Appendix E1: Capital Strategy 2023/24

1. Introduction

1.1. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance understanding of these technical areas.

1.2. Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

2. Capital Expenditure and Financing

2.1. Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that 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.

2.2. The council committed to a new Corporate Asset Strategy in March 2020, which is currently being reviewed. The strategy aims to establish a bold new approach that ensures investment is directly linked to core council ambitions around fairness and community wealth building. It is designed to deliver a strategic, long-term approach to managing and enhancing our community asset base.

2.3. The overarching aim of the strategy is to ensure that these assets are held in the most efficient and compliant manner, ensuring they are fit for purpose to provide council services with the accommodation needed and support the wider strategies for our community.

2.4. As part of the ongoing work to formulate the strategy it is necessary to build an in depth understanding of our portfolio. As such a data collection, review and assessment of the assets is underway. This encompasses legal issues including tenure, landlord and tenant obligations and potential risks and liabilities. The financial implications of owning and occupying these assets and an understanding of the budgets required to operate and maintain them. It will also include a review of each services property needs to ensure the portfolio can be capable of delivering the correct space.

2.5. The asset register has been reviewed and established. This has formed the basis of the second annual independent valuation which has recently been completed.

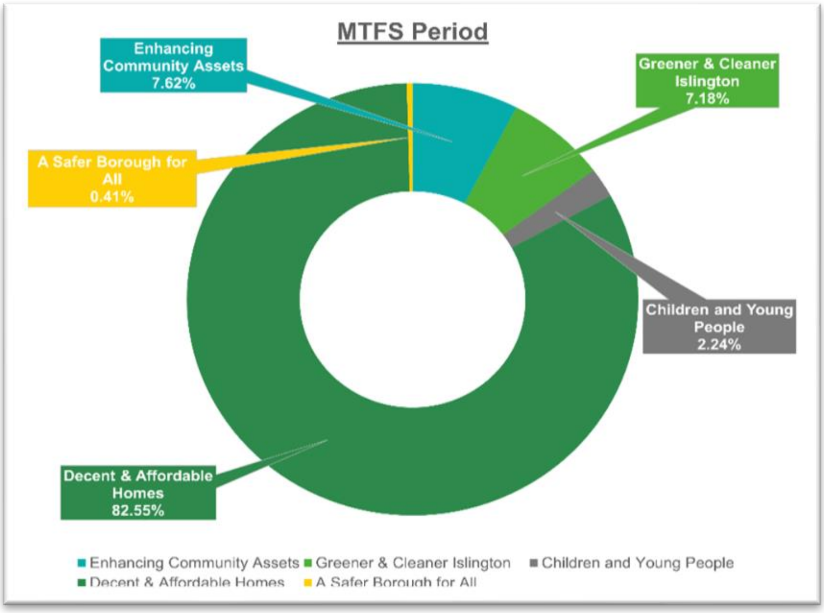
2.6. The portfolio is currently being subjected to a full stock condition survey and where necessary measured survey to identify wants of repair and produce a costed Planned Preventative Maintenance programme. Additionally, all compliance requirements are being checked to ensure that these are valid and where gaps maybe discovered they can be rectified accordingly.

2.7. In 2023/24, the Authority is planning capital expenditure of £209m as summarised below. Full details of the authority's capital programme are found at Appendix D1:

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

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year Budget £m	2026/27 - 2032/33 £m	Total 10 Year Budget £m
General Fund services	28.771	45.680	79.083	103.999	74.428	**257.510**	473.901	**731.411**
Council housing (HRA)	99.498	119.456	130.838	142.856	139.507	**413.201**	751.970	**1165.171**
TOTAL	128.269	165.136	209.921	246.855	213.935	**670.711**	**1225.871**	**1896.582**

2.8. The capital programme will deliver £670m of capital investment over the next three years to support the achievement of council objectives. Key projects contributing to these objectives are summarised below along with spend over the next three years.



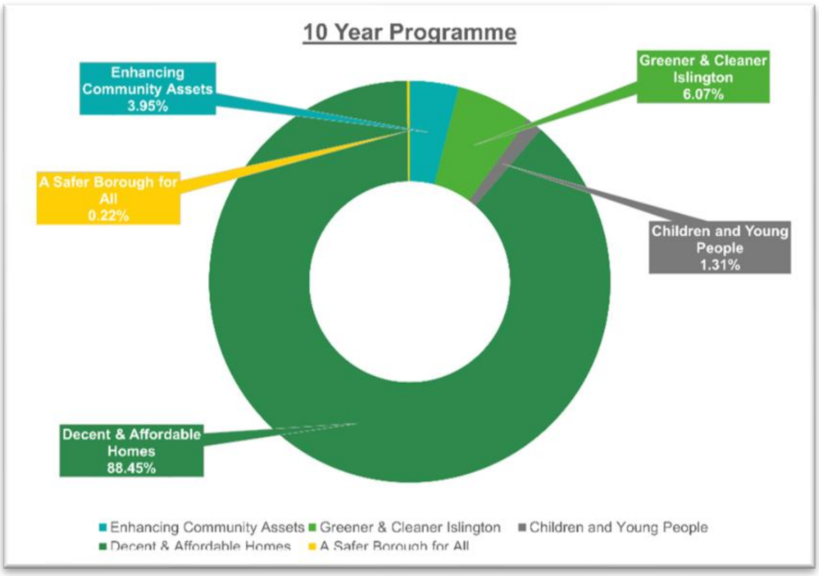


Table 2: Decent and Genuinely Affordable Homes for All

Priority	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	2026/27 – 2032/33 Budget £m	Total 10 Year Programme £m
Housing New Build Programme	93.186	82.981	106.643	115.844	**305.468**	743.700	**1049.168**
Housing Major Works and Improvements Programme	40.006	63.570	76.070	77.309	**216.949**	380.120	**597.069**
Finsbury Leisure Centre	0.927	5.921	22.507	2.837	**31.265**	0.000	**31.265**
Decent and Genuinely Affordable Homes for All	**134.119**	**152.472**	**205.220**	**195.990**	**553.682**	**1123.820**	**1677.502**

- Housing New Build Programme – the continuation of our major programme of investment in new social housing in Islington. - £305m (over the next 3 years)
- Housing major works and improvements programme - ongoing investment in council homes and estates, including cyclical improvements, mechanical and electrical works, fire safety and energy efficiency improvements - £217m (over the next 3 years)
- New investment to support the redevelopment of Finsbury Leisure Centre, delivering new affordable housing, a new leisure centre and medical centre, and other significant community benefits - £32m (over the next 3 years)

Table 3: Children and Young People

Priority	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	2026/27 - 2032/33 Budget £m	Total 10 Year Programme £m
Adventure Playgrounds	1.226	0.202	0.539	0.000	**0.741**	0.000	0.741
Early Years, Schools, Youth and Play Provision	4.520	11.048	3.013	0.233	**14.294**	9.800	24.094
Children and Young People	**5.746**	**11.250**	**3.552**	**0.233**	**15.035**	**9.800**	**24.835**

Table 4: A Safer Borough for All

Priority	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	26/27 - 32/33 Budget £m	Total 10 Year Programme £m
A Safer Borough for All	**1.000**	**1.200**	**1.554**	**0.000**	**2.754**	**1.400**	**4.154**

- Upgrade to the council's core CCTV network and investment in CCTV-enabled vehicles to increase coverage for hot spots.

Table 5: A Greener and Cleaner Islington

Priority	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	26/27 - 32/33 Budget £m	Total 10 Year Programme £m
Net Zero Carbon Strategy	5.644	7.559	3.596	3.126	14.281	42.660	56.941
Vehicle Electrification	2.390	0.999	1.258	0.000	2.257	1.953	4.210
People Friendly Streets and School Streets	1.869	4.005	5.153	3.252	12.410	14.150	26.560
Public Toilets, Parks, Open Spaces, and Leisure Facilities	3.558	9.013	5.773	0.095	14.881	0.781	15.662
Other Schemes	2.593	1.802	1.250	1.250	4.302	7.500	11.802
A Greener and Cleaner Islington	**16.054**	**23.378**	**17.030**	**7.723**	**48.131**	**67.044**	**115.175**

- Continuing investment to support the council's Net Zero Carbon strategy.
- Vehicle electrification charging infrastructure and replacement of vehicles.
- People Friendly Streets and School Streets – borough-wide programmes to reduce car trips and improve neighbourhoods for walking, cycling, and living.
- Investment in the borough's public toilets, parks, open spaces, and leisure facilities.

Table 6: Enhancing Community Assets

Priority	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	26/27 - 32/33 Budget £m	Total 10 Year Programme £m
Compliance, Modernisation, Refurbishment and Accessibility Works	6.107	6.356	6.300	3.500	**16.156**	9.120	**25.276**
Highway Infrastructure	1.449	1.400	1.400	1.400	**4.200**	8.400	**12.600**
S106/CIL Projects	0.194	4.924	5.000	2.209	**12.133**	0.000	**12.133**
Other Schemes	0.467	8.941	6.799	2.880	**18.620**	6.287	**24.907**
Enhancing Community Assets	**8.217**	**21.621**	**19.499**	**9.989**	**51.109**	**23.807**	**74.916**

2.9. In addition to these programmes, the capital programme will support the effective management of Islington's infrastructure and estate. This includes:

- Structural maintenance of the highway infrastructure including carriageways, footways, and drainage.
- Compliance and modernisation improvements to deal with urgent property compliance issues.
- Use of Community Infrastructure Levy and S106 payments to make targeted investment across the borough spending decisions led and managed by local ward councillors.

2.10. The capital programme also includes the council's £10m investment in its Thriving Neighbourhoods Programme. This is a capital investment programme of improvement works over a three-year period. The programme supports the council's drive to empower communities to make decisions about their local area and allows local people to put forward their ideas for improving shared spaces on estates, with the council funding and implementing the approved projects.

These might include:

- Cycle storage facilities
- Improved play facilities, such as equipment for children with disabilities.
- New and improved recycling bins, with disabled access
- Outdoor gyms
- New outdoor seating areas where communities can come together
- Improved landscaping to make estates more attractive and environmentally friendly
- Improved security
- Community centre (estate based) improvements
- Thriving Neighbourhood profile

Scheme	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	26/27 - 32/33 Budget £m	Total 10 Year Programme £m
Thriving Neighbourhood	**0.120**	**3.500**	**3.500**	**2.880**	**9.880**	**0.000**	**9.880**

2.11. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes commitment to building of 750 new homes by 2027.

Governance

2.12. Oversight and governance of the capital programme is supported by a comprehensive framework of advisory boards with member and officer involvement:

- The **Corporate Asset Delivery Board** (CADB), comprised of officers and members, is accountable for the overall delivery of the corporate asset strategy, with oversight of all material asset and capital related decisions. It reviews the 10-year capital strategy and supporting annual programmes, subject to formal budget approval.
- The Major Projects Board, comprised of officers, is accountable for initiating and monitoring delivery of significant mixed-use developments including those led by development partners, as well as smaller but complex schemes cutting across different directorates and/or with complex stakeholder management issues.
- The Housing Delivery Board, comprised of officers and members, integrates governance of new homes delivery and major works across the council's existing stock.
- The Borough Investment Panel, comprised of officers and members, is accountable for recommending approval of all CIL/s106 investment decisions and spend oversight.
- A series of Directorate level programme delivery boards, comprised of officers, are accountable for all other asset development and capital programme activity and linked to wider Directorate governance arrangements.

2.13. In relation to the annual capital programme, service managers submit capital submission bid requests annually to include projects in the authority's capital programme. Bids are collated by corporate finance who calculate the financing cost (which can be nil if the project is fully externally financed) and assess the overall affordability of the capital programme. This includes an assessment of the revenue implications of the projects as part of the revenue budget setting process.

2.14. An assurance and prioritisation exercise is then undertaken, assessing capital projects against their contribution to council priorities and their deliverability. The prioritisation process supports the council in making decisions about which project to progress, especially in an environment of challenging financial resources. All bids are appraised at Corporate Management Board who then make recommendations to members. The final capital programme is then presented to the Executive in January and to council in February/March each year.

2.15. For full details of the Authority's capital programme **see Appendices D1 and D2.**

2.16. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative).

2.17. The main sources of capital funding the council uses are summarised below:

- Capital Grants: predominantly government grants and are usually provided to the council for the specific use of funding capital expenditure for certain schemes and programmes (e.g. Department for Education funding for schools' condition works).
- Section 106/CIL: developer contributions towards infrastructure; Section 106 contributions relate to specific projects and outcomes.
- Capital receipts: 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 primarily generates capital receipts from the open market sale homes used to finance the building of the council homes.
- Other capital contributions: specific contributions received for projects from third parties who may have a specific output or benefit achieved through the capital works the council is providing (e.g. landlord/tenant contributions to modernisation works).
- Revenue contributions: direct revenue contributions towards capital expenditure, a minimal source of funding due to pressures on the revenue budget.
- HRA Reserves: direct funding from the HRA to support its capital programme through the use of the Major Repairs Reserve and revenue contribution to capital works.
- Borrowing: typically, Public Works Loan Board (PWLB) loans to support capital expenditure. This form of capital funding has revenue implications (i.e. interest and provision to pay back loan) which are accounted for as part of the budget setting process.

Table 7: Capital financing (£m)

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	Total 3-Year MTFS Budget £m	2026/27 - 2032/33 Budget £m	Total 10 Year Programme £m
General Fund								
Capital Grant	5.870	5.026	7.254	1.515	0.000	**8.769**	9.800	**18.569**
S106/ CIL/Third Party	1.260	3.698	12.069	11.971	2.209	**26.249**	0.869	**27.118**
Capital Receipts	0.000	11.788	12.608	22.914	5.076	**40.598**	461.862	**502.460**
General Fund Borrowing	21.641	25.168	46.247	66.099	67.143	**179.489**	-0.130	**179.359**
Revenue Contribution	0.000	0.000	0.905	1.500	0.000	**2.405**	1.500	**3.905**
Total General Fund	**28.771**	**45.680**	**79.083**	**103.999**	**74.428**	**257.510**	**473.901**	**731.411**
HRA								
Revenue Contribution	46.604	7.226	13.590	6.862	10.000	**30.452**	69.732	**100.184**
Capital Receipts	0.962	30.397	46.314	35.648	41.897	**123.859**	232.327	**356.186**
S106/CIL	3.323	1.212	6.718	4.090	2.880	**13.688**	0.000	**13.688**
Grants	15.163	7.783	0.000	0.000	0.000	**0.000**	0.000	**0.000**
Housing Revenue Account Reserves	33.445	30.228	38.872	35.593	31.959	**106.424**	245.000	**351.424**
Housing Revenue Account Borrowing	0.000	42.610	25.345	60.663	52.771	**138.779**	204.911	**343.690**
Total HRA	**99.498**	**119.456**	**130.838**	**142.856**	**139.507**	**413.202**	**751.970**	**1165.172**
Total	**128.269**	**165.136**	**209.921**	**246.855**	**213.935**	**670.712**	**1225.871**	**1896.583**

Commercial and Market Risks

2.18. The largest risk in relation to capital financing relates to capital receipts, of which the council expects to generate £58.922m in 2023/24. All these projected capital receipts are from the open market sales of housing and are intrinsically linked with the housing new build capital programme. Given present economic conditions there is uncertainty around the timing and value of these receipts. To mitigate these risks the council maintains a regular review of the property market and has been prudent in its financial assumptions. For instance, property prices are modelled at today's prices, excluding any inflation uplift. Timing delays can largely be managed using HRA reserves. In the event of a decrease in projected capital receipts, the new build programme would need to be re-assessed in line with the overall available funding.

Table 8: Capital Receipts

Capital Receipts	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget- £m	Total 3-Year MTFS Budget £m	26/27 - 32/33 Budget £m	Total 10 Year Programme £m
Right To Buy (Gross)	0.959	12.026	17.443	20.055	24.704	**62.202**	162.088	**224.290**
Open Market Sales	0.000	23.337	28.279	24.541	22.269	**75.089**	532.101	**607.190**
Non-Right to Buy Sales	0.004	6.822	13.200	13.966	0.000	**27.166**	0.000	**27.166**
TOTAL	**0.962**	**42.185**	**58.922**	**58.562**	**46.973**	**164.457**	**694.189**	**858.646**

2.19. Other commercial risk is supply chain risk. The financial health of our current suppliers need to be assessed regularly to minimise the risk of supplier insolvency which will have significant impact on the delivery and affordability of the projects. Due to cost-of-living crisis, many suppliers are in difficult situations, and it is important that robust contract management strategies are in place to highlight any potential issues. The rate of supplier insolvency, especially in the construction industry has been the highest seen in a decade according to the Department for Business, Energy and Industrial Strategy, with a total of 4,039 registered as insolvent in the year to October (Ft.com – Jan 2023). To mitigate the risk of supplier insolvency, all current and future contracts are being reviewed by the Assurance Team and Finance and the correct indexation is applied, ensuring value for money but also supporting the supplier. All new tenders are subject to financial appraisal, making sure companies certify the 'Going Concern' requirement. Finance and Procurement (Supplier Assurance) teams are currently working on a process of conducting regular reviews of key suppliers to make sure they are viable.

Interest Rate

2.20. Interest rates have been rising over the last year and the latest 30 -year rate is 4.85% (5th Jan 2023-PWLB). This is an increase of 1.85% compared to last year. This has a significant impact on Capital programme as borrowing is a significant proportion of our capital financing.

Current schemes such as Vorley Road are showing a deficit of £3.6m due to an increase of 1.5% in interest rate (3% vs 4.5%). This is equivalent to a pressure of £2.4m for every 1% increase interest rate for such scheme. To mitigate this risk, all current and future programmes were reviewed and re-prioritised to accommodate our affordability envelope. This resulted in splitting the programme into two categories: Pipeline and non-pipeline (Reserve List) schemes. The non- pipeline schemes have been included in the budget report as these represent essential schemes while the pipeline schemes are included as a reserve list. These schemes are at early stages and don't have an adverse impact on the Council's strategy. This exercise was done collaboratively with officers and members. For full details of the Authority's capital programme see **Appendices D1**(non-pipeline) and **D2** (pipeline).

Inflation

2.21. There is a significant risk that inflation will continue to rise as the cost of materials and labour shortages increases due to the war in Ukraine. The current consultancy's UK tender price index rose at annual rate of 10.7% in the last quarter of 2022 and is forecast to continue rising (ft.com – Jan 2023). The Construction Products Association (CPA) is forecasting a 3.9% fall in construction output mainly in commercial and Local authority demand. This is due to increase in construction prices (+15% in October 2022 compared to previous year) due the war in Ukraine and the fact that suppliers are on fixed term contracts which are unviable. Current major schemes assume inflation of +6.7% (BCIS index) at tender stage and 4.9% at mid-point construction (Finsbury Leisure and Residential Project). An increase inflation of 1% will equate to about £6.7m additional costs to the capital programme. To mitigate this risk, each project has prudent contingency set aside. Depending on the scheme and after allowing for project specific risk, the minimum contingency is 20% of total project costs. The cost of each scheme is also monitored regularly and any changes to the project costs are reported. There is a significant risk of current programmes becoming unaffordable if inflation continues to rise at the current.

Project risks

2.22. These are risks that relate to the delivery of the projects and include delays in delivering the projects due to unforeseen circumstances. The capital schemes are monitored monthly and any variations to the budget are highlighted and mitigation actions are put in place.

2.23. The council has continued to increase project manager capacity as the programme grows ever larger however it is still necessary to apply a central reprofiling adjustment to consider the macro impact of the delivery risks and broadly reflecting prior performance. This has been applied recognising the further into the future, the greater the risk to delivery timing. As such, expenditure in Year 1 is assumed to slip by 35%, Year 2 by 45% and Year 3 by 55% (based on previous performance). These adjustments are made to the bottom line of the capital programme and not a scheme-by-scheme basis. Some schemes will spend to accelerated timescales whereas others will slip. The table below shows an indicative capital expenditure after applying slippage adjustments.

Table 9: Indicative Capital Expenditure including Slippage Adjustments

Area of Programme	2023/24 £m	2024/25 £m	2025/26 £m	2023/24 to 2025/26 Total £m	2026/27 to 2032/33 £m	Total 10 Year £m
CWB	32.286	39.383	8.779	**80.448**	20.207	**100.655**
Environment	27.084	20.759	9.123	**56.966**	81.844	**138.810**
Total Non-Housing	**59.370**	**60.142**	**17.902**	**137.414**	**102.051**	**239.465**
Housing - GF	19.713	43.857	56.526	**120.096**	371.850	**491.946**
Housing - HRA	130.838	142.856	139.507	**413.201**	751.970	**1,165.171**
Total Housing	**150.551**	**186.713**	**196.033**	**533.297**	**1,123.820**	**1,657.117**
Total	**209.921**	**246.855**	**213.935**	**670.711**	**1,225.871**	**1,896.582**
Slippage in	0.000	73.472	144.147	**0.000**	196.945	**0.000**
Slippage Out (35%, 45%, 55%)	(73.472)	(144.147)	(196.945)	**(196.945)**	(782.549)	**(782.549)**
Revised Budget	**136.449**	**176.180**	**161.137**	**473.766**	**640.267**	**1,114.033**

2.24. 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 and use of capital receipts are as follows:

Table 10: Replacement of prior years' debt finance (£m)

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Minimum revenue provision (MRP)	3.222	4.206	5.178	6.237	7.845
Repayment of PFI/Leases	12.346	4.597	4.454	4.872	5.272
TOTAL	**15.568**	**8.803**	**9.632**	**11.109**	**13.118**

2.25. Each year the council is required to agree a MRP policy for the 'prudent' annual repayment of debt associated with the financing of capital expenditure. The guiding principle of the regulations and statutory guidance is that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure which gave rise to the debt provides benefits.

2.26. Since 2017/18, the council has adopted the asset life (annuity) method (based on a prudent assessment of average asset life). In calculating the asset life (annuity) MRP, the average interest rates published by the Public Works Loans Board in the relevant financial year for new annuity loans will be used. Based on this policy, the estimated MRP in 2022/23 is £4.206m.

2.27. The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, and capital receipts used to replace debt. The CFR is expected to increase by £58m during 2023/23. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 11: Prudential Indicator: Estimates of Capital Financing Requirement (£m)

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget *	31.3.2026 budget
General Fund services	183.508	204.470	229.353	270.290	313.017
Council housing (HRA)	442.261	484.871	501.345	544.640	584.388
PFI Liabilities	84.024	79.427	74.973	70.101	64.829
TOTAL CFR	**709.793**	**768.768**	**805.671**	**885.032**	**962.234**

Asset management:

2.28. The council committed to a new Corporate Asset Strategy in March 2020, which is currently being reviewed. The strategy aims to establish a bold new approach that ensures investment is directly linked to core council ambitions around fairness and community wealth building. It is designed to deliver a strategic, long-term approach to managing and enhancing our community asset base.

2.29. The overarching aim of the strategy is to ensure that these assets are held in the most efficient and compliant manner, ensuring they are fit for purpose to provide council services with the accommodation needed and support the wider strategies for our community.

2.30. As part of the ongoing work to formulate the strategy it is necessary to build an in depth understanding of our portfolio. As such a data collection, review and assessment of the assets is underway. This encompasses legal issues including tenure, landlord and tenant obligations and potential risks and liabilities. The financial implications of owning and occupying these assets and an understanding of the budgets required to operate and maintain them. It will also include a review of each services property needs to ensure the portfolio can be capable of delivering the correct space.

2.31. The asset register has been reviewed and established. This has formed the basis of the second annual independent valuation which has recently been completed.

2.32. The portfolio is currently being subjected to a full stock condition survey and where necessary measured survey to identify wants of repair and produce a costed Planned Preventative Maintenance programme. Additionally, all compliance requirements are being checked to ensure that these are valid and where gaps maybe discovered they can be rectified accordingly.

3. Treasury Management

3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority’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 Authority 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.

3.2. Due to decisions taken in the past, the Authority currently has £265.606m borrowing at an average interest rate of 4.0% and £80.2m treasury investments at an average rate of 2.5%.

Borrowing strategy

3.3. The Authority'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 Authority therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

3.4. In the current environment of higher interest rates, it is prudent for the Authority to consider a mix of both variable and fixed interest rates. For any new loans in 2023/24 variable rate borrowing may be considered alongside fixed rate borrowing, as long as the interest rate and economic environment remains supportive.

3.5. The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

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

Table 12: Prudential Indicator: Gross Debt and the Capital Financing Requirement (£m)

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Debt (incl. PFI & leases)	358.298	396.845	411.831	488.761	565.141
Capital Financing Requirement	709.793	768.768	805.671	885.032	962.234

3.7. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen, the Authority expects to comply with this in the medium term.

Liability Benchmark

3.8. To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to £10m at each year-end. This benchmark is currently £158m and is forecast to rise to £285m over the next three years.

Table 13: Borrowing and the Liability Benchmark (£m)

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Outstanding borrowing	274.274	265.606	242.545	213.877	195.209
Liability benchmark	**158.774**	**308.006**	**345.848**	**432.277**	**512.809**

3.9. The table shows that the Authority expects to remain borrowed above its liability benchmark. This is because cash outflows to date have been below the assumptions made when the loans were borrowed.

Affordable borrowing limit

3.10. The Authority 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 14: Prudential Indicators: Authorised limit and operational boundary for external debt

	2022/23 Limit £m	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m
Authorised limit - borrowing	463.526	533.860	635.693	615.389
Authorised limit - PFI & Leases	88.461	79.973	75.101	69.829
Authorised limit - total external debt	**551.987**	**608.833**	**705.795**	**680.218**
Operational boundary - borrowing	413.526	383.393	509.130	590.632
Operational boundary - PFI & Leases	83.461	74.973	70.101	64.829
Operational boundary - total external debt	**496.987**	**458.366**	**579.231**	**655.461**

Treasury investment strategy

3.11. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

3.12. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is 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. Money that will be held for longer terms is invested more widely, including in bonds, 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 Authority may request its money back at short notice.

Table 15: Treasury management investments (£m)

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Near-term investments	115.500	80.000	57.000	48.000	40.000
Longer-term investments	10.000	10.000	10.000	10.000	10.000
TOTAL	**125.500**	**90.000**	**67.000**	**58.000**	**50.000**

3.13. Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

3.14. Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Resources and staff, who must act in line with the treasury management strategy approved by council. The audit committee is responsible for scrutinising treasury management decisions.

4. Investments for Service Purposes

4.1. The authority makes investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth, the authority's subsidiaries that provide services. In light of the public service objective, the authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs.

4.2. Total investments for service purposes are currently valued at £1.8m with the largest being soft loans to employees of £1.104m providing a net return after all costs of 0%. This also includes loans to and equity investments in**:**

- Islington Limited (iCo), a wholly owned subsidiary providing local services, a loan of £0.05m;
- Three private companies responsible for managing schools under the Building Schools for the Future programme (a loan of £0.642m);
- A local charity (a loan of £0.084m);
- Equity investment in a private company responsible for managing schools under the Building Schools for the Future programme (fair value of £0.099m)

4.3. Governance: Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

4.4. Further details on service investments can be found within the Investment Strategy at **Appendix E3.**

5. Commercial Activities

5.1. The council hold investment property (value of £39.3m as at 31/03/2022) in order to generate income to spend on services in Islington. The council has consistently taken a prudent approach to this – no new commercial properties have been purchased in recent years and there are no current plans to invest in commercial properties over the medium term. In November 2020 PWLB guidance was updated and PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The authority intends to avoid this activity in order to retain its access to PWLB loans.

5.2. The council also has a wholly owned subsidiary – Islington Limited (iCo), the purpose of which is to trade for profit with public bodies, private organisations and members of the public to provide a return to the council. The services provided by iCo are in activities related to municipal functions in which relevant expertise is held (for instance Commercial Waste, Tree Maintenance and Memorials). The council has loaned iCo £0.050m, which is due to be repaid in 2022/23

5.3. Decisions on commercial investments are to be made by senior officers in line with the criteria and limits approved by council in the Investment Strategy. Property and most other commercial investments are also capital expenditure.

5.4. Further details on commercial investments and limits on their use are available in the Investment Strategy (**Appendix E3).**

6. Liabilities

6.1. In addition to debt of £397m detailed above, the authority is committed to making future payments to cover its pension fund deficit (£249m as at the last valuation setting contributions – 31st March 2019). The council has also set aside provisions to cover probable liabilities that can be measured reliably. The most significant of these are the NNDR appeals provision (£11.1m as at 31/03/2022 in terms of the council's share, £33.2m in total including the central government and GLA shares) and the insurance fund provision (£16.4m as at 31/03/2021). The insurance fund provision covers anticipated liabilities for Errors and Omissions, Libel and Slander, Motor (Third Party), Employers' Liability, Public Liability, Fire and other risks – up to a specific limit for any one claim. External policies cover claims in excess of these limits.

6.2. Governance: Decisions on incurring new discretional liabilities are taken by service managers in consultation with the Director of Finance and Director of Resources/Section 151 Officer. The risk of liabilities crystallising and requiring payment is monitored by corporate finance and reported as part of the annual closing of accounts process and as appropriate during the financial year. Corporate risks and risk management are also reported to Executive.

6.3. Further details on liabilities and guarantees in the 2021/22 statement of accounts.

7. Revenue Budget Implications

7.1. 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 16: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	4.778	4.654	11.047	10.032
Proportion of net revenue stream	1.8%	1.8%	4.3%	3.9%

7.2. Sustainability: 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 many years into the future. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because revenue costs of borrowing have been fully incorporated in the 2023/24 revenue budget and MTFS. Additionally, the council is moving towards the development of a ten-year capital programme, and indicative requirements to 2032/33 are known. This enhanced long term budgetary planning will continue to be developed.

8. Knowledge and Skills

8.1. The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Authority pays for junior staff to study towards relevant professional qualifications including CIPFA (Chartered Institute of Public Finance and Accountancy).

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