



# Borough of Telford and Wrekin

## Full Council Report

29 February 2024

### 2024/25 Capital Strategy

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<b>Cabinet Member:</b>	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance
<b>Lead Director:</b>	Michelle Brockway - Interim Director: Finance & Human Resources.
<b>Service Area:</b>	Finance & Human Resources
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<b>Wards Affected:</b>	All Wards
<b>Key Decision:</b>	Not Key Decision
<b>Forward Plan:</b>	17 January 2024
<b>Report considered by:</b>	SMT - 16 January 2024 Business Briefing - 25 January 2024 Cabinet - 15 February 2024 Full Council – 29 February 2024

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#### 1.0 Recommendations for Decision/Noting

It is recommended that full Council approves:

- 1.1 the Capital Strategy for 2024/25

#### 2.0 Purpose of Report

- 2.1 The aim of the strategy is to give an overview of the long-term context in which capital expenditure and investment to highlight the consideration given to risks and rewards as well as the achievement of Council priorities.

#### 3.0 Background

- 3.1 The Capital Strategy is a requirement of the Prudential Code for Capital Finance in Local Authorities.

- 3.2 The Capital Strategy forms part of the suite of Medium Term Financial 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.

#### **4.0 Summary of main proposals**

- 4.1 The detailed capital strategy is attached at Appendix A.

#### **5.0 Alternative Options**

- 5.1 Not Applicable.

#### **6.0 Key Risks**

- 6.1 Risks and opportunities are considered in the Strategy.

#### **7.0 Council Priorities**

- 7.1 Delivery of all priorities depend on the effective use of available resources.

#### **8.0 Financial Implications**

- 8.1 The financial implications arising from the Capital Strategy are included in the Medium Term Financial Strategy 2024/25 – 2027/28.

#### **9.0 Legal and HR Implications**

- 9.1 The Capital Strategy is required to meet the requirements of the Prudential Code for Capital Finance and should be seen as one part of the wider budget setting process.

#### **10.0 Ward Implications**

- 10.1 Borough Wide

#### **11.0 Health, Social and Economic Implications**

- 11.1 Implications are covered in the individual papers within the overall Medium Term Financial Strategy suite of papers.

#### **12.0 Equality and Diversity Implications**

- 12.1 Implications are covered in the individual papers within the overall Medium Term Financial Strategy suite of papers.

#### **13.0 Climate Change and Environmental Implications**

13.1 Implications are covered in the individual papers within the overall Medium Term Financial Strategy suite of papers.

#### **14.0 Background Papers**

- 1 2024/25 Treasury Strategy
- 2 2024/25 Prudential Indicator Report
- 3 2024/25 Investment Strategy
- 4 Medium Term Financial Strategy

#### **15.0 Appendices**

Appendix A      Capital Strategy

#### **16.0 Report Sign Off**

<b>Signed off by</b>	<b>Date sent</b>	<b>Date signed off</b>	<b>Initials</b>
Director	16/01/2024	16/01/2024	MLB
Finance	16/01/2024	16/01/2024	PH
Legal	23/01/2024	23/01/2024	RP

**CAPITAL STRATEGY OVERVIEW – 2024/25**

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**1.0 INTRODUCTION**

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- 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:

CAPITAL STRATEGY:  
(Intended as a "Brief Overview Report" for the capital and treasury management related service & financial planning reports).



Detailed Capital & Treasury Management Reports			
Capital Programme	Treasury Strategy	Prudential Indicators	Investment Strategy
<ul style="list-style-type: none"><li>• Capital Expenditure</li><li>• Capital Financing</li><li>• Asset Management Plan</li><li>• Highways &amp; Transport Capital Programme</li></ul>	<ul style="list-style-type: none"><li>• Economic &amp; Interest rate forecasts</li><li>• Treasury Investment Strategy</li><li>• Treasury Borrowing Strategy</li><li>• MRP Statement</li></ul>	<ul style="list-style-type: none"><li>• Setting Indicators required under the Prudential Code for Capital Finance</li></ul>	<ul style="list-style-type: none"><li>• Service Investments with some commercial benefits</li></ul>

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## 2.0 STRATEGIC OVERVIEW

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

**"to Protect, Care and Invest to create a better borough"**

**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 to live**
- **Our national environment is protected, we take 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 over many years, we are clear that people and their families have some fundamental priorities which we as a council will work with them to achieve. We know that the 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
- Where there are excellent and accessible Hospital, GP and other Health and Care Services
- Where they have a job and there is a thriving economy

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 and uncertainty due to :

- The escalating costs of, and demand for, many Council services but particularly Adult Social Care and safeguarding vulnerable children
- National and international economic pressures resulting in an extremely challenging financial outlook for U.K. public services
- The Government's one-year provisional local government finance settlement not extending beyond the end of March 2025
- The impact of the significant potential changes to the local government finance system which have now been discussed by the Government for many years remain a major uncertainty. As does the potential impact of Adult Social Care funding reforms which have been delayed until October 2025.

The Council has faced the challenge of making significant savings, totalling £156.9m since 2010 whilst trying to protect front-line services as far as possible.

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

Despite the financial challenges, Telford & Wrekin Council has a clear investment programme and will continue to prudently invest to create jobs and safeguard the future prosperity of the Borough and its residents.

<p>Proposed Medium Term Financial Strategy 2024/25 to 2027/28</p> <p>Agenda Item 8</p> <p>Final Medium Term Financial Strategy – Full Council 29 February 2024</p> <p>Including: Revenue Budget Strategy; Capital Strategy; Capital Programme; Treasury Strategy; Prudential Indicators</p>	<p><a href="#">Agenda for Cabinet on Thursday 4 January 2024, 10.00 am - Telford &amp; Wrekin Council</a></p>
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- 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	<a href="#">Introduction - Council Plan and priorities - Telford &amp; Wrekin Council</a>
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- 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. 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. The Council will not borrow to invest primarily for financial return.

### 3.0 BALANCE SHEET POSITION

- 3.1 An extract from the Council’s draft balance sheet 31 March 2023 is shown below

	£m
<b>Long Term Assets</b>	
Property, Plant & Equipment	644.750
Investment Properties (Property Investment Portfolio)	139.393
Intangible Assets	1.305
Long Term Investments (Nuplace Equity)	18.800
Long Term Debtors (of which the loan to Nuplace is £44.832m)	45.420
<b>Total Long Term Assets</b>	<b>849.668</b>

<b>Investments</b>	
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Short Term Investments – call accounts/bank account	38.499
Short Term Investments – cash	0.121
<b>Total Investments</b>	<b>38.620</b>

<b>Borrowing</b>	
Long-Term Borrowing	240.013
Short-Term Borrowing	107.209
<b>Total Borrowing</b>	<b>347.222</b>

Total borrowing at 31 March 2023 was £347m which was an increase of £64m compared to 31 March 2022 relating to the funding the approved capital programme. It is evident from the balance sheet that the value of long-term assets outweighed the total borrowing at 31 March 2023.

## 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 The Council has planned capital expenditure of £420.428m in the period 2023/24 to 2027/28 which is shown below:

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

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
General Fund Services	70.766	105.865	46.097	12.718	10.357
Housing Investment Programme (NuPlace)	10.782	40.700	30.155	16.470	5.000
Property Portfolio	7.169	31.421	18.726	5.452	2.500
Telford Land Deal	1.330	1.812	3.108	0.000	0.000
<b>Total</b>	<b>90.047</b>	<b>179.798</b>	<b>98.086</b>	<b>34.640</b>	<b>17.857</b>

- 4.3 Over the medium term, the main General Fund capital projects are:
- Over £31m invested in transport and Highways schemes to repair, improve and maintain our roads and pavements. We have also secured significant amounts of Government funding to improve many roads, roundabouts and junctions. The results from the National Highways & Transportation Survey (NHT) for this year have us top in the region for overall satisfaction with roads, we are second nationally and highest out of all unitary authorities.



- Over £41m for education capital projects including investment in school expansion projects to increase pupil places
- A new £20m Capital projects fund to be allocated over the coming 4 years by the Cabinet to key community priorities
- £9.7m for affordable and specialist housing programmes
- Over £10.8m for a range of housing initiatives, including affordable warmth, empty properties, rough sleeper and temporary accommodation
- £8.7m for a new swimming pool
- £0.9m funding to progress development of “stalled sites”
- Over £2.7m for Pride in Your High Street schemes
- £1.167m for Environmental Improvements/ Enhancements and funding of £2.19m for Climate change initiatives to support work to reduce the Council’s carbon footprint and partnering with government and others on other climate change projects

Other Investments, 2023/24 onwards, covered later in this report and included in the Investment Strategy, are:

- In the Housing Investment Programme, Nuplace (£103m),
- Property Investment Portfolio (£65m)
- As part of the HCA Land Deal (£6m)
- Towns Fund projects (£35m)
- Levelling Up Fund and Capital Regeneration Fund Projects (£37m)

The detailed capital programme can be accessed via Medium Term Financial Strategy link above.

4.4 **Governance:** capital budgets are approved as part of the Medium Term Financial 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**

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Capital Receipts	0.774	7.556	0.000	6.000	0.000
Government Grants	43.432	44.061	19.292	0.207	0.000
Revenue & External Contributions	3.745	10.308	3.075	0.000	0.000
Borrowing	42.096	117.873	75.719	28.433	17.857
<b>Total</b>	<b>90.047</b>	<b>179.798</b>	<b>98.086</b>	<b>34.640</b>	<b>17.857</b>

- 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**

	Projected 2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
MRP	4.306	5.592	5.926	6.214	6.450

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

The Government is in the final stages of a consultation on changes to the regulations relating to MRP. It is currently intended that the proposed changes will take effect from April 2024. The Council will comply with the updated regulations when they are finalised.

- 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**

	31.03.2023	31.03.2024	31.03.2025	31.03.2026	31.03.2027	31.03.2028
	£m	£m	£m	£m	£m	£m
General Fund Services	393.380	414.801	456.459	478.833	483.203	487.891
Housing Investment Programme	63.544	74.326	115.026	145.181	161.651	166.651
Property Portfolio	59.963	65.906	96.315	115.040	120.492	122.992
Solar Farm	3.800	3.800	3.800	3.800	3.800	3.800
<b>Total</b>	<b>520.687</b>	<b>558.833</b>	<b>671.600</b>	<b>742.854</b>	<b>769.146</b>	<b>781.334</b>

**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 2024/25 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**

	Projected 2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Capital Receipts	0.774	7.556	0.000	6.000	0.000
<b>Total</b>	<b>0.774</b>	<b>7.556</b>	<b>0.000</b>	<b>6.000</b>	<b>0.000</b>

- 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 from 1st April 2016 up to 31 March 2030. 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 Medium Term Financial 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 £350.7m borrowing at an average interest rate of 3.33% and £29.6m treasury investments at an average rate of around 4.82% (with the paramount aim of ensuring security of the principal invested, rather than yield).
- 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 cheaper short-term loans and longer term borrowing.

- 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**

	31.03.2023	31.03.2024	31.03.2025	31.03.2026	31.03.2027	31.03.2028
	£m	£m	£m	£m	£m	£m
Debt (incl. PFI & Leases)	395.109	420.393	534.891	607.838	635.981	650.017
CFR	520.687	558.833	671.600	742.854	769.146	781.334

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**

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Authorised Limit Borrowing	495	655	745	765	775
Authorised Limit PFI & Leases	54	54	54	54	44
<b>Authorised Limit Total</b>	<b>549</b>	<b>709</b>	<b>799</b>	<b>819</b>	<b>819</b>
Operational Boundary Borrowing	475	635	725	745	755
Operational Boundary PFI & Leases	50	50	50	50	40
<b>Operational Boundary Total</b>	<b>525</b>	<b>685</b>	<b>775</b>	<b>795</b>	<b>795</b>

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 Medium Term Financial Strategy Link above.

- 5.6 **Liability Benchmark:** the authority uses a liability benchmark as a tool to assist with future borrowing needs. The benchmark shows that the Council's current level of external borrowing is below the amount needed to fund future commitments and therefore future borrowing is required. Further information about the Liability Benchmark can be found in the Treasury Management Strategy.
- 5.7 The Council will not borrow to invest primarily for financial return and spending plans do not include acquisition of assets primarily for yield; for clarity spending plans relate to the functions of the authority. This ensures that the Council is able to

access borrowing from the PWLB (the Government's lending facility) which provides long term liquidity. The Council does have investments whose primary aim is to deliver service benefits which also deliver an income stream, which are detailed in Sections 6- 9 below.

- 5.8 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 advise 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**

	31.03.23	31.03.24	31.03.25	31.03.26	31.03.27	31.03.28
	£m	£m	£m	£m	£m	£m
Short-term investments	38.499	15.000	15.000	15.000	15.000	15.000

Further details on treasury investments can be found in the Treasury Strategy which can be accessed via the Medium Term Financial Strategy link above.

- 5.9** 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.
- 5.10 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. Cabinet also receive supplementary updates as part of the financial monitoring.

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

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- 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.

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## **7.0 PROPERTY INVESTMENT PORTFOLIO (PIP)**

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- 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 £139.4m at 31 March 2023 and is anticipated to generate around £8.7m rental income in 2023/24 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 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 the 8 years the Growth Fund has operated, £79.4m investment to date has been made into a range of investments which are anticipated to help deliver approximately 1,445 new and safeguarded jobs. The Fund has supported a range of developments such as Rosewood Pet Products and Eden Horticulture Ltd at Hortonwood West and the expansion of Filtermist International Ltd at T54. Growth Fund Investment at Ni.Park has supported the growth of companies such as TAFE (Tractors and Farm Equipment Limited) and in response to the lack of supply, delivered a range of units to support small businesses at Leasows Court, Telford. New developments are nearing completion at Orchard Court and Ni.Park and work has recently started on the new Digital and Skills Hub, the first phase of development at Station Quarter. These investments are forecast to generate an average ongoing gross return on investment of 6.4%, (2.02% net of borrowing costs). Through the investment the Council will generate additional 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 Council's continued commitment to the Property Investment Portfolio, the Medium Term Financial Strategy includes additional investment of £10.0m into the Growth Fund, taking the total investment to £65m into the Growth Fund from 2023/24 to 2027/28, 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:

- Regeneration opportunities
- Local market needs/demand for properties
- Future proofing the local economy by attracting new investment
- Job creation for local people
- 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



## 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 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.

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 Finance, Customer Services & Governance.

7.5 Further information about the Growth Fund can be found in a separate report to Cabinet on 19 October 2023

Telford Growth Fund Update Cabinet 19 October 2023 Agenda Item no. 6	<a href="#">Agenda for Cabinet on Thursday 19 October 2023, 10.00 am - Telford &amp; Wrekin Council</a>
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## 8.0 NUPLACE LIMITED / HOUSING INVESTMENT PROGRAMME

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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
- to regenerate brown field sites that the Council has been unable to sell
- increasing the quality of the private rented sector, providing a long-term responsive landlord
- 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
- 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** Nuplace has seen: 466 homes delivered, across ten sites with a further 13 refurbished properties across the Borough, bringing the total number of houses delivered to 479. Of these properties, 80 are for affordable rent or built to an adaptable standard, 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, both of which will generate a return. At 31 March 2023 the Council had £18.8m equity invested in Nuplace and the loan totalled £45.4m. 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** In 2022/23 Nuplace made a net profit of £0.316m after taxation and had net assets of £40.1m at 31 March 2023 (in total, assets have been revalued upwards by £16.4m since 2017/18). Since 2015/16, the Council has received net income totalling £9.7m from services supplied, dividend and interest on debt finance. Further, there are benefits from Council Tax (between system resets) and New Homes Bonus.
- 8.6** The Medium Term Financial Strategy includes additional investment of £37m into Nuplace, taking the total investment to £103.1m from 2023/24 to 2027/28 to further develop Nuplace. 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. Nuplace is funded through a combination of debt and equity and the council receives a return on both. Net income from Nuplace, including loan interest, was £1.9m in 2022/23 and is projected to be around £2.0m in 2023/24. The long term return on the equity investment is forecast to be around 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.
- 8.7** **Risks** and Governance are managed through the Housing Investment Programme Board
- 8.8** Further information about the Housing Investment Programme can be found in a separate update report to Cabinet on 4 January 2024 and in the published Statement of Accounts for Nuplace.

Housing Investment Programme Update Cabinet 4 January 2024	<a href="#">Agenda for Cabinet on Thursday 4 January 2024, 10.00 am - Telford &amp; Wrekin Council</a>
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## 9.0 SOLAR FARM

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**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 anticipated to deliver £0.7m net additional income in 2023/24; 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.

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## 10.0 OTHER INVESTMENTS FOR SERVICE PURPOSES

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### **HCA Land Deal**

**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 £48.6m have been secured, enabling the delivery of 1,535 new homes and enabling over 2,233 new jobs. The Council has facilitated spend of £22.5m in bringing forward sites for development recouped from land sales and the total profit share delivered to the Council to date

is £10.2m gross, £7m after setting aside £2m for constrained/liability sites and £0.1.2m distribution to the Marches LEP.

- 10.4** The Investment and Disposal plan is continually reviewed with agreement of the Land Deal Board.
- 10.5** Capital allocations totalling **£6.2m** are included in the Medium Term Financial Strategy. This include investment of profit share; spend to bring sites to disposal and spend on the liability sites.
- 10.6** Further information about the Land Deal can be found in a separate update report to Cabinet 19 October 2023.

Telford Land Deal Update Cabinet 19 October 2023	<a href="#">Agenda for Cabinet on Thursday 19 October 2023, 10.00 am - Telford &amp; Wrekin Council</a>
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### **Towns Fund / Levelling Up Funds**

- 10.7** In 2019, the government formed the Towns Fund, a £3.6 billion programme to regenerate towns across the country. Telford was successful in being awarded £22.3m grant funding to regenerate Telford Town Centre (Station Quarter), Wellington Conservation Area and Oakengates Theatre Quarter.
- 10.8** This investment, together with match funding from the Council will deliver a transformational programme over the next 3 years. A Town Deal Board has been established which includes representatives from the public, private and community and voluntary sectors. The Board is responsible for overseeing the delivery of the Towns Fund Programme.
- 10.9** The Medium Term Financial Strategy includes capital allocations of £35.2m, phased across 2023/24 to 2025/26, which includes Towns Fund grant and council investment.
- 10.10** The Council were also successful in securing £20m Government Levelling Up Funding and £9.8m Capital Regeneration Projects funding during 2023. This funding, together with council investment, will deliver two major projects: (i) Remodelling of Telford Theatre and the Creation of a new educational facility in Telford Station Quarter; and (ii) remodelling of Wellington Town Centre, including the acquisition and restoration of Wellington indoor Market, acquisition and refurbishment of the Orbit and public realm/highways improvements.
- 10.11** The Medium Term Financial Strategy includes capital allocations of £37.3m, phased across 2023/24 to 2026/27, which includes Levelling Up grant, Capital Regeneration grant and council investment.

**10.12** Further information about the Telford Towns Fund, Levelling Up Fund and Capital Regeneration Fund can be found at the following web page:

Telford Towns Fund Web Page	<a href="#">Telford Towns Fund</a>
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## 11.0 OTHER LIABILITIES

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**11.1** In addition to debt detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £80m on 31 March 2023) 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 £15.7m in the 2022/23 Draft Statement of Accounts, which includes a provision for Single Status and NDR Appeal costs. At 31 March 2023 the Council had no major contingent liabilities in the Draft Statement of Accounts.

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

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## 12.0 REVENUE BUDGET IMPLICATIONS

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**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 9: Prudential Indicator: Proportion of financing costs to net revenue stream**

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2026/27 £m
Financing Cost as a proportion of net revenue stream	7.25%	8.54%	9.27%	9.42%	9.29%

**12.2** The ratio is lower in 2023/24 which reflects capital programme re-profiling during the year.

- 12.3** Within the MTFS a prudent interest rate of 4.6% has been assumed for new borrowing in 2024/25, and then 3.5% for all future borrowing requirements from 2025/26 onwards. During the year, the Council will seek to reduce the amount of interest paid through using a mixture of long term borrowing (mainly using PWLB) when rates are favourable (i.e. targeting below 4.6%) and cheaper temporary borrowing when available. However, there is of course a risk of exposure to interest rate increases in excess of the budget assumptions. Prudential borrowing 2023/24 to 2027/28 totals £282m; 1% interest on this would in total be £2.82m (excluding refinancing existing loans maturing).

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## **13.0 KNOWLEDGE AND SKILLS**

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- 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 Link Treasury Services 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.

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## **14.0 CHIEF FINANCIAL OFFICER COMMENT**

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- 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, or longer, into the future. The Chief Financial Officer is satisfied that, whilst capital charges are a long-term commitment against the revenue budget, the proposed capital programme is prudent, affordable and sustainable due to the continued track record of sound financial management including delivering revenue budget outturn within budget, delivering annual budget savings which now total £156.9m, long-term service redesign, the proportion of capital schemes that create assets that generally increase in value over time and which could be sold if required and which generate revenue which offsets or exceeds associated capital charges, the current level of reserves and provisions and the planned approach to treasury

management which is to lock in to long term fixed rates of interest when appropriate giving increased certainty over costs in the long-term.