APPENDIX G

Chorley Borough Council Capital Strategy

Introduction

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to provide a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with corporate objectives and take account of stewardship, value for money, prudence, sustainability and affordability.

Purpose

2. The capital strategy 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 corporate strategy priorities.

3. The capital strategy sets out a framework for the self-management of capital finance and examines the following areas:

    - Capital expenditure
    - Treasury Management
    - Income Generating Activity
    - The future ambition of the council's capital programme

4. The capital strategy is to be approved annually by Full Council alongside the budget setting papers.

Changes to the Strategy

5. The performance indicators included in the strategy are updated and included below with commentary.

6. There are no other proposed changes to the strategy.

Capital Expenditure

7. The Council's Capital Programme forms part of the Council's overall financial strategy to deliver some of its key objectives contained in the Corporate Priorities. The Capital Programme must be affordable and based upon prudence. The current local government financial position and the potential need to make revenue savings will impact on the Council's ability to finance further capital spending unless additional funding is secured from external sources. The Capital Programme is constructed based upon the following objectives.

The resources available will be targeted at areas that deliver corporate priorities as described in the annual Corporate Strategy

Borrowing will be managed to ensure the future impact on revenue is minimised

The council will consider the purchase and/or development of assets to generate a sustainable revenue stream to counteract against the risk of future reductions in grant funding and year to year fluctuations in locally sourced funding; however only where this investment supports the regeneration of the Borough.

Borrowing solely for the purpose of generating yield is no longer permissible.

The council will consider working with partners to assist them to meet both their objectives and the council's objectives; this must have no impact on revenue budgets. This support may include granting loans to organisations at a rate that generates a greater return to the council.

The council will continue to identify land to assist in delivering its affordable housing targets.

The council will look to maximise opportunities to attract external finance to sustain its programme of work.

Governance

8. Democratic decision-making and scrutiny provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

    - Full Council approves the Council's Corporate Strategy that is refreshed every year, this strategy features numerous capital projects that are then built into the council's budget setting process.
    - the Chief Finance Officer is responsible for ensuring that a capital programme is prepared on an annual basis for consideration by the executive before submission to the Full Council.
    - Full Council approves the capital programme as well as the Treasury Management and Investment Strategy. The revenue implications of these strategies are included in the annual budget and Medium-Term Financial Strategy, all of which is approved by Full Council.
    - Executive Cabinet receives quarterly revenue and capital monitoring reports, approves variations (or recommends approvals to Full Council) and considers new bids for inclusion in the capital programme.
    - Portfolio holders are assigned projects in line with their responsibilities
    - the Overview and Scrutiny Committee can call in Cabinet reports, receive and scrutinise reports
    - all projects progressing to the capital programme follow the processes set out in the Constitution and Financial Regulations; this includes adjustments to the projects as they progress
    - the capital programme is subject to internal and external audit.

9. The definition of 'capital' will be determined by the Chief Finance Officer, having regard to government regulations and accounting requirements. Further information regarding the governance of the capital programme is given in Appendix 4 of the Constitution titled Financial Regulations & Financial Procedure Rules as approved by Full Council.

Capital Proposals

10. A new proposed scheme must be assigned a Project Manager. Standardised project initiation documentation is used based upon project management methodologies. As a result, new projects focus on the benefits they can deliver through the measurable project outcomes, not just time and cost.

11. Business cases are created and scrutinised by the Finance Team to ensure all financing, capital and revenue expenditure and income implications have been considered across the lifecycle of the investment, with appropriate levels of sensitivity analysis surrounding key assumptions. If required, external expertise will be sought to provide specialist support such as VAT and governance advice. Outline risk registers are included and scrutinised by Internal Audit, Finance and Service Managers.

12. New proposals along with the business cases are reported to Senior Management Team (SMT) to ensure schemes are compliant with the council's overall strategic objectives.

The role of SMT is to ensure that new proposals are not considered in isolation but rather considered alongside existing schemes and other new proposals. In doing this SMT ensures the council's corporate priorities are driving future capital investment. For example, the council's Medium-Term Financial Strategy includes the ambition to create future efficiency savings, contract savings and income generation, as well as benefitting residents and local communities. Projects that are brought forward to SMT must meet one or more of these objectives.

Affordability, Prudence and Sustainability

13. The Prudential Code requires that the Authority shall ensure that all capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact on the Council's overall fiscal sustainability.

14. The Authority is required to make reasonable estimates of the total capital expenditure that it plans to incur in the forthcoming financial year and at least the following two financial years.

15. The capital programme has been reprofiled at Quarter 3 in 2023/24 and the current position is outlined in Table 1;

Table 1: Capital Programme 2023/24 to 2026/27

Directorate	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
An Enterprising Economy With Vibrant Local Centres In Urban and Local Areas	9.370	12.181	0.952	0.300	22.803
Green And Sustainable Borough	0.784	1.788	0.000	0.000	2.572
Housing Where Residents Live Well	5.299	5.479	0.875	0.875	12.528
Healthy, Safe and Engaged Communites	0.369	0.000	0.000	0.000	0.369
Total Capital Expenditure	**15.822**	**19.448**	**1.827**	**1.175**	**38.272**
Developer Contributions (s106 & CIL)	2.128	1.955	0.000	0.000	4.083
Grants	1.291	2.560	0.775	0.775	5.401
Reserves & Revenue Contribution	0.821	0.070	0.000	0.000	0.891
Capital Receipts	0.125	7.400	0.000	0.000	7.525
Prudential Borrowing	11.458	7.463	1.052	0.400	20.373
Total Financing	**15.822**	**19.448**	**1.827**	**1.175**	**38.272**

16. The Capital Expenditure Prudential Indicator (Table 1) is the platform from which most Prudential Indicators of the Council are formed; this Prudential Indicator (PI) is grounded in the Council's capital programme and is a stated affordability indicator within the Prudential Code.

17. The predominantly high value projects within any capital programme means capital expenditure is a significant source of risk for any Council; the nature of these projects means they are often subject to cost variations, slippage or changes in specification.

18. Having established through the governance process that the capital programme is affordable, the monitoring of 'approved' against 'actual' is a key element of risk management which this PI is designed to assist with; quarterly monitoring, using this PI as it's cornerstone, will help sign-post where schemes are straying from expectation either in regard to cost or timeframe

19. A typical measure of affordability is to compare the council's capital financing costs (interest and MRP) to the net revenue stream (council tax, business rates, grants and new homes bonus income). An increasing percentage would mean a greater proportion of the council's funding being used to meet its debt. Table 2 provides a modified version of this ratio that also includes the net income generated through investing in income generating assets. It is correct to include this income in the net income stream as borrowing has been used to part-fund these investments. An analysis of this ratio is given below:

Table 2: Capital Financing/Net Revenue Stream

	2024/25 £m	2025/26 £m	2026/27 £m
MRP and Interest	**3.950**	**4.416**	**4.734**
Council Tax	(8.058)	(8.298)	(8.508)
Business Rates including grants for reliefs	(6.870)	(7.152)	(7.152)
Services Grant	(0.019)	(0.019)	(0.019)
Minimum Funding Guarantee	(1.624)	(1.650)	(1.650)
Revenue Support Grant	(0.127)	(0.127)	(0.127)
New Homes Bonus	(0.141)	(0.141)	(0.141)
Funding	**(16.839)**	**(17.387)**	**(17.597)**
	£m	£m	£m
Net Income* - Market Walk	(1.853)	(1.808)	(1.804)
Other Property including land and garages	(0.564)	(0.564)	(0.564)
Net Income* - Primrose Retirement	(0.360)	(0.396)	(0.393)
Net Income * - Strawberry Fields Digital Office	(0.347)	(0.371)	(0.368)
Net Income * Logistics House	(1.794)	(1.926)	(1.926)
Net Income * Strawberry Meadows	(0.700)	(0.700)	(0.700)
Net Income * - Tatton	(0.302)	(0.334)	(0.331)
Net Income * - Whittle Surgery	(0.173)	(0.173)	(0.173)
Net Income from Asset Investments	**(6.093)**	**(6.272)**	**(6.259)**
Adjusted Net Revenue Stream	**(22.932)**	**(23.659)**	**(23.856)**
Capital Financing Net Revenue Stream	**17.22%**	**18.67%**	**19.84%**

*Excludes borrowing costs that are included in the first line of the table

20. Table 2 highlights that the annual cost of borrowing is due to be **£4.734m by 2026/27**. It also outlines the additional income (net of running costs) that most of this borrowing will generate, income is expected to increase from **£6.093m in 2024/25 to £6.259m in 2026/27**. This is largely due to the increase built into the Logistics House lease. All forecast income is set at a prudent level. The opportunities and risks regarding the council's investment in income generating assets is analysed further in the 'Income Generating Activity' section of this report.

Prudence

21. The Code also states that "In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that net debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years." This is a key indicator of prudence.

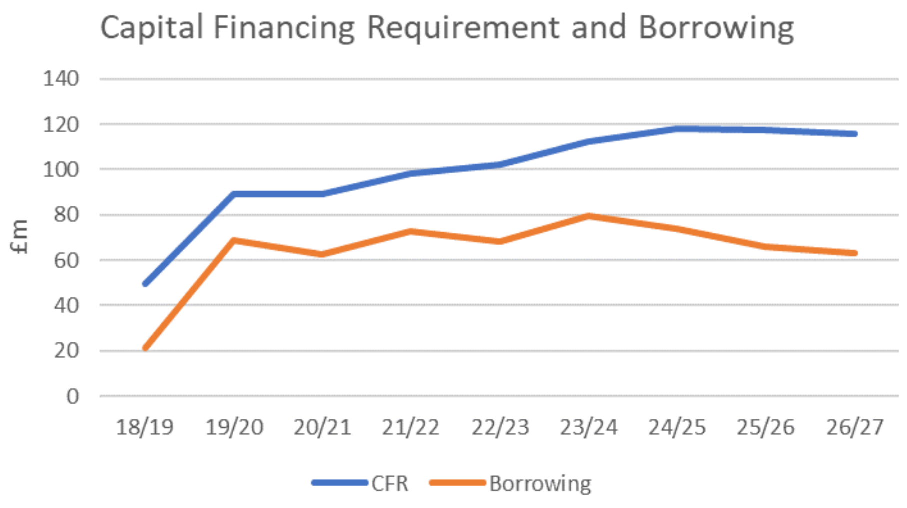
Table 3: Capital Financing Requirement 2024/25 to 2026/27

	2024/25 £m	2025/26 £m	2026/27 £m
Opening Capital Financing Requirement	**112.388**	**118.207**	**117.407**
Increase in capital financing requirement	7.463	1.052	0.400
Provision made for debt repayments	(1.644)	(1.852)	(1.919)
Closing Capital Financing Requirement	**118.207**	**117.407**	**115.888**

22. As such there is a requirement to ensure that net debt (the sum of borrowing and other long-term liabilities, net of investments) in 2024/25 does not, except in the short term, exceed £118.207m.

23. The debt outlined in Table 3 must be considered alongside the borrowing costs and income generated. Below are two charts that analyse this further.

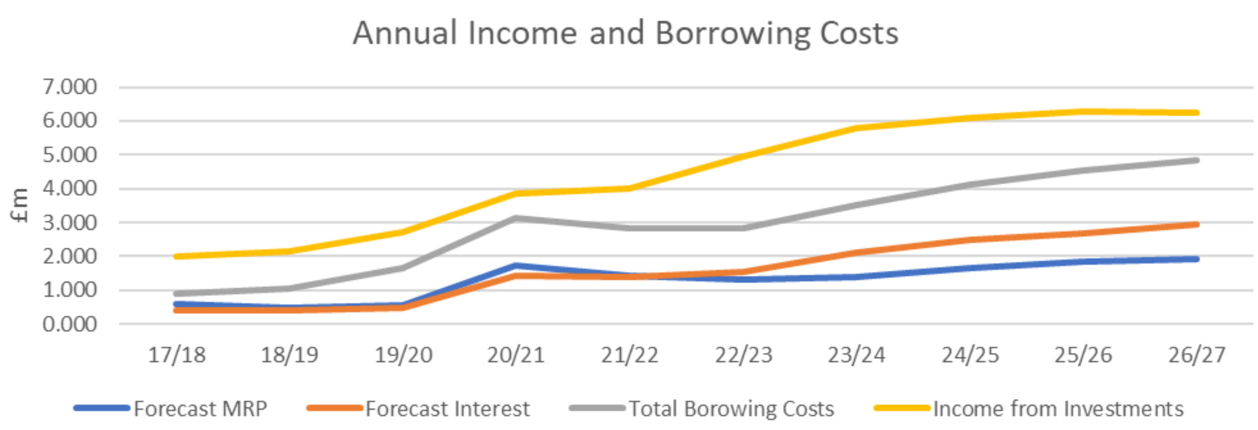
Chart 1: Council Debt – Capital Financing Requirement



24. The council's capital financing requirement in 2017/18 was approximately £49m. The requirement then gradually rises as there has been significant developments undertaken within the borough such as Market Walk Extension, Primrose Gardens and Strawberry Fields, Tatton Gardens, Strawberry Meadows. Finally, the CFR rises to over £118m, mainly due to the £33m purchase of the Logistics House site as well as borrowing to fund other large capital projects that will generate income for the council. The CFR at this point is levelling out due to major schemes all coming to an end.

25. As demonstrated by Chart 1 the council has been significantly under-borrowed in recent years and is forecast to continue this over the medium term. Future borrowing is expected to take place in the coming year that will reduce the gap between the CFR and actual borrowing.

Chart 2: Annual Income and Annual Borrowing Costs



26. The increase in debt is mirrored by an increase in borrowing however Chart 2 also emphasises how income from investments grows as well. The income from investments is net of running costs and so the gap between the total borrowing and income can be viewed as the council's annual return from borrowing. The gap between these lines is £1.4m demonstrating that the borrowing was solid investment.

27. It is proposed that the gap between total borrowing and income is included as a performance indicator in the capital strategy. As other councils do not publish this data it will not be possible to benchmark this performance indicator however the council can monitor this over time to provide assurance regarding the overall affordability of its investments. Table 4 highlights income from investments will continue to exceed borrowing costs.

Table 4: Borrowing in Excess of Investment Income

	2024/24 £m	2025/26 £m	2026/27 £m
MRP and Interest	**3.950**	**4.416**	**4.734**
Net Income from Asset Investments	**(6.093)**	**(6.272)**	**(6.259)**
Net Income in excess of Borrowing Costs	**(2.143)**	**(1.856)**	**(1.525)**

Income Generating Activity

28. This section outlines the investment in assets that has been made or will be made in the coming years that are forecast to generate net revenue to the council in the medium to long term. These investments however are made for purposes other than purely generating a yield including economic regeneration, job creation, improvements to housing standards and improving residents' enjoyment of the town centre.

29. The council has many assets that generate net income, these are summarised below.

Table 5: Summary of Net Income from Existing Assets

Directorate	2024/25 £m	2025/26 £m	2026/27 £m
Market Walk Shopping Centre	(0.938)	(0.893)	(0.889)
Other Property including land and garages	(0.553)	(0.553)	(0.553)
Primrose Gardens	(0.360)	(0.396)	(0.393)
Strawberry Fields	(0.179)	(0.203)	(0.200)
Logistics House	(0.583)	(0.715)	(0.715)
Strawberry Meadows	(0.310)	(0.310)	(0.310)
Tatton	(0.055)	(0.087)	(0.084)
Whittle Surgery	(0.034)	(0.034)	(0.034)
Total Net Income	**(3.012)**	**(3.191)**	**(3.178)**
Gross Directorate Budgets Chorley Council	**16.839**	**18.133**	**18.928**
% Net Income to Gross Directorate Budgets	**-17.89%**	**-17.60%**	**-16.79%**

30. The council's gross directorate budgets are funded by up to 18% through the income generated by these assets. The increase in net income is largely due to the increase built into the Logistics House lease.

31. It is important therefore to analyse the risk associated with the income assumed in the budget.

32. The interest rates assumed in the models are based on current PWLB rates accessible to the council. As the majority of the schemes are now operational, an increase in interest rates will not affect the returns on these investments. Increases in interest rates will however change the forecast borrowing in future years. The borrowing forecast assumes an additional £16m of borrowing over the coming four years. A 1% increase in the PWLB rate would increase borrowing costs by £160k per annum.

33. When completed all assets are brought into the council's year-end valuation cycle. All assets are valued at least every 5 years however assets will be valued if there is reason to believe its value may have changed by a material amount. The following assets are valued every year:
    - Market Walk Shopping Centre and Extension
    - Primrose Gardens Retirement Village
    - Strawberry Fields Digital Office Park
    - Logistics House site
    - Tatton Gardens

34. These assets will be valued to allow the council to compare the values of each asset to the level of outstanding debt per asset. Officers take advice from qualified RICS surveyors regarding all valuations.

Risk Appetite

35. A key element of the Capital Strategy is to define what Chorley Council's risk appetite. Chorley Borough Council is exposed to a number of investment and commercial risks:
    - **Financial risk** relating to the investment of cash, market volatility, currency markets, etc
    - **Economic risk** relating to whether the local / national economy is growing or contracting
    - **Counterparty risk** relating to investments, loans to third parties and business transactions
    - **Operational risk** arising from transactions
    - **Strategic risk** relating to the decisions taken by the council in pursuit of its corporate objectives, i.e. the purchase of major new assets.
    - **Reputational risk** relating to the adverse impact of the council's dealings
    - **Environmental** and **social risks** arising from the adverse impact of investments
    - **Governance risk** relating to the transparency and accountability of decisions and decision-makers.

36. The Council has no appetite for **reputational, governance** and **foreign currency risk**. Its approach to other risks is as follows:

- **Financial** – subject to full due diligence and appropriate external advice the council will have a moderate risk appetite for investment / expenditure on a range of asset classes, property and longer-term investments. Security and liquidity will be appropriate for the type of investment made. Income generation will prevail over capital appreciation. The Council will have no appetite for volatile or emerging market sector investments.

- **Economic** – The council will have a high-risk appetite for appropriate investments / expenditure in the Borough, it has no risk appetite for investments outside the Borough. The council will have a low appetite for interest rate risk exposure.

- **Counterparty** – the council will have a high appetite for highly rated counterparties and financial institutions and a low appetite for unsecured non-investment debt. All investments will be subject to careful due diligence and an assessment of the Council's corporate priorities and liquidity profile.

- **Operational** – the council will have a low risk appetite for all operational risk arising from factors such as: price errors, administrative errors, IT security, etc. Specific business risks are identified at business unit level and business continuity plans identify and mitigate as appropriate. There is no appetite for fraud, regulatory breaches and exceeding approved limits.

- **Strategic** – The council will have a high appetite for investments which further its corporate priorities, increase revenue streams and / or facilitate the efficient and effective delivery of core service objectives,

- **Environmental and social** – the council will have no appetite for environmental and social risk.

Knowledge and Skills

37. The council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

38. Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Director of Finance.

Significant Schemes Currently Being Delivered

39. **Bengal Street –** The Bengal Street council depot site is a prime development opportunity, also providing a 'gateway' site into the town centre from the A6. The Council has secured £1.1m of grant funding through BLRF, which supports the development of brownfield development sites and will be expended on the Bengal Street site demolition, asbestos removal and site remediation in line with the grant funding agreement.

40. **Re-location of the Bengal Street Depot –** There is an approved budget of £3.75m to relocate the Bengal Street depot to the Common Bank Industrial Estate site. The purchase of the Common Bank Industrial Estate site was finalised in 2023/24, with Phase 1 of the remediation and redesign works expected to commence in February/March 2024.

41. **Woodlands Development Site –** There is £6.567m budget committed for the Woodlands Development Site for the period 2023/24 to 2025/26. The Council will clear the derelict site and release the land for development enabling significant regeneration for Chorley.

42. **Play and Open Spaces** – There is £2.181m budget committed for the improvement of Play and Open spaces within the borough for the period 2023/24. There are a number of larger schemes within this budget £900k for King George V Playing Fields, £279k for Wigan Lane Playing Fields and £743k for Jubilee Recreation Ground. The remaining budget will be used to further improve sites such as new play equipment, surfacing and wildflower planting at different sites throughout the borough.

Chorley Council's Future Capital Investment Ambition

43. The council's ambition to invest within the borough stretches beyond the time scales of its approved capital programme. The council will invest to deliver efficiency saving, generate additional income to be reinvested in services and invest to support local residents and communities. Future ambitions of the council's capital programme are outlined further below.

Investment Sites

44. The Council regularly reviews sites to bring forward for employment. The Strawberry Meadows site is now operational and there are no new investment schemes currently approved in the capital programme. When these are brought forward appropriate budgets will be agreed.

45. The Council has successfully secured £20m from the Government's Levelling Up Fund for the regeneration of Chorley Town Centre. The schedule of works are the scheme are yet to be finalised and added to the capital programme. It is intended that this scheme will reshape and refresh the town centre as well as providing long term benefits such as

regeneration of these areas, creation of community and multiuse spaces for residents to enjoy, accommodation, business and employment opportunities.

Investing to Generate Efficiency Savings

46. The council's Medium-Term Financial Strategy identifies a further £0.747m revenue budget efficiency savings to be realised by 2025/26. These savings will come through reduced revenue budgets and additional income generation. The council's Corporate Strategy recognises the need to invest in services to deliver these savings. These investments will include the following:

47. The council's ambition is to consolidate its portfolio of offices to reduce costs and improve efficiency across its services. There is budget of £1.3m in the capital programme to modernise its operational properties and a further £1.6m for the decarbonisation of the Town Hall.

48. The council's Housing Strategy outlined the council's commitment to improve the quality of housing, to meet the changing needs of our residents and to rebalance the housing market. The council manages a wide portfolio of housing including sheltered accommodation, affordable housing and extra care. To build on this success the council has invested a further £2m for the acquisition of affordable residential properties.

49. Leisure Centres – the council now manages its leisure centres and is investing in renovating sites to improve the customer experience as well as maximising the commercial income to the council. The £695k restoration works at Brinscall Baths have now commenced and further Leisure Centre improvements that are yet to be confirmed have been reprofiled to 2024/25.

50. The investment outlined above emphasises the council's ambition to utilise capital expenditure to drive forward efficiencies as well as commercial opportunities for the benefit of its residents and council tax payers. Further opportunities are and will be considered with funding identified to continue this ambition.

Recommendations

51. It is recommended that the prudential indicators outlined in Table 7 are approved as part of the 2024/25 budget.

52. It should be noted that these performance indicators are specific to Chorley Council due both to its composition of funding and its unique level of commercial activity. As such these cannot be benchmarked effectively against other council's indicators. The indicators can however be monitored over time. As such it is proposed that these performance indicators will be monitored, reported and, where necessary adjusted, every six months. They will be reported to Governance Committee and Full Council.

Table 6 – Prudential Indicators 2024/25 to 2026/27

Indicator	2024/25	2025/26	2026/27
Estimated Capital Expenditure (Table 1) £m	19.448	1.827	1.175
Capital Financing/Net Revenue Stream (Table 2) £m	17.22%	18.67%	19.84%
Forecast Capital Financing Requirement (Table 3) £m	118.207	117.407	115.888
Investment Income in Excess of Borrowing (Table 4) £m	(2.143)	(1.856)	(1.525)
% Net Income to Gross Directorate Budgets (Table 5)	17.89%	17.60%	16.79%