Inverclyde council

AGENDA ITEM NO: 6

Report To:	**Policy & Resources Committee**	**Date:**	**21 March 2023**
Report By:	**Interim Director, Finance & Corporate Governance**	**Report No:**	**FIN/17/23/AP/KJ/LA**
Contact Officer:	**Alan Puckrin**	**Contact No:**	**01475 712223**
Subject:	**Capital Strategy 2023-2033 and Treasury Management Strategy Statement & Annual Investment Strategy 2023/24-2026/27**		

1.0 PURPOSE AND SUMMARY

1.1 ☒For Decision ☐For Information/Noting

1.2 The purpose of this report is to request that the Committee remits to the Inverclyde Council, for the approval, the 2023-33 Capital Strategy and the Treasury Management and Annual Investment Strategy 2023/24- 2024/27 and specifically the following:

a) Prudential Indicators and Treasury Management Indicators, Authorised Limits for 2023/27 and Treasury Policy Limits (Section 2 of Appendix 2)
b) Policy on Environmental, Social & Governance issues for investments (paragraph 3.13 of Appendix 2)
c) List of Permitted Investments (including those for the Common Good Fund) (paragraph 3.17 and Appendix A of Appendix 2)
d) Policy on repayment of Loans Fund advances (Section 4 of Appendix 2).

1.3 Approval is also sought to remit to the Council for approval the clauses on Treasury Management and Treasury Management Policy Statement detailed in paragraphs 4.3 and 4.4 of the report.

1.4 The Capital Strategy highlights the significant challenges the Council will face in the medium term to fund the maintenance of the existing asset base and legislative requirements especially in relation to Net Zero. The Treasury Management Strategy incorporates the decision by the Council on 16 February to change the accounting treatment for service concessions which will have a material impact upon the Council’s cashflow/ Treasury Strategy, over the medium term.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee review the Capital Strategy 2023-33, note the significant financial challenges the Council faces in maintaining the existing asset base and thereafter remits the Capital Strategy to the Full Council for approval.

2.2 It is recommended that the Committee considers the contents of the report, the Treasury Management and Investment Strategy set out in the Appendix 2 and remits the report and Treasury Management and Investment Strategy to the Full Council for approval.

Alan Puckrin
Interim Director, Finance & Corporate Governance

3.0 BACKGROUND AND CONTEXT

3.1 **Capital Strategy**

The production of a Capital Strategy which is reviewed annually is a requirement of the CIPFA Prudential Code. The document requires to be considered along with the Treasury Strategy and thereafter approved by the Inverclyde Council. It is viewed as being one of the key strategic financial documents along with the Council's Financial Strategy which help govern the strategic direction for the Council's financial planning.

3.2 Over the last 15 years the Council has undertaken a significant amount of work on Asset Management Planning (AMP) and has used a combination of internal expertise and external peer review in the development of a number of AMPs. Once created, the AMPs are embedded within the Council's Corporate Directorate Improvement Plans and Capital Programme formulation process to ensure that there is a strong alignment between the Council's overarching Priorities and capital investment decisions.

3.3 The Capital Strategy emphasises the need for the Council to take a long term view when taking decisions around Capital investment and specifically to ensure that investment plans are appropriate and financially sustainable in the longer term. The annual production and updating of the Capital Strategy allied to the Treasury Strategy, Capital Programme approval and Financial Strategy will all ensure that the Council are able to take Capital investment decisions in the knowledge of these long term implications.

3.4 As at 31 March 2022 the Council owned property plant and equipment assets valued at £441million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £551million. The maintenance of such a large asset base in the context of core Capital Grant from the Scottish Government of just over £6million is not sustainable and this has been flagged during recent budget processes.

3.5 Whilst officers will continue to access capital support/grants from the Scottish Government and partner agencies, these will not be sufficient or may not be allowed, to fund core asset maintenance. Therefore, Members face a choice of either allocating significant levels of revenue resources/reserves to future capital programmes against the backdrop of the considerable revenue budget pressures, or to reduce the asset base. Officers believe that the requirements of the Net Zero agenda need to act as a catalyst for some fundamental reviews of the Council's asset base as evidenced by the recent Leisure property review and the New Ways of Working project.

3.6 **Treasury Management & Investment Strategy**

CIPFA revised the CIPFA Prudential Code and the CIPFA Code of Practice on Treasury Management in December 2021. Inverclyde Council have adopted the Code of Practice on Treasury Management and comply with the Prudential Code.

The revised codes had an immediate requirement that Councils must not borrow to invest primarily for financial return (which this Council does not do) with the following main changes to be implemented from financial year 2023/24:

a. All investments are to be attributed to either Treasury Management, Service Purposes or Commercial Purposes.
b. The risks associated with investments for Service or Commercial Purposes should be proportionate to the Council's financial capacity.
c. Councils must not borrow to invest for the primary Commercial purpose of financial return. Where financial returns arise from a project, they should be incidental to its primary purpose.
d. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt (Inverclyde Council has no commercial investments).
e. A new prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.
f. A new treasury indicator known as the Liability Benchmark is required.
g. The monitoring and reporting of all forward-looking prudential indicators is required at least quarterly and any significant deviations must be highlighted (this will be done as part of the regular Finance Service reporting to the Policy & Resources Committee)

h. The knowledge and skills required by Officers and by Elected Members is to be proportionate to the size and complexity of the treasury management conducted by the Council.
i. The Council must create new Investment Management Practices (IMP) to manage risks associated with non-treasury investments (similar to the current Treasury Management Practices - TMPs).
j. Environmental, social and governance (ESG) issues are to be addressed within the Council's treasury management policies and practices (including in TMP1).

3.7 The Local Government in Scotland Act 2003 and supporting regulations (the Act) require the Council to 'have regard to' the CIPFA Prudential Code (the Prudential Code) and the CIPFA Code of Practice on Treasury Management (the Code) to set Prudential and Treasury Indicators for at least the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.8 The Act and supporting regulations require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.9 It is a statutory requirement for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue are affordable within the projected income of the Council for the foreseeable future. The projected revenue impact of the 2023/26 Capital Programme was built into the approved 2023/24 Revenue Budget.

4.0 PROPOSALS

4.1 Capital Strategy

It is proposed that the Committee review the contents of the Capital Strategy 2023-2033 as contained in Appendix 1 and thereafter remit the Strategy to the Full Council for approval.

4.2 Treasury Management Strategy and Annual Investment Strategy

The proposed Treasury Management Strategy and Annual Investment Strategy is attached as Appendix 2 and includes:

a. Prudential Indicators and Treasury Management Indicators, Authorised Limits for 2023/27, and Treasury Policy Limits (paragraphs 2.1 to 2.14)
b. Policy on ESG issues for investments (paragraph 3.13)
c. Policy on repayment of Loans Fund advances (paragraph 4.2)
d. List of Permitted Investments (including those for the Common Good Fund) (paragraph 3.17 and Appendix A).

The Council will be requested to approve the Treasury Management Strategy and Annual Investment Strategy including indicators, policies, limits, and permitted investments.

4.3 CIPFA recommend that the following clauses from the revised Treasury Management Code are adopted by the Council:

1. This organisation will create and maintain, as the cornerstones for effective treasury and investment management:
   - a treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities
   - suitable TMPs setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
   - IMPs for investments that are not for treasury management purposes.

   The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the TM Code's key principles.

2. This organisation (ie full board/council) will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and IMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Policy and Resources Committee, and for the execution and administration of treasury management decisions to the Chief Financial Officer, who will act in accordance with the organisation's policy statement, TMPs and IMPs, and if they are a CIPFA member, CIPFA's Standard of Professional Practice on treasury management.

4. This organisation nominates the Policy and Resources Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

The Council will be requested to adopt the clauses in the paragraph above.

4.4 Further to 4.3 above, the Council has a formal Treasury Management Policy Statement as follows that is required to be approved by the Full Council:

1. This organisation defines its treasury management activities as: "The management of the authority's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

The Council will be requested to approve this Treasury Management Policy Statement.

5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO	N/A
Financial	X		
Legal/Risk	X		
Human Resources			X
Strategic (LOIP/Corporate Plan)			X
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

5.2 **Finance**

Whilst there are no direct financial implications arising from approving the two strategies it is clear the need to maintain and fund the current asset base will be a prime consideration as part of future budget rounds.

The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

5.3 **Legal/Risk**

Any borrowing or lending is done under the Council's legal powers.

The monitoring and management of risks on treasury activities (including borrowing, investments, and cash flow) is undertaken on a daily and ongoing basis in line with the Treasury Management Policy Statement approved by the Full Council and with Treasury Management Practices (TMPs) and Investment Management Practices (IMPs) produced and kept under review.

The Council has a Creditworthiness Policy (in Appendix 2) that is used to determine the types of permitted treasury investments and the criteria for investments and periods. The policy sets out the risks from each investment type (credit/counterparty risk, liquidity risk, market risk, interest rate risk, and legal and regulatory risk) and is submitted for Elected Member approval each year as part of the Treasury Strategy and Investments Strategy report.

5.4 **Human Resources**
None.

5.5 **Strategic (LOIP/Corporate Plan)**
None.

6.0 CONSULTATION

6.1 This report includes the latest advice from the Council's treasury consultants (Link Treasury Services Limited).

7.0 BACKGROUND PAPERS

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
CIPFA – The Prudential Code for Capital Finance in Local Authorities – 2021 Edition
Scottish Parliament – The Local Government Investments (Scotland) Regulations 2010 (Scottish Statutory Instrument 2010 No. 122)
Scottish Government - Finance Circular 5/2010 – The Investment of Money by Scottish Local Authorities
Scottish Parliament – The Local Government (Capital Finance and Accounting) (Scotland) Regulations 2016 (Scottish Statutory Instrument 2016 No. 123)
Scottish Government - Finance Circular 7/2016 - The Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016 – Loans Fund Accounting
Scottish Government - Finance Circular 10/2022 – Accounting for Service Concession Arrangements, Leases and Similar Arrangements

Appendix 1

Capital Strategy

2023 – 2033

Index

1.0 INTRODUCTION

1.1 The production of a Capital Strategy which is reviewed annually is a requirement of the CIPFA Prudential Code. The document requires to be considered along with the Treasury Strategy and thereafter approved by the Inverclyde Council. It is viewed as being one of the key strategic financial documents along with the Council's Financial Strategy which help govern the strategic direction for the Council's financial planning.

1.2 The traditional focus of Local Government budgeting tends to be on the Revenue Budget with the annual cycle of Grant settlements from the Scottish Government, the identification of savings and investment plans and the approval of the budget along with Council Tax in February/March. As part of this the Council will generally approve a three year Capital Programme. In recent years the capital budget has been a less contentious issue for Elected Members with the Council approving significant amounts of prudential borrowing as well as contributions form Revenue Reserves in order to deliver an ambitious Capital Programme

1.3 Details of the Council's asset base, borrowing and debt are included within the audited financial accounts considered by Members and attracts far less attention than the Revenue Budget and Reserve position. At the 31st March 2022 the Council owned property plant and equipment assets valued at £441million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £551million. Much of the investment in this Asset Base has been funded by borrowing over preceding decades. The Council's external borrowing as at 15th February 2023 was:-

PWLB Debt	£ 74.4 million
Market Debt	£101.3 million
	£175.7 million

The bulk of this debt is due to be repaid at the point that the loan matures with some £28.8 million of the PWLB Debt due to be repaid by 31st March 2033.

1.4 Allied to this the Council maintains a Loan Charges record which is an internal record of investment and is currently written down on annuity basis using the expected life span of the asset created/work carried out. For example a new school will generally be written off over 40 years whereas a roads resurfacing contract will be written off over 25 years. As at the 31st March 2023 the expected value of the Council's internal loan debt is £221.3 million. The repayment costs in 2022/23 are projected to be £17.0 million and these repayments include both Capital and Interest and are referred to as Loan Charges. It is Loan Charges which are funded by the Council's Revenue Budget.

1.5 Over the last ten years the Council has undertaken a significant amount of work on Asset Management Planning. The first Asset Management Plan related to the School Estate (the SEMP) which resulted in an ambitious and comprehensive new build and upgrade programme for the full School Estate. Thereafter asset plans were created in respect of the main leisure facilities, the roads assets, office and depot assets, ICT assets and most recently, open spaces. All Asset Management Plans are linked to the Corporate Directorate Improvement Plans (CDIPs) with delivery reported throughout the year as part of the cyclical Capital Programme updates.

1.6 The purpose of Asset Management Plans are to not only document and quantify all the assets held and their assessed condition but also create a sustainable investment plan which can then be factored into future years Capital Programmes. The creation of the Asset Management Plan will require in many cases decisions from Members regarding a whole estate investment approach which will potentially identify assets which the Council should no longer retain. This can lead to investment in fewer assets but to a higher quality. This has certainly been the case in respect of schools, offices and depots where the Council's property footprint has reduced considerably over the last 15 years with the sums saved from buildings no longer in existence reinvested in the remaining buildings and resulted in an improved estate.

1.7 A significant benefit of having long term Asset Management Plans is that it allows longer term Capital Planning and the Capital Strategy includes Investment Plans for the next 10 years. This allows the Council to identify whether it's longer term Capital Investment Plans are affordable and sustainable and provides time for corrective action to be taken.

1.8 The Council is coming to the end of a period of ambitious investment. This has seen a significant increase in the Council's Loan Fund Debt over the last 15 years and projections indicate that the Loan Fund Debt will peak at approximately £230.8 million in 2024/25. On the basis of limited prudential borrowing in future years the Loan Fund debt will reduce to around £172 million by 2032/33. Therefore, there needs to be a correlation between the reduction in the Council's internal loan debt and the repayment of the Council's external borrowing to the PWLB over the next 10-15 years.

1.9 One issue which the Capital Strategy and Treasury Strategy require to demonstrate is the affordability and sustainability of the Council's Asset Management Plans, to enable Members to see the longer term financial implications of policy and investment decisions.

1.10 Much of the affordability assessment depends on the Council's Treasury Strategy and this is also presented to the Policy & Resources Committee annually prior to the 31st March each year. The period of the Treasury Strategy is currently four years and one product of the creation of a Capital Strategy will be to better align the timescales for the Treasury Strategy, Investment Strategy and Capital Programme. Based on the projected trajectory of the Council's loans fund and external borrowing then the overall Treasury Strategy is currently to borrow on a short to medium term basis. This approach is largely influenced by the significant value of market debt held by the Council much of which was borrowed at the time of the transfer of the housing stock in 2007. The latest possible maturity date for the market loans varies from 2066-2077 although, dependent on macroeconomic changes there is always the possibility that lenders may wish to trigger repayment of their loans with the Council.

1.11 The Chief Finance Officer is supported in monitoring the Council's Capital, Treasury and Investment position by both internal officers and also the Council's Treasury Advisor with whom he meets twice per year. This external support is a vital check and balance in ensuring the Council is receiving the best possible advice and support in managing the Council's considerable asset base, borrowings and future investment plans. This enables the Chief Finance Officer to provide regular reports to the Policy & Resources Committee and the Inverclyde Council on the Council's Treasury Strategy, Treasury Annual Report and Mid-Year Report as well as frequent updates on the Capital Programme.

1.12 The Capital Strategy pulls all these aspects together and aims to provide a valuable addition to Elected Members overall understanding of the Council's finances and the wider impacts on policy choices in coming years.

2.0 GOVERNANCE AND REGULATORY FRAMEWORK

Legal and Regulatory Framework

2.1 The legal framework under which treasury management operates mainly involves:

- the Local Government (Scotland) Act 1973
- the Local Government (Scotland) Act 1975
- the Local Government etc. (Scotland) Act 1994
- the Local Government in Scotland Act 2003

and

- Regulations and statutory guidance issued under powers in the above Acts.

2.2 In addition, CIPFA issued the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, both of which were last revised in December 2021.

The Prudential Code requires Councils to ensure that capital expenditure and investment plans are affordable, that borrowing and other long-term liabilities are prudent and at sustainable levels, and that treasury management and investment decisions are taken in accordance with professional good practice. The Code requires the production and monitoring of Prudential Indicators.

The Treasury Management Code includes requirements for Councils to consider the objectives of their treasury management activities and the effective risk management of those activities. The Code requires the production of a Treasury Management Practices document which sets out how the Council will seek to achieve its treasury management policies and objectives and how it will manage and control its treasury management activities. The Code also requires that, as a minimum, the following reports be submitted to the Council each year: a treasury management strategy, a mid-year review, and an annual report after the year-end.

2.3 The main regulations and statutory guidance that apply are:

a) Local Government Capital Expenditure Limits (Scotland) Regulations 2004
These require that Councils “have regard” to the Prudential Code when determining “the maximum amount which a local authority can afford to allocate to capital expenditure”.

b) Local Government Investments (Scotland) Regulations 2010
Scottish Government Finance Circular 5/2010 was issued under these Regulations and requires the approval of annual Investment Strategies and Permitted Investments by Members as well as an Annual Report on Investments to Members within 6 months of the financial year-end.

c) The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
Scottish Government Local Government Finance Circular 7/2016 was issued under these Regulations and replaced provisions for local authority borrowing, lending and loans funds that were in the Local Government (Scotland) Act 1975. The Circular includes requirements in relation to the prudent annual charging against the Revenue Budget for the cost of capital projects (Loan Charges) and permitted methods of calculating those charges.

d) Scottish Government Local Government Finance Circular 7/2018
This Guidance replaces a Finance Circular issued in 2007 that was issued under powers in the Local Government in Scotland Act 2003. The Guidance permits accounting adjustments for some types of treasury management activities, including where Councils have incurred premiums or received discounts when refinancing PWLB loans taken out by the Council.

e) Scottish Government Local Government Finance Circular 10/2022
This Guidance replaces a Finance Circular issued in 2010 that was issued to address accounting arrangements for PFI and similar arrangements. It allows a change to the accounting treatment whereby the cost of the PFI arrangement can be accounted for over

the anticipated useful life of the asset rather than the contract life.

Governance

2.4 The Capital Expenditure budget is approved by the Council and monitored by the Policy & Resources Committee with oversight of individual projects by the Strategic Committees.

2.5 For Treasury Management, officers prepare a Treasury Management and Investment Strategy for each year (including Permitted Investments for the year, the Authorised Limit for External Debt, and the Treasury Management Policy Statement), a Mid-Year Report, and an Annual Report. These reports are submitted to the Policy & Resources Committee for review and for remission to the Full Council for formal approval, in line with the regulatory requirements above. Where the Council undertakes debt rescheduling, this is reported to the Policy & Resources Committee and the Full Council in line with agreed policy.

2.6 The cost of Treasury Management activity is included in the Revenue Budget and Budget reports to Committee as Loan Charges. Loan Charges are comprised of the annual charges for the write-off of the cost of capital projects over an appropriate period along with the interest and expenses costs from borrowing and the treasury management activities.

2.7 The Chief Finance Officer has delegated authority to make the necessary arrangements for authorised borrowing, the temporary investment of funds, and specified changes to the Treasury Management Practices. This authority is also delegated to each of the 3 Finance Managers where the Chief Finance Officer is absent (as approved by the Council on 30 November 2017). Treasury Management requirements are also included in the Council's Financial Regulations.

2.8 The Treasury Management Practices ("TMPs") is an operational document that is updated at least every 3 years and that set-out the main principles under the Treasury Management Code and how the Council will comply with those principles. The TMPs were last updated in February 2023.

Risk

2.9 Given the long timescales involved in capital investment and treasury decisions, risk is a fundamental consideration for consideration. Within the Capital Strategy, Appendix A summarises the main risks identified by officers whilst a separate analysis of Treasury Management & Investment risks is included in that document.

3.0 ASSET MANAGEMENT PLANS

3.1 A number of years ago the Council identified the need to align capital investment against the policy priorities of the Council. This resulted in the creation of a number of comprehensive Asset Management Plans (AMPs). The first Asset Management Plan related to the School Estate (the SEMP) which resulted in an ambitious and comprehensive new build and upgrade programme for the full School Estate. Thereafter asset plans were created in respect of the main leisure facilities, the roads assets, office and depot assets, ICT assets and most recently, open spaces.

3.2 Over the last 15 years the Council has undertaken a significant amount of work on Asset Management Planning and has used a combination of internal expertise and external peer review in their development. Once created the AMPs are embedded within the Council's Corporate Directorate Improvement Plans and Capital Programme formulation process to ensure that there is a strong alignment between the Council's overarching Priorities and capital investment decisions.

3.3 The Asset Management Plans not only document and quantify all the assets held and their assessed condition but also create a sustainable investment plan which can then be factored into future years Capital Programmes. In addition the creation of the Asset Management Plan will lead to Members considering a whole estate investment approach which will potentially identify assets which the Council should no longer retain.

3.4 A significant benefit of having long term Asset Management Plans is that it allows longer term Capital Investment Plans for a minimum of the next five years but the capability to project this forward for a further period of time. This allows the Council to identify whether it's longer term Capital Investment Plans are affordable and sustainable and provides time for corrective action to be taken. The next part of this section provides an overview of the current position of the Asset Management Plans being progressed by the Council.

3.5 **Net Zero**

The Environment & Regeneration Committee of 28 October 2021 approved the Net Zero Strategy 2021-2045 which sets out Inverclyde Council's route map to achieving net zero greenhouse gas emissions by 2045. The Net Zero Action Plan 2022-2027 was approved at a special meeting of the Environment & Regeneration Committee on 30th November 2022 and this sought to capture and collate current activities that are funded from existing budgets and to also identify new actions which will require additional funding and/or resources. An allocation of £3.3m for 2023/26 has been approved as part of the 2023/24 budget setting process to allow a focus on the following areas of activity:

- Reducing energy use in buildings through improved data collection, controls and targeted energy audits;
- Reducing energy demand in buildings through increased building based renewable generation;
- Introduction of low/zero carbon heating within smaller scale assets e.g. Early Years Establishments;
- Offsetting (insetting) via local peatland restoration projects;
- Fleet decarbonisation through car and light commercial vehicle transition to ULEV including expansion of charge point provision.

In terms of the impact on existing assets, it is recognised that the 2045 targets for Net Zero will involve circa 80% of the buildings currently in use. Retrofitting the existing building stock is a colossal challenge in transitioning the built environment to net zero. The sheer scale of the task has been expressed in UK wide studies which indicate that it would require one building being retrofitted every 35 seconds between 2020 and 2050 in the UK.

The current Net Zero Action Plan noted that actions towards the end of the initial five-year period include low / zero carbon heating for larger facilities such as primary schools with the current market and available technology limiting the options for heat decarbonisation. It also noted that any heat decarbonisation projects require to be considered in tandem with the action plan item dealing with feasibility studies on deep retrofit which will address the core building fabric performance and associated heat demand beyond the basic decarbonisation of the heating systems. Costs associated with retrofit and fabric upgrades are currently not included in the action plan and will be subject to further detailed feasibility studies and reports.

There are significant technical, financial and operational considerations / barriers involved in the transition to net zero emissions for each and every retained building / asset. The capital costs will broadly be proportionate to the size / type of facility with smaller facilities at the lower end of the scale and with larger highly serviced / more complex facilities at the upper end.

3.6 **School Estate Management Plan & Expansion of Early Learning & Childcare**

The Council has invested in excess of £270m on its school estate over the life of the School Estate Management Plan. The rationalisation of the estate was completed by the end of 2013. Over the period of the programme to date there has been a net reduction of 12 primary schools (from 32 to 20) and a net reduction of 2 secondary schools (from 8 to 6) with 2 of the remaining 6 secondary schools co-located within a shared community campus.

Significant progress has been made in addressing the number of Condition category C (Poor) and D (Bad) rated schools from 7 Secondary Schools and 21 Primary Schools at the start of the programme to all schools across all sectors rated A (Good) or B (Satisfactory) by 2016. In terms of Suitability there has also been significant progress made in ratings through the programme of comprehensive refurbishment and new build.

The plan prior to the COVID-19 lockdown would have seen all major projects completed in 2020 reflecting the approval of the acceleration of the School Estate Management Plan agreed as part of the budget setting process in March 2016. The St Mary's Primary School project was completed in October 2020 with completion of the final project at Gourock Primary School in December 2022 delayed due to the impact of a combination of the insolvency of the main contractor and COVID-19. The demolition of the last remaining decant facility, the former Sacred Heart Primary School, was completed in June 2022.

In addition to the projects taken forward and completed in 2014/15 to facilitate the Scottish Government commitment to the provision of 600 hours of Early Learning and Childcare, additional expenditure was approved in March 2016 to address works required to improve asset condition and suitability across the stand-alone facilities within the Early Years estate. The Council funded elements of the Early Years estate plan have now been completed with the final project to refurbish Hillend Children's Centre operational as of October 2021.

The Scottish Government plan to further increase the entitlement of early learning and childcare from 600 hours to 1140 hours has required substantial levels of investment in workforce and infrastructure to support the expansion. Inverclyde Council submitted its initial expansion plan to the Scottish Government in September 2017 and this was reported to the October 2017 Education & Communities Committee. A revised plan and financial template was submitted in March 2018, reported to a special Education & Communities Committee in June 2018. The Scottish Government confirmed a total Capital grant of £5.98m to Inverclyde Council as part of the overall 1140 hours funding for the infrastructure and capital funded elements of the expansion plan to be delivered between 2017/21. The original plan was phased from 2017/18 onwards to ensure that the required expanded capacity would be in place by 2020 however as a result of the impact of COVID-19, in April 2020 an order revoked the change to the 2014 Children and Young People's Act that requires education authorities to secure 1140 hours of ELC provision for all eligible children from August 2020. Given the progress already made within Inverclyde in the implementation of 1140 hours, it was possible to develop contingency plans to ensure that 1140 hours was still implemented across Inverclyde as of August 2020. All core 1140 hours expansion projects were completed with the final project for the new Larkfield Early Learning Centre operational as of November 2021.

The School Estate funding model also includes a lifecycle fund designed to address maintaining the condition and suitability of the revitalised estate. The fund allocations are profiled such that the initial allocation of circa £0.4million in 2014/15 increases to circa £2.5-3m per annum. The lifecycle works address the on-going requirement for investment in the estate to maintain the overall condition of the assets at a good/satisfactory level. The allocation of this funding is based on annual review of the externally procured condition surveys and physical inspection of the various properties by the Council's Property Service. The most recent external condition surveys were undertaken via Aecom during 4th Quarter 2019. These surveys and Property Services assessment inform the allocation of future lifecycle funding across the estate and this will become increasingly important in the coming years, particularly for the properties that were included early in the original programme.

A wider Learning Estate Review and strategy is now required to address the next 10+ years and future of the Learning Estate. Work has commenced on this in respect of roll projection analysis and assessment of the possible impacts of the new Local Development Plan and potential new housing provision. The strategy will require to consider the Condition of the estate from external surveys and Property Services reviews. A full review of all suitability surveys has also been progressed in conjunction with Education Services and Heads of each establishment and this information was reflected in the 2021 Core Facts return. The strategy will also consider other works streams such as the 2021/28 Education Services Digital Learning Strategy. Energy efficiency and the implications of the Inverclyde Net Zero Strategy and 2022/27 Action Plan including the National policies around net zero carbon standards for public buildings will also have to be reflected in future property asset strategies.

3.7 **Office AMP**

The Council's Office rationalisation proposals were originally presented and approved in September 2010. Linked with this was the prior approval in March 2010 for the development of a Customer Service Centre within Greenock Municipal Buildings designed to transform the way the Council communicates with its customers. The programme was part of a wider programme to modernise the Council's operations and working practices which included initiatives such as mobile and flexible working, electronic document management (EDRMS) and greater use of technology. The Offices Asset Management Plan (AMP) was taken forward on the premise that fewer desks than employees would be provided with the final projects within the Offices AMP completed in Autumn/Winter 2017. The Office Rationalisation programme resulted in a reduction of circa 40% of occupied floor space and circa 28% in terms of desk numbers with an increased potential desk space ratio through more efficient use of space across the same number of retained properties.

With the completion of the Office rationalisation programme, the majority of the Council's Operational Office space is now contained within the Greenock Municipal Buildings Campus. This is comprised of the main Municipal Buildings (including the refurbished/renovated former District Court offices), the Wallace Place Building and the James Watt Building. Property Services had undertaken studies across the Campus at the end of 2019, both internally and through external specialist space planning consultants, with a view to identifying where possibilities exist for more efficient use of space and to address improvements where existing space is less suitable for current use and/or in poorer condition. The challenges posed by COVID-19 necessitated a shift to different agile working delivery models including increased flexible, mobile and homeworking arrangements. As part of the COVID-19 Organisational Recovery Plan the Council reviewed its agile working and other key policies resulting in the development of a Hybrid Working Strategy, with a 12 month pilot currently nearing completion. As part of the Council's Delivering Differently Programme, a New Ways of Working project is also being taken forward to examine the changes to the ways offices are being used within the Campus including changes in the use of technology and the potential for increased use of Electronic Document Management processes. The previously completed space studies are being revisited as part of this work stream to assess the potential property / ICT investment implications connected with new ways of working. The November 2022 Policy & Resources Committee were advised of the plan to mothball the James Watt building from early 2023/24 with minor works undertaken across various assets to facilitate the relocation of staff and with that activity currently underway.

The potential reduction in employees arising from the 2023/25 savings exercise plus the recently announced successful Levelling-up Funding bid which will impact the Hector McNeil House building, will influence the future direction of the New Ways of Working Project.

The future maintenance and lifecycle requirements of this element of the Council's estate strategy will now be contained / addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2.4m General Property Service capital allocation monitored through the Environment & Regeneration Committee.

3.8 **Depot AMP**

The Council's Depot rationalisation has involved the centralisation of Grounds, Waste and Transport at Pottery Street with a Gourock Civic Amenity site and the Building Service Unit (BSU) currently remaining at Devol Depot. The original Depot Asset Management Plan budget of £13m was reduced by £2.8m through a review of phasing and scope with the development of the masterplan and a refinement of the strategy / proposals. The majority of projects were completed by mid-2019 incorporating the phased works at Pottery Street including the salt barn, civic amenity site, vehicle maintenance facility / offices, fuel and vehicle wash facilities, and the refurbishment of the corner depot building / offices. The final element of the Depot AMP involving the Gourock Civic Amenity facility has been partially completed with the existing Civic Amenity facility closed at the end of January 2022 and temporarily relocated to Craigmuschat Quarry. The demolition of the existing Kirn Drive Depot building and removal of fuel tanks was completed in June 2022. Decisions in respect of the future provision were concluded as part of the 2023/24 budget setting process.

3.9 **Leisure AMP**

The Council undertook a review of its key Leisure Sites prior to 2009 which included reports covering a review of strategic sites and a pitches strategy, with a view to modernisation and reconfiguration of leisure provision within Inverclyde. Consultation was also undertaken with Sportscotland who allocated £1m in facilities grants, part funding specific projects at Parklea and Ravenscraig. A planned investment profile was presented to Committee in September 2009 with an initial implementation timescale of August 2012.

Following the implementation of the original Leisure Strategy above, a number of further projects were taken forward (Ravenscraig Activity Centre / Inverclyde Indoor Bowling / Lady Octavia Sports Centre / Boglestone Community Centre) through joint Council / Inverclyde Leisure funded projects.

In 2018 the Council agreed to allocate £120,000 annually to supplement the funding in the Leisure Repairs and Renewals Fund to meet the life cycle costs associated with the large 3G Pitch estate. The on-going requirements for major maintenance and lifecycle replacement of sports pitches across the Leisure Estate are addressed through the Leisure Pitches Strategy Asset Management Plan and capital allocations monitored through the Education & Communities Committee. Condition surveys were undertaken via external specialists in late 2019 across the Leisure and School Estate pitches to inform a review of the Asset Management Plans and lifecycle replacement allowances. This information together with data on individual pitches hours of use from Inverclyde Leisure formed the basis of a revised asset plan which was approved by the September 2020 Education & Communities Committee. A programme of rejuvenation and carpet replacement works commenced in 4th Quarter 2020 with 3 pitches completed to date and 2 further pitches completed in 2022.

The major maintenance and lifecycle replacement requirements of the buildings for the Leisure Estate remains with the Council and this element of the Council's estate strategy is addressed within the Operational Properties portfolio and the allowances for statutory and planned maintenance / lifecycle works funded from the annual £2.4m General Property Service capital allocation monitored through the Environment & Regeneration Committee. Minor day to day maintenance and 'consumables' are the responsibility of Inverclyde Leisure in accordance with the Service Level Agreement which regulates access, standards of maintenance and division of responsibilities. The allocations through this fund will be vital in the coming years to address significant elemental renewal of ageing assets.

As part of the Council's Delivering Differently Programme, the Council and Inverclyde Leisure have undertaken a strategic review of all indoor, outdoor and community leisure facilities in Inverclyde.

This activity has been aligned with the preparation for the 2023/25 Budget recognising the Inverclyde Leisure business model pressures such as shortfalls in income, increases in utilities, and other inflationary pressures such as pay. A report was submitted to the November 2022 Education and Communities Committee outlining proposals to reduce the funding pressure addressing a potential major reduction in the Inverclyde Leisure managed estate. The proposals have been subject to public consultation and were considered as part of the budget setting process.

3.10 **Roads AMP**

The Council approved a comprehensive Roads Asset Management Strategy (RAMS) which was then utilised to develop the Roads Asset Management Plan (RAMP) and funding model in August 2012. A total of £29m was proposed for the period April 2013 to March 2018 to improve the roads infrastructure – carriageways, footways, lighting columns and structures, this included road and pavement resurfacing works, an extensive road patching and pothole repairs programme, street lighting replacement works and improvements to bridges and roads structures.

Further to this investment, a second phase of RAMP funding was allocated to the value of £15m for the period April 2018 to March 2023.. From 2023/24 the annual allowance is £2.75 million.

Over 97% of the Council's streetlights have now been upgraded to low energy LED types which has halved electrical power consumption, reduced energy and maintenance costs to the Council and has reduced the carbon footprint. Roads structural projects and programmes have delivered numerous bridge upgrades and improvements including a prioritised programme of inspection and repair.The RAMP has resulted in a reduction in the number of Inverclyde's roads, footways, street lights and road structures which require ongoing maintenance treatment while providing an increased future lifespan.

From the implementation of the RAMP in 2013 to present, the Road Condition Indicator (RCI) has continually reduced which demonstrates that the planned investment is resulting in a significant improvement to the condition of Inverclyde's road network.

The Road Condition Indictor (RCI) for carriageways as follows:

	SRMCS Survey Results			
Year	**Red**	**Amber**	**Green**	**RCI**
2011/13	13.55	35.42	51.0	**49.0**
2012/14	12.69	36.55	50.8	**49.2**
2013/15	10.80	35.47	53.7	**46.3**
2014/16	10.11	33.18	56.7	**43.1**
2015/17	8.57	31.96	59.5	**40.5**
2016/18	7.09	30.80	62.1	**37.9**
2017/19	7.44	30.02	62.5	**37.5**
2018/20	7.41	29.88	62.7	**37.3**
2019/21	5.73	29.57	64.7	**35.3**
2020/22	4.51	28.19	67.3	**32.7**
2021/23	3.39	27.77	68.84	**31.2**

During this time Inverclyde Council has received awards from The Association for Public Service Excellence (APSE) for the most improved performer in 2016 for Roads, Highways and Winter Maintenance and for Street Lighting in 2017 and again in 2019.

3.11 **Vehicle AMP**

The purpose of the Vehicle AMP is to provide the Council with an efficient, flexible method of procuring and operating fleet items that reflects good fleet management practice plus a cyclical replacement of fleet assets over a 5 or 7 year cycle dependant on fleet category taking advantage of public sector collaborative procurement frameworks. A review of the replacement policy will be undertaken to reflect the budgetary position taking cognisance of the increased costs of vehicles, and requirement tom move towards Ultra Low Emission Vehicles (ULEVs)

In addition it led to the introduction of a dedicated Fleet Management System and Fleet Tracking System. Without a fleet asset management plan the Council would experience a return to inefficient practices including increased fleet downtime, an increase in expensive ‘spot’ hire vehicles, a requirement to increase workshop staff levels and an increase in both material and sub-contractor costs. Looking to the future the Vehicle AMP will continue taking advantage of the latest technological advances both in terms of vehicle and management/telematics systems driving forward efficiencies within the fleet asset management plan.

The Council have previously taken advantage of bridge funding from Transport Scotland and technological advances allowing greater battery range has allowed a significant increase in the number of ULEVs on the Council fleet. In 2017/18 there were 4 pure electric ULEVs accounting for 8% of fleet vehicles within these categories increasing to 38 (76%) by 2020/21. This figure has remained static since 2020/2021 when no further bridge funding was made available. The Council will require to identify funding for ULEVs to meet the Scottish Government target of ending the sale of new petrol or diesel cars and light vans in Scotland by 2032 and this is being considered as part of the Council’s Net Zero Strategy.

The technology to further introduce ULEVs into the medium and heavy commercial fleet is developing quickly and the continued funding of the Vehicle AMP will allow the Council to take advantage of these new technologies. In conjunction with this, consideration will require to be given to significant infrastructure requirements given the power requirements to charge large commercial vehicles, particularly when being charged at the same time in one central hub such as the Pottery Street depot.

3.12 **Open Spaces AMP**

The Council has also developed an initial Open Space AMP which incorporates Burial Grounds and the Crematorium. Given the wide range and nature of the assets covered and the piecemeal nature of some of the investment, the preparation of a detailed AMP has proven to be challenging. Based on the information to date an annual capital sum of £200,000 is allocated for general lifecycle maintenance. In addition the Council will explore opportunities to attract external funding where possible.

In addition, the Council has allocated over £3.0 million over the next 2 years to expand Burial Grounds provision and replace the Council’s cremators. The identification of appropriate ground for burials has been challenging for the Council in the medium to long term.

3.13 **ICT Asset Plan**

The ICT Asset Management Programme intends to provide a modern ICT infrastructure providing the most appropriate level of equipment, at best value to the Council across all of Inverclyde Council’s Offices and Schools. It aims to allow staff to undertake their roles and responsibilities in as efficient and flexible a manner as possible and provide teachers and pupils with modern and sustainable learning technologies. The ICT AMP has an annual budget of £0.593m.

In line with the best practices for ICT Asset Management, the physical lifecycle of an ICT Asset has two distinct phases:

- Planning & Procurement
- Lifecycle & Disposal

The Council has adopted a policy of deploying laptops as the default device for officers unless there is a technological or configuration requirement that would require a desktop. ICT implements a four-year desktop and laptop refresh strategy and in 2021/22 completed a full refresh across the corporate estate to allow for the introduction of Hybrid working.

In 2022/23 650 teacher/class desktops were replaced with laptops and 280 computers in two of the ICT/Business Studies suites in each high school were refreshed. Phase 2 of the School Refresh programme will see the remaining suites refreshed in FY 2023/24. Phase 3 will replace devices in administration, libraries and other classroom environments.

The total number of devices in the programme is 6116

	Desktop PCs	Notebook PCs	Tablet PCs	Total
Schools	1972	2458	45	4475
Corporate	232	1334	62	1641
Total	2204	3792	107	6116

The programme also includes provision for replacement of core ICT equipment such as network storage, servers and infrastructure and the procurement and implementation of other services to support Hybrid working such as videoconferencing equipment.

3.14 Scheme of Assistance

Section 72 of the Housing (Scotland) Act 2006 requires Local Authorities to prepare and make publicly available a statement which sets out the Council's approach to providing householders with advice and/or assistance on how to repair, improve, maintain or adapt their home. The 2006 Act paves the way for applications for assistance with adaptations to be treated separately from applications for assistance with repairs and includes a general duty to provide financial assistance to make a house suitable for a disabled person. All eligible adaptation works will receive a minimum of 80% grant assistance or, at the discretion of the Council, 100% grant can be awarded.

The provision of a Care and Repair/Small Repairs Service who assist eligible applicants with the grant process and progression of adaptation works. Care and Repair operate a small repairs service for plumbing, electrical, joinery and general household jobs. The services are available to homeowners and tenants in the private sector who are either disabled or are over 60 years of age.

Year	Number of Homes Adapted	Small Repairs Provided
15/16	174	1705
16/17	181	1587
17/18	171	1701
18/19	195	1582
19/20	169	1620
20/21	133	582
21/22	162	1818

The number of adaptations came back up in 21/22 after the pandemic. Projected figures for 2022/23 are 140 adaptations and 1400 small repairs. Although the number of adaptations is likely to be lower than in 20/21 the cost of individual adaptations is greater and there have been one or two of significantly higher cost.

3.15 HSCP Asset Management

In addition to the regular review of HSCP properties to identify opportunities for reconfiguration of services that support co-location, work has been undertaken across the NHS Greater Glasgow & Clyde area to develop a Primary Care Property Strategy which seeks to better understand the current utilisation of property and its suitability for existing and future service provision. This strategy will assist with future business cases and inform board infrastructure investment decisions.

A number of shared service offices were addressed as part of the Offices Asset Management plan and consolidation within the Hector McNeil House building completed in 2014. Two further major

HSCP projects secured Scottish Government funding support with the new Adult and Older People Complex Care Beds facility (Orchard View) completed in summer 2017 and the new Greenock Health and Care Centre which became operational in March 2021. The completion of the new Health and Care Centre facilitated further shared service / joint working with the business case predicated on the basis that the existing NHS owned Greenock Health Centre, Boglestone Clinic, Larkfield Child & Family Centre (CAMHS) Building, and Cathcart Centre, which were not fit for purpose, would be disposed of.

Further asset areas were addressed via the phased re-provisioning of Inverclyde's Children's Residential Services with one unit (Kylemore) completed in March 2013 and a further unit (Cardross – 'the View') completed in January 2018. The progression of the final unit (Crosshill) was delayed due to the impact of a combination of the insolvency of the original main contractor and COVID-19 with completion achieved in October 2022.

The Strategic Review of Services for Adults with Learning Disabilities in Inverclyde was signed off by the Integration Joint Board in December 2016. As part of the Service redesign, a number of properties historically used by the service have been decommissioned with flats at Lynedoch Street and Hope Street vacated and released back to the relevant Registered Social Landlords. Golf Road was vacated in June 2018 and the McPherson Centre decommissioned in September 2018 with full integration into the Fitzgerald Centre following work within the Fitzgerald Centre to upgrade personal care facilities, storage and sensory areas undertaken over summer 2018. The longer term plan remains for a new Inverclyde Community Learning Disability Hub with business case approved in February 2020 and design proposals currently being developed through the hub delivery model with financial close targeted in 3rd Quarter 2023.

Two other specific property issues remain for Health & Social Care around the future of the Centre for Independent Living store and the continued lease of the Unpaid Work Unit at Kingston Industrial Estate.

Day to day investment in the HSCP buildings is funded from the general Property AMP but the funding for transformational change in service delivery requires to be funded elsewhere. For the Children's Units, funding came from a combination of prudential borrowing funded by service savings, reserves and core capital grant. The new Inverclyde Community Learning Disability Hub will also be funded by prudential borrowing.

The Scottish Government recently carried out a public consultation on its proposals for a National Care Service (NCS) to achieve changes to the system of community health and social care in Scotland. On 20th June 2022, the Scottish Government introduced the National Care Service (Scotland) Bill to the Scottish Parliament. The Bill would establish a National Care Service in Scotland, and allow Scottish Ministers to transfer responsibility for a range of social care services from local authorities to the new service. This could include adult and children's services, as well as areas such as justice and social work. New "care boards" would be responsible for delivering care locally. It is unclear what the approach to assets currently used by the proposed transferring functions will be. The uncertainty around NCS further compounds the difficulty in being able to confidently make medium and long term decisions around future asset requirements.

3.16 City Deal

Although not a specific Asset Management Plan the Council does have major investment plans in relation to the Glasgow Region City Deal which has a £1.13 billion Capital Infrastructure investment programme covering the 8 Local Authorities in the Glasgow City region. Inverclyde Council currently has 3 projects in various stages of development with an estimated total Capital cost of £32.5million, £22.8million of which is funded through the City Deal investment and Council contribution with the balance funded by external partners.

The Scottish and UK Government investment is due to be paid over a 20 year period ending in 2035. Due to the timing difference between the Council incurring expenditure by 2025 and the receipt of grant, the Council will require to finance the cashflow implications as well as loan charges in relation to the Council's projected £1.3 million contribution. The funding for this has been allowed for in the Council's recurring Revenue Budget and forms a specific appendix within the Financial Strategy.

3.17 **Levelling Up Fund**

Again, whilst not a specific Asset Management Plan the Council has recently received confirmation of £19.39m Levelling Up Fund grant towards a £21.6m project to redevelop Greenock Town Centre. The project will see the transformation of the town centre with demolition of the elevated A78 dual-carraigeway along with Hector McNeill House and 40% of the existing Oak Mall retail centre resulting in easier access to the area for residents and visitors, with the resultant additional space having the potential for a new college campus, town centre housing and new cultural opportunities. This project has clear implications for the Office and HSCP AMPs and is being considered within the overall New Ways of Working project.

4.0 THE CAPITAL PROGRAMME

4.1 The Council traditionally approves a rolling three year Capital Programme each budget cycle. The March 2023 budget cycle brings the current Capital Programme up to 2025/26.

4.2 Annual capital budget allocations are provided for investment in the core assets identified via the Asset Management Plans with these allocations intended to maintain the existing assets to acceptable standards. The allowances do not generally allow for expansion or replacement of existing assets which would normally be addressed through specific investment proposals.

4.3 The UK exit from the EU, the impact of COVID, increased global demand for materials and most recently the impact of the conflict in Ukraine continue to have a significant impact on the delivery of the capital programme. These issues have inevitably led to both cost pressures and project delays. As a result a further annual cost pressure allowance has been included in the 2023/26 budget across those areas most impacted by the pressures.

4.3 Current annual allocations amount to £9.696m (see table below) This amount includes the increased allocation to Roads Property and Scheme of Assistance approved as part of the 2023/24 Budget.

Recurring annual Grant Allocations:

ICT	£0.593m
Roads (RAMP)	£2.750m
Zero Waste Fund	£0.060m
Parks & Open Spaces	£0.200m
Property	£2.400m
Scheme of Assistance	£0.573m
Leisure Pitches	£0.120m
School Estate	£3.000m
Total Annual allocations	£9.696m
General Capital Grant in 2023/24	£6.079m

The Scottish Government spending review in 2021 confirmed the General Capital Grant will remain at the current level until at least 2025/26 however changes in the distribution methodology have reduced Inverclyde's share of the grant to approximately £6m. The General Capital Grant in 2023/34 then is approximately £3.6million short of the ongoing Asset Maintenance requirement. The current Financial Strategy assumes that the Council will prudentially fund £1.5 million of capital investment annually from 2023/24 which will partially address this. The remaining shortfall of approximately £2.1m per year will require to be funded from either capital receipts, revenue reserves and prudential borrowing or reductions in the asset base.

4.4 Other investment includes the Vehicle Replacement Programme however this is funded via ongoing prudential borrowing and is not reliant on the General Capital Grant. In addition, specific investment proposals are considered either as part of the budget setting process or via reports to Strategic Committees. Any such proposals would require to be funded by way of prudential borrowing and/or one off allocations from reserves.

4.5 In addition to the core capital grant the Council receives Specific Capital Grant awards from the Scottish Government plus can apply for grants from other bodies such as Strathclyde Passenger Transport and Sustrans.

4.6 In recognition of potential increase in resources or cost reductions the Council will overprovide by up to 5% against available resources. It needs to be borne in mind that if extra resources or cost reductions do not occur then savings will be required.

4.7 A summary of the proposed 2023/26 Capital Programme is shown below. This was approved by the Council in March 2023. It should be noted the Capital Grant figure for 2023/24 includes £1.872m additional funding for the Pay Award, and £0.928m allocation for Free School Meals for which additional spend has also been included.

Proposed Capital Programme 2023/2026

	2023/24	2024/25	2025/26	Totals
Expenditure/Projects by Committee	£m	£m	£m	£m
Policy & Resources	0.500	2.766	2.644	5.910
Environment & Regeneration	10.322	19.442	9.610	39.374
School Estate	1.897	5.287	4.000	11.184
Education & Communities	1.300	0.325	0.551	2.176
HSCP	2.550	6.600	0.174	9.324
	16.569	34.420	16.979	67.968
Financed By				
Government Grant	8.879	6.000	6.000	20.879
Sales/Contributions	0.355	0.404	0.315	1.074
Other Income	3.425	-	-	3.425
Revenue	0.682	5.780	3.764	10.226
Prudential Borrowing	5.150	9.179	2.748	17.077
Resources Carried Forward	12.250	-	-	12.250
	30.741	21.363	12.827	64.931
Shortfall in Resources				3.037
Recommended maximum overcommitment (5% of Resources)				3.247
Flexibility				(0.210)

5.0 DEBT AND FIXED ASSETS

5.1 One objective of the Capital Strategy is to demonstrate the sustainability and affordability of its capital expenditure and investment plans. Much of the affordability assessment depends on the Council's Treasury Strategy. The period of the Treasury Strategy is currently four years and one positive development arising from the creation of a Capital Strategy will be to align the timescales for the Treasury Strategy, Investment Strategy and Capital Programme.

5.2 A key requirement of the Treasury Strategy is to set the Prudential Indicators which will determine limits around borrowing, investment and affordability and thereafter feeds directly into the Revenue Budget process. The Treasury Strategy is considered by the Policy & Resources Committee in March and thereafter the Council.

5.3 There are 3 distinct areas where it is important that the inter relationships are highlighted as these are at the heart of understanding the Council's overall approach to capital investment and long term financial planning.

Loan Charges/Loan Fund Debt – Loan Charges records are the Council's internal record of capital investment. Sums incurred are currently written down on annuity basis using the expected life span of the asset created/work carried out. The Loan Charges records allocate the capital incurred against the asset created/improved.

Loan Charges are an internal calculation and no money leaves the Council but it is Loan Charges which form the charge to the Revenue Budget as a proxy for depreciation.

External Debt- To fund capital works the Council will in many cases have to borrow funds. The traditional route for local government remains to borrow from the Public Works Loan Board (PWLB) but a significant amount of borrowing has also been carried out from other lenders and this is referred to as Market Debt. Interest is paid on these loans throughout the year and these costs form the basis of the calculation of the loan charges interest rate.

Balance Sheet Fixed Assets - As part of the statutory Annual Accounts the Council prepares a Balance Sheet and the largest sum within this is the value of assets held by the Council. Assets are revalued on a rolling basis every 5 years although adjustments can be made in the interim in the event of a material impact on the assets value. Depreciation is applied to the assets prior to inclusion on the Balance Sheet. Depreciation does not form part of the revenue budget and is reversed out of the accounts when calculating the Council's available Usable Reserves.

The financial position of these three areas is explained further in the following paragraphs.

5.4 **Loan Fund Debt**

The Council is coming to the end of a significant period of ambitious investment in the School Estate, Leisure Estate, Roads Assets plus the rationalisation of the Office and Depot Estate. This has seen a significant increase in the Council's Loan Debt over the last ten years and projections indicate that the Loan debt will peak at approximately £231 million in 2024/25 but on the basis of limited prudential borrowing in future years the loan debt will reduce to around £172 million by 2032/33. Thereafter the debt gradually reduces and by 2043 there is only £93 million of the current debt outstanding. Given the current shortfall between Government Grant and annual capital requirements highlighted in section 4, it is likely that Prudential Borrowing and hence debt will need to increase over this period.

5.5 **External Debt**

The Council's external borrowing as at 15th February 2023 was:-

PWLB Debt £ 74.4 million

Market Debt £101.3 million
£175.7 million

The bulk of these loans are Maturity Loans i.e.: principal is due to be repaid at the point that the loan matures, with some £28.8 million of the PWLB Debt due to be repaid by 31st March 2033. Thereafter however there is a 25 year period where under £28 million is due to mature unless called in by the market lenders or the Council restructures its PWLB debt.

Taking 5.4 and 5.5 together then by 2037, on the basis of the Capital Expenditure plans outlined in this Strategy, the External Debt will exceed Loans Fund Debt. By 2043 the amount of External Debt would exceed Loan Charges Debt by £44 million if nothing else changes and this over borrowing would continue to grow over subsequent years.

5.6 **Balance Sheet Fixed Assets**

At the 31 March 2022 the Council owned property plant and equipment assets valued at £441million net of accumulated depreciation. Once PPP Assets and Managed Properties are included then the value of this Asset Base increased to £551million. This figure is significantly larger than the previous year due to the indexation process which was carried out on assets during the year.

The average Asset Life Outstanding as at 31st March 2022 for the different category of assets is shown in the undernoted table. From this it can be seen that for the 3 main non-PPP asset categories, the average remaining life is approximately 25.7 years. At a high level this shows a correlation between the remaining life of the main assets in the balance sheet and the Loans Fund Debt.

	Average	
	Asset Life	Asset Life Outstanding
AUC	58.89	56.00
Community Assets	36.81	29.57
Infrastructure	30.07	17.44
OLB	28.10	20.86
PPP	34.93	28.21
VPE	5.73	2.05

It should be noted that the Asset Life Outstanding is reviewed at each valuation and provided the Council is undertaking appropriate maintenance and investment then the life will be extended thus ensuring that Asset values continue to exceed Long Term Borrowing in the Balance Sheet. In tandem with this the Policy & Resources Committee approved a Loan Charges repayment Policy in 2019 which extended the write off period for some classes of capital work. The net effect has been to spread loan charge payments over a longer period.

5.7 On 16th February 2023 the Council approved the use of the flexibility offered under Finance Circular 10/2022 with regards the accounting treatment of Service Concession Arrangements, ie the Council's Schools PPP contract, from 2023/24. This in effect extends the PPP debt from 30 years to 45 years, ie to 2053/54 with the asset life being amended accordingly. The impact of this change is not reflected in the above figures.

5.8 In summary therefore, for the Council to maintain its considerable asset base, it will need to undertake capital investment over and above the projected Scottish Government Grant/Capital Receipts. This will require future borrowing whilst ensuring that the Council achieves a closer correlation between Loans Fund Debt and External Debt in the longer term. This will be achieved by ensuring that the majority of new borrowing will be carried out for short to medium term periods i.e. up to 15 years.

6.0 LONGER TERM INVESTMENT PLANS

6.1 It can be seen from Section 4 of the Capital Strategy that it is unlikely that Government Grant and estimated Capital receipts will be sufficient to meet the required investment levels for the Council to maintain its current asset base. The current Financial Strategy assumes that the Council will prudentially fund £1.5 million of capital investment annually from 2023/24. Any prudential borrowing will need to be funded from savings delivered by the investment or revenue savings. This will require the Council takes a conscious decision to disinvest in certain assets, reduce the number of assets it holds or cut day to day services.

6.2 The current annual allocations make no allowance for the transition to Net Zero. While an allocation of £3.3m has been approved for 2023/26 to allow a focus on reducing energy use in existing buildings, decarbonisation of the Council fleet and offsetting there is no allowance for retrofitting the existing building stock. Such retrofitting will be technically and operationally challenging and will involve significant additional capital investment in the period to 2045, significant funding will require to be identified to address this.

6.3 It should be noted that this level of investment takes no account of any one off Capital investment requirements not included in the core life cycle maintenance allocations. Any such investment requirements will be flagged up in the relevant Asset Management Plans and following consideration as part of the normal governance processes would be factored into future Capital Strategy reports.

6.4 Appendices B and C show the impact of this level of capital investment on the Loan Charges earmarked reserve, loan charges and loan debt for the period to 2042/43. From Appendix C it can be seen that projected Loan Charges would drop by almost £0.4 million between 2023/24 and 2032/33 whilst over the same period the Loan Debt will drop by £44.1 million.

6.5 Despite the ongoing need for prudential borrowing the Council will see a reduction in the proportion of its Revenue Budget which is spent on servicing loan charges and also a significant reduction in the ratio of loan debt to revenue budget. From Appendix C it can be seen that the Loan Debt as a percentage of Revenue Budget drops by almost 22.0% over the 2023/33 period, whilst the % of the Revenue Budget spent on Loan Charges drops by 0.49% to 6.85%.

6.6 Looking beyond 2033 involves a significant amount of uncertainty around both the funding of Local Government, the services which it will be expected to deliver and the nature of those services. However based on past investment and current service delivery then many of the assets built or significantly refurbished since local government re-organisation will become due for replacement/refurbishment. The Council will therefore require to consider how this massive investment would be funded as part of future Capital Strategies.

7.0 CONCLUSIONS

7.1 The Capital Strategy provides an opportunity for a number of related aspects of the Council's overall finances to be pulled together into a summarised document. From this it can be seen that:

a) The Council is well advanced in its Asset Management Plan preparation and delivery with major investment in all aspects of its asset estate over the last 15 years or more.
b) The Council keeps a long term view of its long term borrowing and funding and this informs the current Treasury Strategy.
c) The Council has a robust governance process via the Financial Regulations, Prudential Code, Risk Management and Budget Process to ensure that Asset Management Plans and the Capital Strategy are affordable in the medium to longer term.

The current proposals within the Capital Strategy are affordable and can be met from the current Loan Charges allocation without further cost to the Council Tax payer.

7.2 The Capital Strategy emphasises the need for the Council to take a long term view when taking decisions around Capital investment and specifically to ensure that investment plans are appropriate and financially sustainable in the longer term. The annual production and updating of the Capital Strategy allied to the Treasury Strategy, Capital Programme approval and Financial Strategy will all ensure that the Council are able to take Capital investment decisions in the knowledge of the long term implications.

The area of Treasury and Capital investment requires risks to be continually managed and monitored. Part of this is covered in the Governance Section (Section 2), however the following paragraphs list other risks and how the Council manages these. The risks are shown in bold with the mitigation in normal typeface.

1/ **The Capital Strategy does not reflect the objectives set out in other strategic plans of the Council.**

The Capital Strategy provides a high level overview of the various Asset Management Plans, Financial Strategy and Treasury Strategy all of which closely link to the plans the Council has signed up to. It is acknowledged that there will inevitably be other financial investment requirements over the next 20 years not quantified at this point in time however the Capital Strategy will be updated as further information becomes available regarding these strategic plans.

2/ **The Council does not have adequate funding to fully address the Net Zero Strategy**

The Net Zero Action Plan 2022-2027 collates existing activities and seeks to identify actions which will require additional funding/resources required to fully address the Net Zero Strategy 2021-2045. While funding has been allocated as part of the 2023/24 budget process to address the Action Plan no further funding is currently available to implement the Strategy. Officers will update the Net Zero plans annually , source external funds, where possible and report to Committee to ensure that plans and funding are aligned.

3/ **The directorate planning process will identify a range of additional budget pressures over and above those currently considered in this Financial Strategy.**

The Directorate Planning Guidance identifies that Corporate Directorate Improvement Plans (CDIP) should reflect the resources allocated – the need for additional resources to achieve a particular priority should be specifically identified via the Council's approved governance processes prior to the preparation of the CDIP.

4/ **Forecasts within the Capital Strategy are not accurately determined or reviewed on a regular basis**.

The Capital Strategy will set out the expected levels of expenditure and income for the future. The forecasts are arrived at through careful consideration of historic trends and current AMP investment levels plus advice on interest rates and borrowing costs from the Council's Treasury Advisors.

Throughout the financial year, the Council regularly monitors its financial performance against its capital and treasury budgets and will revise projections and/or take action where necessary.

5/ **The Council has insufficient capital resources to sustain capital commitments**.

The combination of reduced funding and the economic position mean that the Council has to focus on maintaining key infrastructure whilst utilising prudential borrowing for specific capital projects.

Regular review of existing Asset Management Plans and Policy Priorities ensures that the Council's investment plans remain affordable. The Council is in regular contact with its Treasury Advisors to identify opportunities to reduce Treasury costs within the parameters of the Prudential Indicators.

6/ **Given the major Global Economic uncertainty the Council is exposed to major fluctuations in the financial markets**

The Council' Treasury and Investment Strategy supported by the associated Treasury Management Policies and Prudential Indicators provides a robust framework within which officers operate to ensure that the Council is not materially exposed to short term fluctuations in the financial markets.

Finance Strategy
Loan Charges

Appendix b

		2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	2031/32 £'000	2032/33 £'000
Balance B/fwd		337	393	(202)	(688)	(972)	(921)	(588)	(340)	271	1,128	1,970
Projected Loan Charges	a	12,036	17,497	17,488	17,386	17,151	16,969	17,154	16,891	16,745	16,860	16,702
Available Budget	b	12,092	16,902	17,002	17,102	17,202	17,302	17,402	17,502	17,602	17,702	17,802
Loan Charge Surplus/(Deficit)		56	(595)	(486)	(284)	51	333	248	611	857	842	1,100
Other Adjustments:												
None		0	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	0	0	0
Balance at Year End		**393**	**(202)**	**(688)**	**(972)**	**(921)**	**(588)**	**(340)**	**271**	**1,128**	**1,970**	**3,070**
Interest Rate (Assumed):		3.84%	4.02%	3.75%	3.67%	3.71%	3.67%	3.73%	3.76%	3.81%	3.99%	4.11%

Notes

Revised projections as at Nov 2022 and excludes Loan Charges relating to funded models (City Deal, Birkmyre Trust and, for 2022/23, SEMP).
From 2018/19 onwards, general capital grant is applied to core allocations only and not to individually funded models.

a Includes loan charges for new LD Centre based on spend between 2021/22, 2022/23, 2023/24 and 2024/25.
£100k annual cost increase from 2023/24 to reflect prudential borrowing of £1.5m.
Projected principal repayments on new projects are calculated on annuity basis.

b Adjustments to Available Budget:
For 2022/23
Budget from 2018/19 onwards reduced by £300k annually to 2022/23 to reflect reduction in Scottish Government grant support resulting from repayment of historic debt.
£400k reduction in budget.
Budget increased by £1,130k due to budget and projected VRP loan charges now included above and not separately budgeted for.
Budget adjusted for £60k reduction in loan charges agreed in February 2022 and for Food Waste Collection saving (£14k reduced).
For 2023/24
Budget increased by £4,715k due to budget and projected SEMP loan charges now included above and not separately budgeted for.
Budget from 2023/24 onwards increased by £100k annually for annual Prudential Borrowing.
Budget adjusted for £5k reduction in loan charges for Food Waste Collection saving.

Finance Services
November 2022.

Appendix c

LONG TERM LOANS FUND PROJECTIONS BASED ON CAPITAL STRATEGY

	Loans Fund Debt End of Year	Total Loan Charges	Assumed Interest Rate	Revenue Stream	% of Loans Fund Debt to Revenue Stream	% of Loan Charges to Revenue Stream
	£000	£000	£000	£000		
2023/24	216,521	17,359	4.08%	236,646	91.50%	7.34%
2024/25	230,780	17,014	3.86%	238,825	96.63%	7.12%
2025/26	229,020	17,775	3.81%	240,383	95.27%	7.39%
2026/27	220,175	17,810	3.84%	241,973	90.99%	7.36%
2027/28	211,208	17,705	3.90%	242,973	86.93%	7.29%
2028/29	203,423	17,771	3.96%	243,973	83.38%	7.28%
2029/30	195,714	17,590	4.05%	244,973	79.89%	7.18%
2030/31	187,960	17,437	4.12%	245,973	76.41%	7.09%
2031/32	180,138	17,413	4.25%	246,973	72.94%	7.05%
2032/33	172,379	16,978	4.24%	247,973	69.52%	6.85%
2033/34	164,473	16,812	4.26%	248,973	66.06%	6.75%
2034/35	156,146	17,040	4.36%	249,973	62.47%	6.82%
2035/36	147,575	17,226	4.56%	250,973	58.80%	6.86%
2036/37	140,084	16,036	4.75%	251,973	55.59%	6.36%
2037/38	132,796	15,647	4.87%	252,973	52.49%	6.19%
2038/39	125,379	15,594	5.00%	253,973	49.37%	6.14%
2039/40	117,762	15,625	5.16%	254,973	46.19%	6.13%
2040/41	109,801	15,753	5.31%	255,973	42.90%	6.15%
2041/42	101,624	15,769	5.51%	256,973	39.55%	6.14%
2042/43	93,291	15,658	5.69%	257,973	36.16%	6.07%

Notes:
1. The Revenue Stream is an estimate of GRG/NDRI plus Council Tax.
2. The % of Loan Charges to Revenue Stream above excludes debt charges on PPP assets and so is not comparable with the Ratio of Financing Costs to Net Revenue Stream included in the Treasury Strategy.