APPENDIX B

Charnwood Borough Council

Capital Strategy

2023 – 2024

Foreword

This latest Capital Strategy sets out our plans and aspirations in the areas of capital planning, treasury management, and new borrowing which supports and enables our corporate plan and is a key plank in ensuring the ongoing financial sustainability of the Council.

At risk of repeating my messages from previous years, it remains very true that the financial and economic outlook facing the Council is highly uncertain, exacerbated at this time by the ongoing war in Ukraine and the recent political turmoil within the UK. Further detail on the implications of this is provided in the body of this Capital Strategy and the latest version of the Medium Term Financial Strategy which is presented alongside this document. As in previous years, much of our focus will be to ensure that the Council remains on a sustainable financial footing.

The extant Capital Plan (2022 – 2025) has a focus on the upkeep of the Borough and maintenance of our existing asset portfolio. Our ambition for the Borough remains and we will retain funds earmarked for economic regeneration and investment in the Enterprise Zone, albeit at reduced levels than originally created, having reviewed the likely operational scenarios which would require funds being available within a compressed timescale. Notwithstanding the funding earmarked within the Capital Plan for economic regeneration, there is flexibility within existing earmarked capital reserves and our ability to borrow for capital purposes that would enable an ambitious redevelopment scheme to be financed should that be appropriate. Any significant scheme of this nature would be subject to the approval of full Council. Additionally, we will also continue to invest the resources required, both financially and in time, to ensure that we maximise the opportunity afforded by the £17m funding available through Loughborough's Town Deal.

The Council holds significant cash balances and this is an important resource which we will use proactively. It is clear from the proposed 2023/24 budget that the income we can generate from our treasury operations will form a vital component of our funding and we continue to look for ways to refine our treasury operations and seek to minimise our external borrowing requirement. The Treasury Management Strategy has therefore been amended with a view to increasing yields but security and liquidity will still be the key elements of the Council's approach to treasury management. However, the financial challenges ahead, coupled with a now significantly upward trend in interest rates place even greater importance on the continuation of our strong record in this area.

Councillor Tom Barkley

Cabinet Lead Member for Finance & Property

January 2023

CONTEXT

The Capital Strategy, in common with other strategies produced by the Council supports the overarching Corporate Strategy; see:

https://www.charnwood.gov.uk/files/documents/charnwood_borough_council_corporate_strategy_2020_2024/Charnwood%20Borough%20Council%20Corporate%20Strategy%202020-24%20FINAL%2027.02.20.pdf

This strategy sets out the vision for the Borough as follows:

‘Charnwood is a borough for innovation and growth, delivering high-quality living in urban and rural settings, with a range of jobs and services to suit all skills and abilities and meet the needs of our diverse community.’

In working towards this vision the Council’s principle focus at present is to leverage its own capital resources alongside local partners and the government through schemes such as the Town Deal, Shared Prosperity and Levelling Up Funds.

Examples of this activity can be seen through Council-led projects such as the ambitious improvements in the public realm through the recently completed investment in the Bedford Square area of Loughborough, and plans under development for investment around Shepshed market place, alongside partner projects such as the expansion of training and skills facilities at Loughborough College, improvement to the Grand Union Canal tow path and enhancements to Loughborough’s flood defences.

Within the Capital Plan a sum of £5m is set aside for regeneration investment, an amount designed to allow the Council to respond in a timely fashion should important property assets become available at short notice within the Borough, and where their acquisition will support regeneration or economic development objectives. An additional amount of £10m is also maintained to provide ‘forward funding’ (to be recovered through business rate retentions) for the Enterprise Zone areas within the Borough. The Treasury Management Strategy (appended to this Capital Strategy) assumes that this funding would be financed through borrowing and for the purposes of presentation assumes that this will happen in the 2023/24 financial year. In practice, the both the timing and quantum of this investment is reliant on third party actions and/or suitable opportunities presenting themselves; no funds will actually be borrowed unless and until they are required.

Finally, there will also be continued investment across the Borough ensuring that our public realm and open spaces are maintained and enhanced to the standard that residents deserve through the regular refresh of the Capital Plans. This investment will be funded from the Council’s designated capital reserves.

Enabling this vision requires the Council to be financially sustainable. Cash balances managed through the Council’s treasury function, and the interest generated, are increasingly important given the combination of cash and short term investments held (typically in the range of £50m-60m), rising interest rates and cost pressures within the Council’s revenue budgets. There is therefore a clear incentive to husband cash carefully, avoid unnecessary capital expenditure and maximise treasury returns within an appropriately prudent framework.

In summary, the Capital Strategy shows how these expenditure plans are governed, the financing requirements they imply, how financial assets are managed through the treasury function, the impact on revenue budgets and the method by which the Council aims to mitigate some of the risks involved in capital expenditure and treasury operations.

CAPITAL STRATEGY (INCLUDING TREASURY MANAGEMENT)

The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

1. **Capital expenditure**; which includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

2. **Capital financing and borrowing**; provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will make prudent revenue provision for the repayment of debt should any borrowing be required.

3. **Treasury management investments**; explains the Council's approach to treasury management investment activities, including the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed.

4. **Commercial investments**; provides an overview of those of the Council's current and any potential commercial investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

5. **Knowledge and skills**; summarises the knowledge and skills available to the Council and provides confirmation that these are commensurate with the Council's risk appetite. Further details are provided in the following sections.

6. (Appendix BB). **Treasury management policy statement and practices**; this is presented separately; it updates to the Council's Treasury Management Policy Statement and to its Treasury Management Practices. These set out the Council's policies, objectives and approach to risk management of its treasury management activities, and the manner in which it seeks to achieve its policies and objectives for treasury management.

1. Capital expenditure

Capitalisation policies

Capital expenditure involves acquiring or enhancing non-current assets with a long-term value to the Council, such as land, buildings, and major items of plant and equipment or vehicles, as well as the contribution or payments of grants to others to be used to fund capital expenditure. Capital assets shape the way services are delivered for the long term and may create financial commitments for the future in the form of financing costs and revenue running costs. Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria below are met.

Expenditure is classified as capital expenditure when the resulting asset:

- Will be held for use in the delivery of services, for rental to others, or for administrative purposes; and
- Is of continuing benefit to the Council for a period extending beyond one financial year.

There may be instances where expenditure does not meet this definition, but would nevertheless be treated as capital expenditure. This is known as 'Capitalisation' and it is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It allows exceptional revenue costs, that should be met from revenue resources to be treated as capital expenditure. Permission is given through capitalisation directions, which the Secretary of State can issue under section 16(2)(b) of the Local Government Act 2003.

The Council operates a de-minimis limit of £10,000 for capital expenditure. This means that items below this limit are charged to revenue rather than capital.

Governance

A three year Capital Plan is prepared by officers and approved by Council. Potential schemes are identified by Officers, in conjunction with Cabinet members, and supported by a Capital Application form. Following a process of review by senior officers a report is prepared for Cabinet with recommendations as to which schemes to include in the Plan, how the Plan would be funded and other elements such as risk and compliance with the Prudential Code.

Once adopted the three year Capital Plan is formally reviewed by Cabinet at the end of year two when Heads of Service are asked to submit proposals for the following three years. 'Year three' of the current plan would then become 'year one' of the new plan.

New schemes can only be added outside of this procedure where they are in substitution of existing schemes or have a separate source of funding so that the actual total level of the Plan would not increase.

All schemes of £50,000 in value or greater require Capital Appraisal and all procurement and contracting must adhere to the Contract Procedure Rules. The Section 151 Officer (or ‘s151’ – essentially a local authority’s Finance Director as defined by Section 151 of the Local Government Act 1972) makes recommendations to Cabinet as to whether funding should be released to allow new schemes to be included in the Capital Plan.

After the end of the financial year an outturn report detailing the total amount of capital expenditure incurred during the year is submitted to Cabinet by the s151 Officer.

Prior to the closure of the Council’s accounts a report detailing the proposed method of funding the capital expenditure incurred is submitted to Cabinet by the s151 Officer as required by the Local Government & Housing Act 1989.

2. Capital Financing Requirement and borrowing

The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the ‘Prudential Code’) when assessing the affordability, prudence and sustainability of its capital investment plans. Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council’s capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

Updated regulatory framework

CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021. The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property.

The Code had a ‘soft’ introduction but Local Authorities are expected to fully implement the required reporting changes from 2023/24.

It should also be noted that DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority’s capital programme. The new CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield.

In theory this does not mean that local authorities may not currently have the legal powers to undertake such capital expenditure despite such guidance and regulation, but in practice such investment is very likely difficult to justify, and in effect investment financed by borrowing (whether internal or external) purely for yield is no longer a viable activity.

There are a number of other technical changes within the 2021 version of the Code but other changes of note are:

- Adoption of a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement

- Reporting to members, including updates of prudential indicators, to be on a quarterly basis

- Assessment of the risks and rewards of significant investments over the **LONG TERM**; what may be viewed as 'significant' is a moot point whilst CIPFA has not defined what longer-term means, but it is likely to infer 20-30 years (our treasury advisor view)

Further discussion of the regulatory environment is set out with Section 4 of this Strategy.

Current Capital Plans

The Council has a policy of preparing a three year Capital Plan, and then refreshing this every other year.

The most recent Capital Plan was prepared covering the financial years 2022/23 to 2024/25, and subsequently incorporated the final year of the preceding Plan coverig the years 2020/21 to 2022/23.

Naturally, in the course of the three-year plan schemes will be added, deleted or amended through periodic Capital Plan amendment reports. The latest version of the amended Capital Plan was presented at the Cabinet Meeting of 9 February 2023:

In summary the situation may be illustrated as follows:

Capital Expenditure	**2022/23 Budget Estimate**	**2023/24 Budget Estimate**	**2024/25 Budget Estimate**
	£'000	**£'000**	**£'000**
Live Schemes			
General Fund	9,617	2,991	1,580
HRA	12,034	9,656	6,645
Provisional Schemes			
General Fund	3,020	15,000	0
HRA	0	0	0
Third Party Schemes			
General Fund	909	0	0
HRA	0	0	0
Total	**25,580**	**27,647**	**8,225**

It should be stressed that inclusion of the above within the Capital Plan, does not imply that any of the above amounts will ultimately be expended. Further discussion of the above is set out later in this document.

Funding of the Capital Plan

The Capital Plan is funded by a combination of the following sources:

- Capital grants and contributions - amounts awarded to the Council in return for past or future compliance with certain stipulations.

- Capital receipts – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

- Revenue contributions – amounts set aside from the revenue budget.

Prudential borrowing - In addition to the above the Council also has the ability to borrow to fund capital expenditure. At this point in time the Council has been able to finance prudential borrowing internally, taking advantage of cash flows inherent within the Council's operations (ie. cash outgoings typically lag the associated cash inflows, often by months or years). So far it has not been necessary to use external borrowing to fund General Fund capital expenditure but some level of external borrowing may be required if the Council is to complete the delivery its Capital Plan within the projected timescales (and over the medium term as and when the positive cash flow position reverses).

The Council has taken out external borrowing to fund the purchase of its housing stock (held within the Housing Revenue Account) from the Government under the 2012 Self-Financing Regime. This totals £79m. An additional £25m borrowing (internally financed) has been undertaken to finance the commercial property portfolio and a proportion of the refuse collection fleet replacement.

Prudent revenue provision for debt repayment

Borrowing allows the Council to defer the funding of its capital expenditure so that it does not need to fund immediately from existing reserves, but instead charges to the revenue budget over a number of years into the future.

Where borrowing is used to finance capital expenditure within the general fund a Minimum Revenue Provision calculated in line with CIPFA guidance contained within the Prudential Code

3. Treasury management investment

The Treasury Management Code and statutory regulations require the Council to prepare an annual strategy that explains how the Council will invest its funds, giving priority to security and liquidity, and then to yield. This Annual Investment Strategy is set out in full in the Treasury Management Strategy Statement (Appendix BB).

The Council's Treasury Management Strategy Statement (TMSS) covers 'specified investments' and loans to other local authorities. The policies are designed to comply with the Statutory Guidance on Local Government Investments ('the Guidance'), effective from 1 April 2018. The Council manages treasury operations in line with its TMSS, which in turn is in accordance with the guidance. The Council is required to review the TMSS on an annual basis.

The Guidance defines in detail what criteria an investment would meet to be categorised as 'specified' One of the criteria of specified investments is that the local authority has a contractual right to repayment within 12 months. Certain loans to other local authorities made by the Council have a term of up to two years (with an intention to increase the allowed maimum to five years), so do not fall strictly within the definition. However, the Council considers that management of this type of financial instrument should fall within the ambit of the TMSS.

The prolonged and historically low interest rate environment that prevailed since the financial crisis of 2008 now appears over. Base rates are now (January 2023) at 3.5% and expected to increase to peak at around 4.5% in the summer. Subsequent projections show a gradual tailing off beyond that time but it seems rates will remain well above those seen into the early months of 2022, which were typically well below 1%. This new economic environment has therefore put even greater emphasis on the importance of the Council's treasury function.

CHANGES TO THE TREASURY MANAGEMENT STRATEGY FOR 2023/24

The thrust of the Treasury Management Strategy remains on prioritising the security of public money and ensuring the Council has sufficient day to day liquidity to meet its payment obligations. However, the increased importance of interest receipts combined with the growth in assets under management over recent years has resulted in amendments to the Strategy being proposed for 2023/24. The main changes allow for increasing values of investment in individual counter parties and maturity periods reflecting increasing amount of funds under management and to avoid challenges in being able to place funds effectively. The proposals are detailed within Appendix BB and comprise changes to the Code (as noted previously) and amendments to the investment limits and acceptable counterparties, countries and brokers, as follows (with comparatives or changes noted sine 2022/23 where applicable:

- B(3) Credit and counterparty risk management
- B(4) Approved countries for investments
- B(5) List of approved brokers for investment

4. Commercial investments

Regulatory framework

The introduction of the general power of competence (arising from the Localism Act 2011) has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, led many authorities to consider different and more innovative types of investment

CIPFA issues the Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced in the most recent update to the Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

Separately, the Ministry of Housing, Communities and Local Government issued Statutory Guidance on Local Government Investments under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.

As is the case for treasury activities, commercial investment should balance:

- Security – to protect the capital sums invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed
- Returns – ensuring that the Council's investment ability is used effectively

Commercial investment may be defined quite widely and could include, for example:

- Commercial property investment held solely for the purposes of generating a financial return
- Investments in wholly owned companies and joint ventures (which maybe in the form of equity or loans)
- Wider scale and more ambitious regeneration projects
- Ad-hoc complex investments

The Statutory Guidance describes non-financial investment as being in non-financial assets held primarily or partially to generate a profit. Usually it will be expected that the underlying asset could be 'realised' to recoup the capital invested.

There are important aspects of financial reporting that Council's must be aware of. In terms of reporting it is necessary to state whether:

- The fair value of non-financial investments is sufficient to provide security against losses, and that the underlying assets provide adequate security for the originating capital investment

- Where the fair value is insufficient detail of mitigating actions should be provided to protect the capital invested

- Additionally, where the fair value assessment recognises a loss in the non-financial investment the subsequent Capital Strategy will need to reflect the impact of loss of security and the associated revenue consequences

- Fair value accounting in this context is covered by International Financial Reporting Standard 9, as modified by an extended statutory override applicable to local authorities. The implication of the override is that if a local authority recognises a loss on investment then this will not impact on the general fund, or, therefore, on an authority's ability to set its budget. However, the override is (currently) time limited to 31 March 2025 and a major downturn in the value of specific assets, or the property market generally, represents a clear risk in future financial periods.

This situation will be kept under close review and the Council will consider diverting interest and rental receipts to create a provision to cover any prospective loss on investment.

The Prudential Code is published by CIPFA (the chartered accountancy body which has a public sector focus), and aims to ensure local authorities' financial plans are affordable, prudent and sustainable. The new (2021) version of this code will apply fully from the 2023/24 financial year, which, as noted previously, tightens the definition of commercial investment and essentially prevents borrowing to finance the acquisition of assets purely for financial return. Although published by CIPFA, the Prudential Code does carry legal weight as the underpinning government regulations require that due regard is paid to the Code.

Approach for the 2023/24 financial year.

Overview

The Council has successfully developed a well-performing commercial property portfolio but in the current regulatory environment, as previously observed, the investment in commercial properties purely for yield has now effectively been outlawed where this activity has to be financed via borrowing.

The Council will however continue to investigate investment opportunities that may have a commercial element alongside attributes supporting other Council objectives, such as regeneration, or the climate change agenda. There are no specific plans at the time of developing this version of the strategy but some £5m within the current (amended) Capital Plan is earmarked for regeneration projects; this will enable an agile response should key sites within the Borough become available. Additionally, some £10m is included within the Capital Plan to support development of the

Enterprise Zone sites within the Borough. The initiation of such projects is within the gift of site sponsors (ie. Charnwood Campus and Loughborough University) but it is anticipated that some call on this fund will be likely in the next financial year.

For the purposes of completing the Treasury Management Strategy Statement it is assumed that the above funding (Regeneration £5m and Enterprise Zone £10m) will be fully required in 2023/24 and that this funding would be financed from borrowing rather than the Council's capital reserves. In practice however, no borrowing will be undertaken unless specific projects are identified.

Any investment required over and above these amounts would be need to be approved through updates to the extant Capital Strategy and Capital Plan in accordance with the Council's budgetary and policy framework.

The full details of the Council's Capital Financing Requirement (CFR) position and the limits that have been set for borrowing and all the associated prudential indicators implied by the above are provided In the Treasury Management Strategy Statement (Appendix BB).

Specific approach planned

<u>Commercial Investment properties</u>

The Council has now developed a commercial investment property portfolio totalling £22.5m. No further investments of this type are planned pro tem.

Management of existing portfolio (including risk mitigation)

The Council's commercial investment property portfolio can be summarised as follows:

Location	*Property type*	*Gross acquisition costs (£m)*	*Annual rent*	*Remaining lease term (at Jan 2023)*
Loughborough	Car showroom	2.4	165	12 years
Banbury	Offices	7.7	540	3 years
Aberdeen	Industrial	3.6	239	8 years
Scunthorpe	Industrial	8.8	600	13 years
		22.5	**1,544**	

The 2023/24 budget for commercial property income is set at £0.8m, being a net figure that allows for charges for interest and Minimum Revenue Provision, and the creation of a property reserve that allows for possible tenant non-payment (considered a very low probablilty based on tenant due diligence performed) and prospective periods of void and dilapidation costs that may arise at the end of the lease term. An allowance is also made for additional management costs arising from the acquisitions. These elements are analysed below:

(all figures £000)	*2023/24 (Budget)*
Gross rent	1,544
MRP charge (40-year annuity life method)	(295)
Interest charge (based on internal borrowing)	(113)
Portfolio management charges	(50)
Contribution to reserve (balancing figure)	(324)
Net contribution to revenue budget	**762**

The figures exclude the Loughborough skills hub situated in Loughborough. This is owned by the Council but purchased with Government grant money, and let to Loughborough College at peppercorn rent for the initial rental period of three years. Subsequently it is anticipated that the property will either generate a capital receipt or generate rentals on a commercial basis.

The total property reserve will be built up to ensure that a balance on the reserve of £1.5m is created before the first identified lease event (expiry of lease term on the Banbury property on 12 December 2025). The run rate set out above (some £0.3m+ per annum going forward) will ensure that this is achieved.

- Projected property reserve balance at 31 March 2023 £1.2m
- Projected property reserve balance at 31 March 2024 £1.5m

Finally, it may also be noted that the commercial property portfolio will be actively managed, to minimise (inter alia) void losses and dilapidation payments.

Reporting and monitoring of the commercial property portfolio is undertaken by the Audit Committee.

Loans to local enterprises and third parties (no change in approach planned)

Loans to local enterprises or partner public sector bodies could be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity. Such loans could be considered as an option to generate a yield. There would need to be a set of criteria drawn up which would need to be met before any loan was given. These might include:

- Whether or not the loan has security
- The term of the loan
- The profile of capital repayments

- The credit rating of the counterparty
- That total financial exposure to this type of loan is proportionate
- An allowed 'expected credit loss' model for assessing credit risk is adopted[1]
- Appropriate credit control arrangements to cover overdue payments are in place
- The local authority has formally agreed the total level of loans by type that it is willing to make, and the total loan book is within that self-assessed limit

The Council will not proactively seek to market loans to third parties but will consider offering loans to local enterprises, local charities, on a case by case basis, as and when approached.

The Council will also consider offering a loan, on a case by case basis, to any subsidiaries that may exist at a point time; in particular, this would apply should the Council have a subsidiary Housing Development Company.

The strategy in this area is set out below.

STRATEGY FOR 2023/24 – LOANS TO THIRD PARTIES AND SUBSIDIARIES

No money will be set aside within the Capital Plan unless and until a specific proposal is available for consideration.

Should an opportunity to offer a loan to a third party arise reports will be taken to Cabinet, and Council if required, to seek specific approval for that transaction.

All prospective debtor organisations will be either be located, or will have substantial operations, within the Borough.

Any asset created through the loan will be located within the Borough.

The purpose of the loan will support local economic growth as defined within the extant Corporate Plan.

The maximum total loan book the Council would manage will be £10m.

The maximum single loan to an individual organisation will be:

- Secured loan £5m
- Unsecured loan £2m

The maximum total value of unsecured loans will be £4m.

Loans will be offered on a commercial basis with rates offered dependent on risk; unsecured loans will attract higher interest rates. Rates offered will be in accordance with independent professional advice

Due diligence will be carried out on prospective debtor organisations.

Generally, independent professional advice will be taken to ensure that the structure of loan finance offered, and the risk and return associated with that structure is appropriate.

[1] As defined within International Financial Reporting Standard 9 – in broad terms the likelihood of a creditor defaulting in future must be considered in accounting for impairment (compared to previous Standards in which accounting was based on actually incurred losses)

Support for Subsidiaries (no change in approach planned)

The Council does not currently have any wholly owned local trading or property (housing) companies. Should the Council decide to form a subsidiary then Council could decide to provide the funding required to support these organisations. As with providing loans to local enterprises and third parties there would need to be a set of criteria drawn up which would need to be met before any loan was given. This would mitigate the risk of loss to the Council.

However, the creation of a Property Development Company (probably with a housing focus) remains a possible course of action for the Council. It may be appropriate to invest directly in the equity of a Property Development Company, rather than in the form of a loan, as described above. The basis of investment will be equivalent, as described below.

STRATEGY FOR 2023/24 - INVESTMENT IN A PROPERTY DEVELOPMENT COMPANY

No money has been allocated within the capital plan at present.

This funding *may* be in the form of an equity investment in the PDC, upon which dividends or and / or management fees will be due to the Council.

It is assumed that this funding be financed through Council borrowing, as and when investment is required.

At minimum, dividends and management fees will cover all of the Council's borrowing costs, in cases where the subsidiary company is wholly owned by the Council.

At minimum dividends and management fees will cover all of the Council's borrowing costs, plus a margin of in cases where a subsidiary company or joint venture is only partially owned by the Council.

Professional advice will be taken to ensure:

- Any loans are structured in the most advantageous way, having regard to risk, prospective returns, and tax implications
- MRP can be avoided or mitigated through the loan structure

Appropriate due diligence will be carried out on prospective partner organisations.

In total, the maximum investment in a PDC, whether by loan or equity investment, will be an amount of £10m.

Economic development and regeneration

COVID-19 has, as might be expected, had a significantly negative impact on businesses, which is reflected in both the physical environment and employment rates. In general, the Council would want to consider investment projects that benefit its communities, but it also has the opportunity to invest using the following specific arrangements:

- Town Deal: Loughborough has secured funding of £17m to support improvements to Loughborough town centre; release of some of this funding is facilitated by providing 'match' funding from the Council in respect of Council-led projects[2]

- Other government funding – such as Levelling-Up Funding or the Shared Prosperity Fund: an approach analous to the approach adopted to attract and administer Town Deal funding is anticipated.
- Enterprise Zone: The Council can support the development of infrastructure on its Enterprise Zone sites by taking out a loan to fund projects, repayable fro future business rates generated

The strategy as related to the these opportunities is set out below:

STRATEGY FOR 2023/24 - INVESTMENT IN THE TOWN DEAL AND REGENERATION PROJECTS

> An amount of £5m to fund material investment in regeneration projects will be carried forward into 2023/24 and future years of the Capital Plan 2020-23 (subject to approval by Council). This is in addition to earmarked funding for specific projects such as Bedford Square.
>
> It is assumed that this funding be financed through Council borrowing, as and when investment is required.
>
> Investment in regeneration projects (ie. where funding is to come from this £5m allocation) will be approved by Cabinet, or through an Urgent Decision process, on a case by case basis. In general, it is antipated that such projects will provide a positive financial return to the Council, but that a lower return than may be achievable with pure commercial investment will be acceptable.

STRATEGY FOR 2023/24 - INVESTMENT IN THE ENTERPRISE ZONE

> An amount of £10m to forward fund investment in the Enterprise Zone (EZ) will be maintained. To date £2m has been allocated. The £10m balance will be carried forward into 2023/24 and future years of the Capital Plan 2022-25 (subject to approval by Council).
>
> This total amount will be profiled for the 2023/24 financial year to ensure there is no impediment to investment opportunities.
>
> The mechanism by which the investment will work is as follows:
>
> 1. The Council will take out a loan for the amount required to fund the project
> 2. Funds will be passed to the LLEP, who will then make a grant to the site sponsor[3] who will undertake the project delivery
> 3. The Council will cover the loan costs by retaining business rates generated by the project that would otherwise have been due to the LLEP (the LLEPP share of business rates generated is 85% as set out in the EZ agreement)
>
> MRP treatment – generally, MRP will be calculated using the annuity method reflecting the life of underlying assets being long term and assumed at 40 years. However, where the loan is taken out on a repayment basis (as may be the case) then no MRP charge will be deemed necessary[4].

[2] Although it should be noted that the Town Deal also strongly encourages participation and investment from the private sector

[3] The site sponsors would be either Charnwood Campus (Jayplas) or Loughbourough University

[4] This is subject to compliance with the new Prudential Code; technical interpretation of relevant sections is still in progress

Forward funding agreements will be:

- Based on business cases supported by the Council and subject to approval by the LLEP Board (where the Council has representation at present)
- Subject to Cabinet approval on a case by case basis

A condition of any forward funding agreement is that the loan will have to be underwritten by the site sponsor.

It is assumed that this forward funding be financed through Council borrowing, as and when investment is required. It is also expected that repayment of the loan via future business rates will create a small 'margin' versus the terms of the loan that will provide a positive contribution to the Council's finances.

Other commercial investments

Investment in other types of asset, or in larger and more complex arrangements, is not considered within this iteration of the Commercial Investment strategy. In practice, should opportunities arise, the Commercial Investment and Capital Strategies could be amended, subject to the approval of full Council, to allow emerging opportunities to be exploited. It can also be assumed that any significant investment would be subject to the specific approval by Cabinet.

5. Knowledge and Skills

The Council recognises the importance of ensuring that all officers involved in the treasury management function (including commercial investment activities) are fully equipped to undertake the duties and responsibilities allocated to them. The Strategic Director for Corporate Services is responsible for recommending and implementing the necessary arrangements and does this by:

- Appointing individuals who are capable and experienced.
- Providing training and technical guidance to all individuals involved in the delivery of the treasury management function to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them.
- Appointing a treasury management advisor and other professional advisors when required. This ensures that the individuals involved in delivery of the Council's treasury management activities have access to specialist skills and resources. In addition, professional advisors are employed as required to ensure that the Council has access to the specialist skills and resources necessary to undertake commercial investment activities.

Treasury management advisors - The Council employs Link Asset Services (Treasury Solutions) to provide it with treasury management advice. The services provided by Link Asset Services (Treasury Solutions) include advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. Notwithstanding this, the final decision on all treasury matters remains vested with the Council. The services received from Link Asset Services (Treasury Solutions) are subject to regular review, including through periodic re-tendering.

6. Treasury management Policy Statement and Treasury Management Practices

The Council's Treasury Management Policy Statement and its Treasury Management Practices have been updated to reflect the requirements of the updated Treasury Management Code. They are presented for approval in the Treasury Management Strategy (Appendix BB)