TELFORD & WREKIN COUNCIL

COUNCIL – 4 MARCH 2021

2021/22 CAPITAL STRATEGY

REPORT OF THE DIRECTOR: FINANCE & HR (CHIEF FINANCIAL OFFICER)

LEAD CABINET MEMBER: CLLR RAE EVANS

PART A) – SUMMARY REPORT

1.0 SUMMARY OF MAIN PROPOSALS

The Capital Strategy is a requirement of the Prudential Code for Capital Finance in Local Authorities. The aim of the strategy is to give an overview of the long-term context in which capital expenditure and investment decisions are made and to highlight the consideration given to risks and rewards as well as the achievement of Council priorities.

1.1 The Capital Strategy forms part of the suite of Service & Financial Planning Strategy Reports to be approved by Council. The strategy aims to provide an overview of total investments and borrowing undertaken by the Council, providing context and showing how these meet the Council's overall objectives. The detailed capital strategy is attached at Appendix 1.

2.0 RECOMMENDATION

Members are asked to approve the Capital Strategy for 2021/22.

3.0 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific Priority Plan objective(s)?	
	Yes	Delivery of all priority objectives depend on the effective use of available resources.
	Will the proposals impact on specific groups of people?	
	No	
TARGET COMPLETION/DELIVERY DATE	The strategy is for 2021/22.	
FINANCIAL/VALUE FOR MONEY IMPACT	Yes	The financial implications arising from the Capital Strategy are included in the

		2021/22 Service & Financial Planning Strategy.
LEGAL ISSUES	No	The Capital Strategy is required to meet the requirements of the Prudential Code for Capital Finance.
OTHER IMPACTS, RISKS & OPPORTUNITIES	No	Risks and opportunities are considered throughout the report.
IMPACT ON SPECIFIC WARDS	No	Borough Wide

4.0 PREVIOUS MINUTES

None

PART B) – ADDITIONAL INFORMATION

There is no additional information.

5.0 BACKGROUND PAPERS

Treasury Strategy Report
Prudential Indicators Report
Investment Strategy
Service & Financial Planning Strategy

Report Prepared by:
Ken Clarke, Director: Finance & HR (C.F.O.) – 01952 383100; Pauline Harris, Finance Manager – 01952 383701

APPENDIX 1

CAPITAL STRATEGY OVERVIEW – 2021/22

1.0 INTRODUCTION

1.1 The Prudential Code for Capital Finance in Local Authorities includes the requirement for authorities to produce a Capital Strategy. The aim of the Capital Strategy is to give an overview of the long-term context in which capital expenditure and investment decisions are made, showing their contribution to the achievement of priority outcomes for the community and to highlight that due consideration is given to both risk and reward together. To do this, the Capital Strategy brings together information from a number of key areas which form its structure, with the clear acknowledgement that investments can be made for policy reasons outside of Treasury Management:

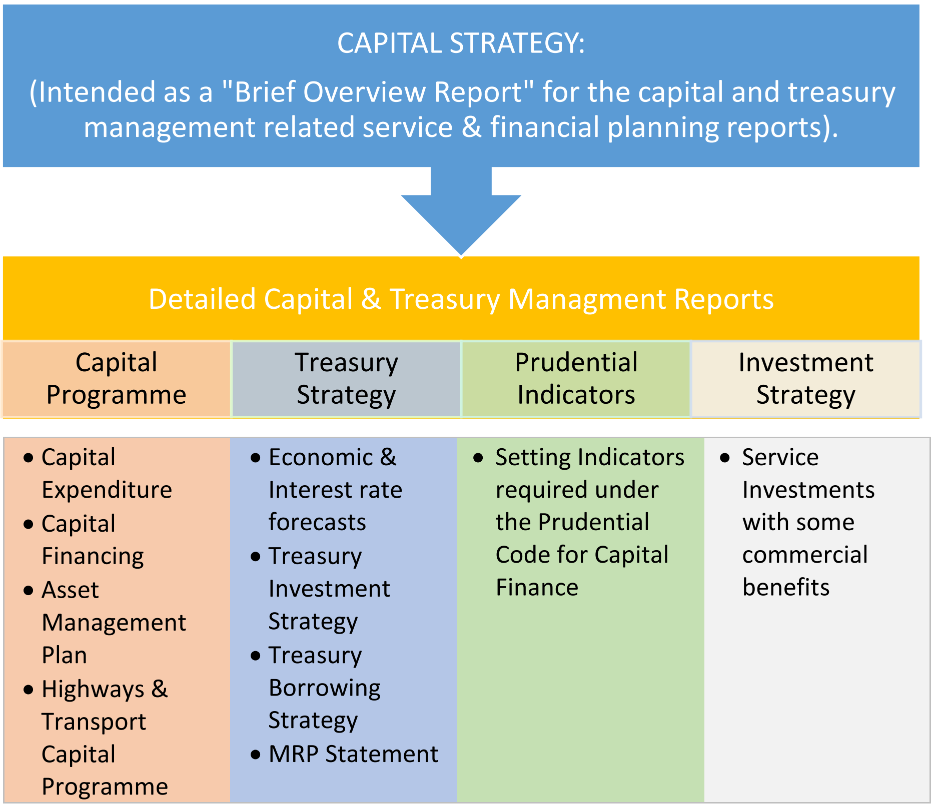
The strategy is structured as follows:-

Strategic Overview
Balance Sheet Position
Capital Expenditure & Financing
Debt. Borrowing and Treasury Management
Investments for Service Purpose Including Those with some Commercial Benefits
Other Long-Term Liabilities
Revenue Budget Implications
Knowledge & Skills
Chief Financial Officer Comment

We have sought to write the Strategy in an accessible style to assist understanding of some technical issues.

Decisions made this year on capital and treasury management will have financial consequences for the Authority.

1.2 The Capital Strategy forms part of the Council's suite of Service & Financial Planning Strategy Reports to be approved by Council prior to the start of the financial year:



2.0 STRATEGIC OVERVIEW

2.1 As a progressive Council, we will work with our communities to deliver a Programme:

<u>"to Protect, Care and Invest to create a better borough"</u>

To drive delivery of its commitments and ambition, the Council Plan sets out a borough vision with 5 priorities:

- **Every child, young person and adult lives well in their community**
- **Everyone benefits from a thriving economy**
- **All neighbourhoods are a great place ot live**
- **Our national environment is protected, and the Council has a leading role in addressing the climate emergency**
- **A Community-focussed, innovative council providing efficient, effective and quality services**

2.2 Being a Cooperative Council the Council is committed to listening to and involving residents in developing our plans to protect, care and invest to create a better borough. From the ongoing engagement with local people we know that people in Telford & Wrekin want to live:

- In a Safe Community
- In a Clean Environment
- In a Place with good roads and pavements
- Where there are first class schools and education facilities
- Improve and bring public services together;

We will work together with the community and partners to collectively deliver the best we can for Telford & Wrekin with the combined resources we have.

2.3 In the short to medium term, Telford & Wrekin Council continues to be in a period of significant challenge due to :

- the Government's prolonged austerity programme;
- the impact of the coronavirus pandemic;
- increased demand on services, particularly Adults & Children's Social Care;
- the delay of a medium term Comprehensive Spending Review;
- the postponement of the planned reforms to the local government finance system (now expected at the earliest in April 2022).

The Council has faced the challenge of making significant savings, totalling £126m since 2010 whilst trying to protect front-line services as far as possible.

Our Service and Financial Planning Strategy sets out our response to this challenge and how these savings are being identified and delivered.

Proposed Service & Financial Planning Strategy Agenda Item 6 Final Service & Financial Planning Strategy – Full Council 4 March 2021 Including: Revenue Budget Strategy; Capital Strategy; Capital Programme; Treasury Strategy; Prudential Indicators	Agenda for Cabinet on Thursday, 7 January 2021, 10.00 am - Telford & Wrekin Council Browse meetings - Full Council - Telford & Wrekin Council

2.4 Capital investment clearly plays a key role in the achievement of our local priorities. Through our Capital Strategy we seek to maximise the value and opportunities of our assets to take forward the delivery of emerging strategic priorities whilst being mindful of stewardship, prudence, sustainability and affordability.

2.5 Our Capital Strategy is not, however, just about 'concrete, tarmac, buildings etc.', it is about making a positive difference to the quality of local people's lives through specific projects, services, technology and facilities. In recent years, key initiatives have been progressed/delivered through targeted capital investment. Further information can be found in the Council Plan.

Council Plan	[Council Plan - Telford & Wrekin Council]

2.6 Reducing dependency on Government Grants is an essential part of our financial strategy and we have actively sought out opportunities that primarily deliver service objectives but also have some commercial benefits to achieve this. While debt repayments represent a long term commitment against the revenue budget, there are some "good" capital investments which can fund assets which will increase in value over the longer term and generate a revenue return greater than the cost of the associated debt charges. Invest-to-Save schemes such as the solar farm or the Housing Investment Programme and investment in the Property Investment Portfolio represent "good capital investment" as not only do they deliver environmental, social and economic benefits but they also earn a surplus which can be used to help protect front line services as the surplus generated helps to reduce the impact on the revenue budget of Government cuts to our grants, as well as delivering. The Council will, however, carefully assess each potential new investment through a proper due diligence and business case process to ensure that it does not expose the Council to an unacceptable level of risk either on an individual basis or when considering the entire investment portfolio of the Council.

3.0 BALANCE SHEET POSITION

3.1 An extract from the Council's balance sheet 31 March 2020 is shown below

	£m
Long Term Assets	
Property, Plant & Equipment	521.532
Investment Properties (Property Investment Portfolio)	102.143
Intangible Assets	1.989
Long Term Investments (Nuplace Equity)	13.300
Long Term Debtors (of which the loan to Nuplace is £32.559m)	32.859
Total Long Term Assets	**671.823**
Investments	
Short Term Investments – call accounts/bank account	30.454
Short Term Investments – cash	0.129
Total Investments	**30.583**

Borrowing	
Long-Term Borrowing	209.036
Short-Term Borrowing	67.149
Total Borrowing	**276.185**

Total borrowing at 31 March 2020 was £276m which was an increase of £9m compared to 31 March 2019, due to capital expenditure. **After adjusting for changes due to the conversion of former Local Authority schools to academy status, the value of the Council's fixed assets increased by £74.5m during 2019/20.**

4.0 CAPITAL EXPENDITURE & FINANCING

4.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets and can also include the acquisition of property which is held primarily for financial return. Capital expenditure is defined in regulation.

4.2 In 2021/22, the Council has planned capital expenditure of £101.855m which is shown below together with future years allocations:

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

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
General Fund Services	51.426	55.436	15.348	12.857
Housing Investment Programme	9.083	25.600	22.100	8.500
Property Investment Portfolio	1.298	14.642	3.708	0
Telford Land Deal	1.894	6.177	0.463	0
Total	**63.701**	**101.855**	**41.619**	**21.357**

4.3 Over the medium term, the main General Fund capital projects are:

- £40.7m for transport and Highways schemes including improvements to the A442 (to complete a 4 year scheme commencing in 2019/20 costing over £10m in total), and funding for repair of potholes, footways, drainage schemes, street furniture, refreshing road markings, road safety schemes, parking and sustainable travel schemes. The Council's continued commitment to investment in our highways has seen a significant improvement to our network in recent years which has, in part, been supported by our ability to successfully bid for external funding to support many initiatives.

- £25.7m for education capital projects including investment in secondary school expansion projects to increase pupil places
- £9.95m into Stronger Communities Project, a package focused on bringing back key brownfield sites into use, as well as providing a stimulus to the delivery of Station Quarter the next phase of the transformation of Telford Town Centre
- £9.65m for additional investment in the Council's Property investment portfolio which will attract new jobs, and retain companies that may otherwise leave the Borough if suitable premises are not available. Profits, and additional business rates, from these investments will be used to help fund key front line services including Adult Social Care and Children's Safeguarding.
- £6.9m for Pride in Your High Street schemes
- £6.5m investment in the Newport Innovation & Enterprise Package
- £5m for Environmental Improvements/ Enhancements
- £4m for Climate change initiatives with £0.14m available in 2020/21, £1.86m in 2021/22 and £2m in 2022/23 to support work to reduce the Council's carbon footprint and partnering with government and others on other climate change projects.

Other Investments, 2020/21 onwards, covered later in this report and included in the Investment Strategy, are:

- In the Housing Investment Programme, Nuplace (£65.3m),
- Property Investment Portfolio (£19.6m)
- As part of the HCA Land Deal (£8.5m)

The detailed capital programme can be accessed via the Service & Financial Planning link above.

4.4 **Governance**: capital budgets are approved as part of the Service & Financial Planning Strategy presented to Cabinet in February and then Full Council. Additions to the capital programme are either considered by the Council's Service & Financial Planning Officer Group (consisting of the Chief Executive, Executive Directors and Chief Financial Officer) and when agreed fed into the overall budget strategy to be approved at Full Council; or may be subject of a separate report to Cabinet/Full Council and incorporated into the budget at that point. The route depends on the phasing of the spend and the value of investment. The financial implications, including the associated debt charges and risks, are included in any separate reports taken forward and in the overall budget strategy report. Capital allocations are considered against the Council priorities, funding and payback, dependent on the nature of the scheme.

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

Table 2: Capital financing in £ millions

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Capital Receipts	5.785	6.300	5.300	0.500
Government Grants	28.002	24.552	0.000	0.000
Revenue & External Contributions	6.566	10.790	0.513	0.000
Borrowing	23.348	60.213	35.806	20.857
Total	**63.701**	**101.855**	**41.619**	**21.357**

4.6 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is as follows:

Table 3: Replacement of debt finance in £ millions

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
MRP	3.778	3.972	4.181	4.362

The Council's minimum revenue provision policy can be found in the Treasury Strategy which can be accessed via the Service & Financial Planning link above.

4.7 The Council's cumulative outstanding debt is measured by the "capital financing requirement" (CFR). The CFR increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. Based on current plans, the CFR is expected to increase in the short term to fund the capital programme as shown in the table below. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2020 £m	31.3.2021 £m	31.3.2022 £m	31.3.2023 £m
General Fund Services	364.3	375.5	396.2	402.4
Housing Investment Programme	43.3	52.4	78.0	100.1
Property Investment Portfolio	48.7	49.7	63.5	67.2
Solar Farm	3.8	3.8	3.8	3.8
Total	**460.1**	**481.4**	**541.5**	**573.5**

4.8 **Asset management:** To ensure that capital assets continue to be used over the long-term, the Council has an Asset Management Plan which can be accessed via the Council's website. The Asset Management Plan sets out the proposals to effectively manage our assets with its key objectives being to:

- Ensure assets are fit for purpose
- Maximise the use of assets
- Ensure assets are located in appropriate locations for service delivery
- Deliver an integrated approach to Asset Management across the Authority
- Reinforce a corporate approach for holding property and outline objectives
- Ensure Asset Management decisions are co-ordinated and consistent with council priorities
- Manage a simple and robust performance measurement system
- Provide comprehensive and accurate data to assess property performance and to support and facilitate the changing patterns of service delivery
- Use land and buildings to facilitate the "growth" agenda and be the enabler of regeneration
- Optimise and prioritise the level of property investment, to meet the Council's current and future service needs
- Promote the innovative use of property together with partners and stakeholders

4.9 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22 please see section 4.10 for further information. Repayments of capital grants, loans and investments also generate capital receipts. The Council expects to receive capital receipts in the medium terms as follows:

Table 5: Capital receipts in £ millions

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Capital Receipts	5.785	6.300	5.300	0.500
Total	**5.785**	**6.300**	**5.300**	**0.500**

4.10 **Flexible Use of Capital Receipts**: The Government have offered Councils the ability to fund the one-off costs of service reform projects from new capital receipts generated during a six year period commencing from 1st April 2016. This has enabled some funds previously committed to fund one-off invest to save initiatives and severance costs etc. to be released but will result in higher levels of debt than would have otherwise been the case and therefore higher debt charges than would otherwise have been the case as all capital receipts would otherwise be used to fund planned capital projects. However, whilst the debt charges are ongoing they will be more than offset by the ongoing savings generated from the invest to save measures. The Council's approach to using this flexibility is explained in the Service & Financial Planning Strategy approved by Full Council.

5.0 DEBT, BORROWING AND TREASURY MANAGEMENT

5.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

5.2 The Council currently has £267.9m borrowing at an average interest rate of 2.52% and £25.3m treasury investments at an average rate around zero to ensure security of the principal invested.

5.3 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.2%) and long-term fixed rate loans where the future cost is known but higher (currently available at around 1.7%)

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

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

	31.03.2020 £m	31.03.2021 £m	31.03.2022 £m	31.03.2023 £m
Debt (incl. PFI & Leases)	327.473	349.579	410.641	443.561
CFR	460.087	481.408	541.572	573.530

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this requirement by a significant margin.

5.5 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	31.03.2020 £m	31.03.2021 £m	31.03.2022 £m	31.03.2023 £m
Authorised Limit				
Borrowing	410	450	450	480
PFI & Leases	64	64	64	64
Authorisation Limit Total	**474**	**514**	**514**	**544**
Operational Limit				
Borrowing	390	430	430	460
PFI & Leases	60	60	60	60
Operational Limit Total	**450**	**490**	**490**	**520**

The Council expects to operate well within both the authorised and operational limits as it has successfully done for many years. Further details on borrowing are can be found in the Treasury Strategy which can be accessed via the Service & Financial Planning Link above.

5.6 **Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or that provide an element of financial gain in addition to service related benefits are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, i.e. to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. External specialist Treasury management Advisors advice the council on the credit worthiness of banks. Money that will be held for longer terms can be invested more widely, including in bonds, Nuplace shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2019 £m	31.3.2020 £m	31.3.2021 £m	31.3.2022 £m
Short Term Investments	30.6	20.0	20.0	20.0
Longer-Term Investments	0	0	0	0
Total	**30.6**	**20.0**	**20.0**	**20.0**

Further details on treasury investments can be found in the Treasury Strategy which can be accessed via the Service & Financial Planning link above.

5.7 The effective management and control of risk are prime objectives of the authority's treasury management activities. The treasury management strategy sets our various indicators and limits within which the function operates.

5.8 **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Financial Officer and staff designated by him, who must always act in line with the treasury management strategy approved by Full Council. Reports on treasury management activity are presented to the Audit Committee twice a year. The Audit Committee is responsible for scrutinising treasury management decisions and receive training direct from the Council's specialist external treasury management advisors.

6.0 KEY ACTIVITIES WITH SERVICE BENEFITS WHICH ALSO DELIVER SOME COMMERCIAL BENEFITS

6.1 A number of investments, such as property, Nuplace, our wholly owned Housing Company, and the Solar Farm deliver key service benefits, such as retention and creation of jobs and increasing the supply of good quality private rented accommodation which would not otherwise be available. These investments also deliver a net financial gain which supports the Council's overall funding position as central government financial support for local public services has been declining.

6.2 There are risks associated with all investments. The Council must accept that there are risks associated with projects with some commercial elements which are different to the risks associated with treasury investments. The principal risk exposures are outlined below and are monitored and managed by the relevant Service Area.

6.3 A key focus of the budget strategy is on income generation. All projects with a commercial element are subject to a rigorous business case process to manage and mitigate risks as far as possible and are funded in accordance with the Council's approved Treasury Strategy and included in the Capital Programme, after taking advice from professional advisors as required. The Chief Financial Officer and Chief Executive, together with the wider Senior Management Team, will seek to ensure the proportionality of all investments with some commercial element so that the Council does not undertake a level of investment which exposes itself to an excessive level of risk compared to its financial resources. However, it has to be accepted that there is a degree of risk to such initiatives and that not all will be successful.

6.4 Sections 7, 8 and 9 provide more detail on the Property Investment Portfolio, Nuplace and the Solar Farm.

7.0 PROPERTY INVESTMENT PORTFOLIO (PIP)

7.1 The Authority holds a number of individual sites for investment, regeneration and economic development purposes: the Property Investment Portfolio. The PIP was valued at £102.1m at 31 March 2020 and generates around £7.5m per annum rental income which supports the overall revenue budget and therefore the delivery of front-line services.

7.2 As part of the 'Enterprise Telford: Driving Growth and Prosperity" strategy the Council established a £50m Growth Fund as continued investment to strengthen and grow the Property Investment Portfolio. This is being used to invest directly into land and property enabling local businesses to expand and attracting new investors which boosts jobs, the economy and generates additional income for the Council both directly through rental income but also through income from business rates which is retained by the Council between system resets. Over 4 years £47m has been committed into a range of investments which are anticipated to help deliver approximately 1000 new jobs and safeguard a further 250 jobs. These investments are forecast to generate an average ongoing gross return on investment, including additional retained business rates income, of 7.2%, (4.6% net of borrowing costs, at an assumed rate of 2.54%). Through the investment of the full £50m the Council is on target to generate over £3m in additional gross income, which will be used to support front-line services such as the provision of care to vulnerable children and adults. As part of the Councils continued commitment to the Property Investment Portfolio, further capital allocations from the Councils Regeneration and Investment Fund totalling £9.65m have been made, which will further enhance the portfolio.

7.3 **Governance**

The Director: Prosperity & Investment has delegated authority to manage the Property Investment Portfolio and to make decisions in relation to PIP property investments and disposals.

Delegated authority has also been granted to the Director: Prosperity & Investment, after consultation with the Director: Finance & Human Resources and the Cabinet Lead: Finance & Governance to approve individual business cases in relation to the Growth Fund.

Specific factors considered as part of the decision making process are:

- Sustaining revenue rental income
- generating additional rental income / business rates (between system resets)
- Maintaining or increasing capital value of assets
- Return on Capital
- Running Costs
- Regeneration opportunities
- Local market needs/demand for properties
- Future proofing the local economy by attracting new investment
- Job creation for local people

7.4 **Risks**

Risks in relation to the PIP include: voids and consequential service and business related changes and bad debt. The market for inward investment opportunities is also competitive although the offer of the £50m growth fund has proved to be a considerable incentive for investors and existing businesses expansion. At a macro level risk exists linked with changes in the commercial market and Telford's heavy reliance on the manufacturing sector. The economic strategy aims to address this including supporting diversification into new sectors including Agri Technology whilst exposure to particularly large single investments, sectors or retail properties has been limited unlike at a small number of other councils.

The risks associated with each individual investment are considered as part of the business case approval process. Where proactive (i.e. where no specific end-user has been identified) industrial unit development is proposed in order to respond quickly to enquiries and be able to maximise opportunities the level of risk associated with void periods increases and to minimise such exposure a cap on revenue liability from new build proactive investments has been set at £350,000 per annum. The ability to exceed this limit would be on the basis of a specific business case to be approved by the Director: Prosperity & Investment after consultation with the Director: Finance & Human Resources and the Lead Cabinet Member for Council Finance & Governance.

7.5 Further information about the Growth Fund can be found in a separate update report to Cabinet on 2 January 2020 and an update report to Cabinet on 18 February 2021

Creating a Better Borough – The Telford Land Deal and Growth Fund Cabinet 2 January 2020 – Agenda Item no. 8	https://democracy.telford.gov.uk/ieListDocuments.aspx?MId=1183&x=1

8.0 NUPLACE LIMITED / HOUSING INVESTMENT PROGRAMME

8.1 Nuplace Limited, the Council's wholly owned housing company, was incorporated in April 2015. Its purpose is :

- the construction and management of private and affordable, quality residential properties for rent responding to the housing needs in the Borough
- increasing the quality of the private rented sector
- incidentally, the generation of income streams for the Council, both short term and long term, which will protect frontline services, otherwise affected by budgetary constraints
- the regeneration of brownfield land sites
- to stimulate economic growth through job creation during construction and afterwards

8.2 A detailed business case was presented to Cabinet in 2015, and subsequently updated in June 2017 and November 2020

8.3 To date Nuplace have delivered 329 homes across seven sites with a further 137 under construction or due to commence on site, bringing the total number of houses delivered, or in delivery to 466. Of these properties, 55 are for affordable rent, with the remainder being rented on the open market.

8.4 The Council has invested in Nuplace through a combination of equity, in the form of share capital and debt finance, in the form of a 30 and 25 year loan facilities of up to £45m – both of which will generate a commercial return. At 31 March 2020 the Council had £13.3m equity invested in Nuplace and the loan totalled £32.6m. In the long term, Nuplace will generate a surplus to the Council over the 30 year period of the project due to the expectation that the value of the assets will increase over the long-term as well as the development gain usually made when the properties are completed.

8.5 Full Council on 25 November 2020, approved the investment of £48m in the further expansion of Nuplace A review of market, policy and regulatory conditions suggested that demand for good quality, private rented homes was set to remain a key component of the housing market, offering opportunities for further expansion alongside diversification into downsizer, accessible and adaptable dwellings. In this context, seven pipeline schemes have been identified with the potential to deliver a further 270 new homes, representing an investment of £48m. The Councils investment in Nuplace will continue to be through a combination of debt and equity finance.

8.6 In 2019/20 Nuplace made a net profit of £0.574m before taxation and had net assets of £22.2m at 31 March 2020 (in total, assets have been revalued upwards by £7.6m since 2017/18). Since 2015/16, the Council has received net income totalling £4.4m from services supplied and interest on debt finance. Further, there are benefits from Council Tax (between system resets) and New Homes Bonus .

8.7 Capital allocations for the Housing Investment Programme, totalling £112.4m are contained within the Council's Service and Financial Planning Strategy, of which £47.2m had been spent as at 31 March 2020, with a further £17.2m allocated to sites in development. Capital is allocated to sites based upon feasibility criteria. The rate of return for each investment is dependent upon a range of parameters and is reviewed by the Council's finance department on a case by case basis. The rate of return on £40m of debt finance is currently 5.29%, and 5.18% on a further £5m facility and the hurdle rate for the long term rate of return on equity finance is set at 6%. The governance arrangements are set out in the detailed business case and consist of 3 directors, with clear lines of reporting and monitoring procedures and a Housing Investment Programme Board is in place which is made up of Council Officers and Elected Members.

8.8 **Risks** and Governance are managed through the Housing Investment Programme Board

8.9 Further information about the Housing Investment Programme can be found in a separate update report to Cabinet on 5 November 2020.

Housing Investment Programme Update Cabinet 5 November 2020 – Agenda Item CAB-35	Agenda for Cabinet on Thursday, 5 November 2020, 10.00 am - Telford & Wrekin Council

9.0 SOLAR FARM

9.1 Following a business case appraisal and approval by Cabinet in September 2013, the Council invested in developing a new solar farm within the Borough which became operational in 2015/16. The total capital investment was £3.7m.

9.2 The aims of the solar farm were:

- Generation of renewable energy to provide an inflation linked income stream guaranteed by the Government for the council
- Environmental benefits - reducing greenhouse gas emissions and generating more electricity from renewable energy.

The solar farm is delivering £0.2m net annual income; and is projected to generate a net cumulative operating surplus of £4.4m over the 25 year project life.

In terms of risk management, a risk register is in place for the solar farm which is monitored and updated on a regular basis by the Council's Commercial Projects Team.

10.0 OTHER INVESTMENTS FOR SERVICE PURPOSES

<u>HCA Land Deal</u>

10.1 The Telford Land Deal is a uniquely negotiated deal between the Council, Homes England (formerly HCA) and MHCLG through which Homes England/MHCLG have committed to invest £44.5m from the sale of Government owned land in Telford to invest in the local area supporting the delivery of new homes, jobs and commercial floor space.

10.2 The deal is based on a risk-reward model which requires the Council to make investment into site preparation up front, at risk, with this investment recouped from land receipts. The Council manages the delivery programme and is able to influence investment decisions through the Land Deal Board.

10.3 Since the Deal was established gross land sales of £31.4m has been secured, enabling the delivery of 753 new homes and over 1,400 new jobs accommodated. The Council has spent £17.1m in bringing forward sites for development recouped from land sales and the total profit share delivered to the local area to date is £4.8m.

10.4 The Investment and Disposal plan is continually reviewed with agreement of the Land Deal Board.

10.5 Further information about the Land Deal can be found in a separate update report to Cabinet on 2 January 2020 and an update report to Cabinet on 18 February 2021.

Creating a Better Borough – The Telford Land Deal and Growth Fund Cabinet 2 January 2020 – Agenda Item no. 8	https://democracy.telford.gov.uk/ieListDocuments.aspx?MId=1183&x=1

11.0 OTHER LIABILITIES

11.1 In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £333m on 31 March 2020) and has agreed a long-term arrangement with the Pension Fund which is reviewed every three years to ensure that the deficit is fully repaid within a timeframe acceptable to the Pension Fund and its actuaries.

The Council created provisions totalling £15.3m in the 2019/20 Statement of Accounts, which includes a provision for Single Status and NDR Appeal costs. At 31 March 2020 the Council had no major contingent liabilities.

11.2 **Governance:** Decisions on incurring new discretional liabilities are taken by Directors in consultation with the Chief Financial Officer. New liabilities are reported to Members for approval/notification as appropriate.

12.0 REVENUE BUDGET IMPLICATIONS

12.1 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

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

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Debt Charge as a proportion of net revenue stream	5.38%	6.39%	6.90%	6.77%

12.2 The ratio is lower in 2020/21 which reflects the impact of temporary borrowing, at low interest rates, during 2020/21.

13.0 KNOWLEDGE AND SKILLS

13.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant with over 30 years' post qualification experience, the Director: Prosperity & Investment and the Director: Customer & Commercial Services are both highly experienced senior officers with extensive relevant experience. The Council pays for junior staff to study towards relevant professional qualifications including AAT and specific specialist technical training.

13.2 Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers, a range of property consultants and PWC as taxation advisors. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

14.0 CHIEF FINANCIAL OFFICER COMMENT

14.1 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Chief Financial Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable due to the continued track record of delivering revenue budget outturn within budget, delivering annual budget savings which now total £126m, the extensive restructuring programme and process developed over recent years, long-term service redesign, particularly in relation to Adults services, the more commercial approach being adopted, where appropriate, including consideration of business cases for proposals with some commercial element, the adequacy of reserves and provisions and the investments being made in the borough.