital receipt flexibilities (£1.00m) will be used to contribute towards the severance/redundancy costs associated with the transformation of the Council.
- 2.4 Fraud and corruption will be targeted with £0.10m of receipts invested in training staff within the investigations team.
- 2.5 ICT service updates (£0.55m), predominantly the development of a targeted digital approach in relation to feasibility work on service reforms. Further, there are plans to move systems into the cloud to improve system performance & reliability. This will also reduce the need for Council run data centres resulting in much reduced need for capital upgrades to maintain system support; reductions in energy usage/costs, and reduced building space requirements enabling Estates related savings. c£1m of capital receipts would be used to fund this type of transformation subject to final business case.
- 2.6 Transformation Team and Finance Team costs (£1.1m) will be paid through capital receipts. The Transformation Team and Finance Team have been central to the identification and coordination of budget savings for 2023-24, and will also be a key enabler in delivering those and other efficiencies in 2023-24 and beyond.
- 2.7 Cash and banking automation – Some currently manual upload postings from the Capita receipting system to the SAP general ledger are being automated to improve process efficiency. This will free Revenues and Benefits and Finance staff time to work on further automation leading to a virtuous improvement cycle.
- 2.8 Capital Receipt flexibilities (£0.2m) will be used to resource Senior Management time within CMT which is spent on driving forward the transformational change within the council. This has been key to identifying c£36m of budget savings for 2023-24, and

will also be central to ongoing monitoring and delivery.

- 2.9 It should however be noted that although the Council usually generates a minimum of c£3m of capital receipts each year, capital receipts for 2023-24 have not yet been realised. Consequently, it is recommended that powers are delegated to the Sections 151 Officer in consultation with the Leader to vary amounts outlined in section 2.1 subject to a maximum of capital receipts generated in 2022-23 and 2023-24, and continued compliance with the DHLUC direction.