

## Appendix 3 – Capital Strategy 2024/25-2027/28

### 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.
- 1.2. Decisions made this year on capital and treasury management will have financial consequences for the Council 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.
- 1.3. This report is prepared in line with the requirements of the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

### 2. Capital Expenditure and Financing

- 2.1. Capital expenditure is where the Council 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's capital programme is included as Annex 1 to the capital strategy, with total planned capital expenditure in 2024/25 and the following two years is summarised in the table below:

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

	2023/24	2024/25	2025/26	2026/27
Capital Expenditure	99	119	106	40

- 2.3. Service managers bid annually to include projects in the Council's capital programme. Bids are then appraised by the Capital Strategy and Asset Management Group (CSAM) based on a comparison of service priorities against financing costs and makes recommendations to Cabinet. The final capital programme is then presented to Cabinet and to Council for approval. Capital projects with the most beneficial impact on the revenue budget will be prioritised.
- 2.5. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2023/24	2024/25	2025/26	2026/27
Grants and contributions	66	43	0	0
Capital receipts applied	2	5	1	1
Reserves	0	0	0	0
Other revenue contributions	0	0	0	0
Debt	20	59	92	25
Minimum Revenue Provision (MRP)	11	12	13	14
<b>TOTAL</b>	<b>99</b>	<b>119</b>	<b>106</b>	<b>40</b>

- 2.6. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP).
- 2.7. Alternatively proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. When a capital asset is no longer needed, it may be sold so that the proceeds can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts “flexibly” on service transformation projects until 2025/26. Repayments of capital grants, loans and investments also generate capital receipts.
- 2.8. The Council’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 Council’s estimated CFR is as follows:

Table 3: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31-Mar 2023 Actual	31-Mar 2024 Forecast	31-Mar 2025 Budget	31-Mar 2026 Budget	31-Mar 2027 Budget
Capital Financing Requirement	367	388	482	543	567

### 3. **Treasury Management**

- 3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council’s spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

#### **Borrowing strategy**

- 3.2. The Council’s main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known. The

Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board (PWLB).

- 3.3. Projected levels of the Council’s total outstanding debt which comprises borrowing, Private Finance Initiative (PFI) liabilities and leases are shown below and compared with the capital financing requirement.

*Table 4: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

	<b>31-Mar 2023 Actual</b>	<b>31-Mar 2024 Forecast</b>	<b>31-Mar 2025 Budget</b>	<b>31-Mar 2026 Budget</b>	<b>31-Mar 2027 Budget</b>
<b>Capital Financing Requirement</b>	<b>367</b>	<b>388</b>	<b>482</b>	<b>543</b>	<b>567</b>
<b>External Debt (incl. PFI &amp; leases):</b>					
External borrowing	198	230	313	374	398
Other debt liabilities	21	20	19	18	17
<b>Total Debt</b>	<b>219</b>	<b>250</b>	<b>332</b>	<b>392</b>	<b>415</b>

- 3.4. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The Council expects to comply with this in the medium term, as shown in the table above.

#### **Liability benchmark**

- 3.5. 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 a minimum level of £30m, with any other balance sheet resources used to offset/reduce the need for external borrowing. The table below shows that the Council expects borrowing to be above its liability benchmark over the medium-term.

*Table 5: Borrowing and the Liability Benchmark in £ millions*

	<b>31-Mar 2023 Actual</b>	<b>31-Mar 2024 Forecast</b>	<b>31-Mar 2025 Budget</b>	<b>31-Mar 2026 Budget</b>	<b>31-Mar 2027 Budget</b>
Forecast borrowing	198	230	313	374	398
Liability benchmark	113	148	253	325	360
Difference	85	82	60	49	38

- 3.6. The Council is legally obliged to set an affordable “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 6: Prudential Indicators: Authorised limit and operational boundary for external debt in £ millions

	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
<b>Authorised Limits:</b>				
Borrowing	463	503	565	590
PFI and leases	38	29	28	27
<b>Total External Debt</b>	<b>455</b>	<b>532</b>	<b>593</b>	<b>617</b>
<b>Operational Boundary:</b>				
Borrowing	443	483	545	570
PFI and leases	33	24	23	22
<b>Total External Debt</b>	<b>430</b>	<b>507</b>	<b>568</b>	<b>592</b>

### Treasury investment strategy

- 3.7. Treasury investments arise from receiving cash before it is paid out again. 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.
- 3.8. 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 purchase, and the Council may request its money back at short notice.

Table 7: Treasury management investments in £ millions

	31-Mar 2023 Actual	31-Mar 2024 Forecast	31-Mar 2025 Budget	31-Mar 2026 Budget	31-Mar 2027 Budget
Cash and cash equivalents	41	37	30	29	28
Treasury investments	74	75	60	50	40
<b>Total cash and investments</b>	<b>115</b>	<b>112</b>	<b>90</b>	<b>79</b>	<b>68</b>

- 3.9. The effective management and control of risk are prime objectives of the Council's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses.
- 3.10. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the treasury management strategy approved by Council each year. The Audit and Governance Committee is responsible for scrutinising treasury management decisions, and regular reports on treasury management activity are presented to this committee.
- 3.11. The Council's Treasury Management Strategy, Appendix 4, includes further details of the Council's borrowing and treasury investments.

#### 4. Revenue Budget Implications

- 4.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue (gross financing costs), offset by any investment income receivable (net financing costs).
- 4.2. Estimated financing costs are summarised in the table below and shown as a proportion of the Council's estimated net revenue stream (the amount funded from council tax, business rates and general non-specific government grants).

*Table 8: Prudential Indicator: Proportion of financing costs to net revenue stream*

	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
	£'m	£'m	£'m	£'m
Interest payable	8	11	13	14
Minimum Revenue Provision (MRP)	11	12	13	14
<b>Gross Financing costs</b>	<b>19</b>	<b>22</b>	<b>26</b>	<b>28</b>
<b>Proportion of net revenue streams</b>	<b>5.4%</b>	<b>5.9%</b>	<b>6.7%</b>	<b>7.2%</b>
Less investment income	-6	-4	-4	-4
<b>Net Financing costs</b>	<b>13</b>	<b>18</b>	<b>22</b>	<b>24</b>
<b>Proportion of net revenue streams</b>	<b>3.8%</b>	<b>4.8%</b>	<b>5.7%</b>	<b>6.2%</b>

- 4.4. Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years may extend for many years into the future. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

## Annex 1 – Capital Programme

**98,779      119,345      105,970      40,336      8,514      372,944**

Project Name	2023/ 24	2024/25	2025/26	2026/27	2027/28	Total Project Budget (Up to 27/28)
Parley West Link	0	4,518	0	0	0	4,518
Weymouth BMS	4	0	0	0	0	4
Weymouth Breach Analysis	0	0	0	0	0	0
Weymouth Tidal Defence scheme	10	0	0	0	0	10
Harbour Walls Condition survey	1	0	0	0	0	1
Lyme Regis Environmental Plan phase 4	119	118	0	0	0	237
Durlston Pleasure Grounds	0	0	0	0	0	0
Ultrafast Broadband	0	0	0	0	0	0
Riverbank Improvement Works - Parkdean	0	0	0	0	0	0
Dorset Innovation Park - MoD Battle Lab	0	0	0	0	0	0
Decarbonisation Main Fund	2,191	0	0	0	0	2,191
Chiswell FCERM Strategy Scoping Study	107	0	0	0	0	107
Fibre Hub	0	0	0	0	0	0
PHNWS Cliff Monitoring Scheme	135	135	0	0	0	270
Chesil Sea Wall Study	14	0	0	0	0	14
West Bay Sediment Tracer Study	34	0	0	0	0	34
Rural 5G	0	0	0	0	0	0
Weymouth Harbour & Esplanade FCRM Scheme	0	0	485	0	0	485
Swanage Town Coastal Defences OBC	120	120	0	0	0	240
Safer Streets Round 4	75	75	0	0	0	150
Air Quality LSSG	21	22	0	0	0	43
Eastworth Road LEAP	200	0	0	0	0	200
Milldown Nature Reserve Extension	6	0	0	0	0	6
Wimborne Market	30	90	0	0	0	120
Slop Bog access improv. (Heathland Infr)	9	0	0	0	0	9
Bridport Gateway A	0	0	0	0	0	0
Access improv. Purbeck (Heathland Infra)	223	0	0	0	0	223
Wards Drove / ND Trailway	52	53	0	0	0	105
Swanage Beach Renourishment Scheme (OBC)	268	220	0	0	0	488
Weymouth FCRM OBC	880	180	0	0	0	1,060
EDDC Wimborne Riverside LAP	0	0	0	0	0	0
Adhoc Coastal	0	0	0	0	0	0
Gigahub Connectivity	290	0	0	0	0	290
ITS (Traffic Signals) Asset Replacement	77	258	180	0	0	515
Farm Projects	0	0	0	0	0	0
Local Transport Plan programme of works	27,998	5,670	5,670	5,670	0	45,008
Project Name	2023/ 24	2024/25	2025/26	2026/27	2027/28	Total Project Budget (Up to 27/28)
Parley Cross	0	354	2,999	0	0	3,353

DWP Infrastructure - Blandford site	329	11,477	0	6,999	0	<b>18,805</b>
SOCA Board programme	2,454	4,754	3,000	9,433	0	<b>19,641</b>
Broadband Schemes	250	2,248	0	0	0	<b>2,498</b>
Purbeck Gateway	63	114	28	0	0	<b>205</b>
Weymouth Harbour Walls C & D	95	95	0	0	0	<b>190</b>
High Street Fortuneswell	0	123	0	0	0	<b>123</b>
Development Projects	150	450	186	0	0	<b>786</b>
Lyme Regis Environmental Plan phase 5	959	2,460	0	0	0	<b>3,419</b>
Weymouth Quay Regeneration Project WPBC	3,786	0	0	0	0	<b>3,786</b>
Relocatable Housing Wareham & Bridport	0	0	0	0	0	<b>0</b>
Healthy Homes Dorset	0	81	0	0	0	<b>81</b>
EDDC Sewage Treatment Works Infrastructure Renewal	194	294	0	0	0	<b>488</b>
North Quay redevelopment	540	540	0	0	0	<b>1,080</b>
Gillingham Principal Street Final	0	0	0	0	0	<b>0</b>
Building retrofit programme - Energy Efficiency measures	0	500	1,250	525	0	<b>2,275</b>
A354 Corridor Transport Improvements	10	50	40	872	0	<b>972</b>
B3078 Julian's Bridge, Wimborne – pedestrian and cycle link	5	351	1,944	0	0	<b>2,300</b>
Piddlehinton G&T site pitches	0	958	0	0	0	<b>958</b>
Electric Vehicle charging Infrastructure - on DC Property	200	125	125	125	0	<b>575</b>
Weymouth Transport Improvements	750	2,250	0	0	0	<b>3,000</b>
Electric Vehicle Charging Points - on public property	340	781	0	95	0	<b>1,216</b>
Rough Sleepers Accommodation Programme Phase 2	262	0	0	0	0	<b>262</b>
Bridport Gateway B	84	84	0	0	0	<b>168</b>
Levelling Up	0	0	0	0	0	<b>0</b>
South East Dorset Bike Share	200	0	0	0	0	<b>200</b>
Gore Clump Safety Scheme	75	916	0	0	0	<b>991</b>
A351 Wareham Access Improvement	125	275	1,100	0	0	<b>1,500</b>
Upton Safety Scheme	13	427	310	0	0	<b>750</b>
Maumbury Cross Junction Improvement	0	950	0	0	0	<b>950</b>
A357 Embankment Stabilisation	1,370	0	0	0	0	<b>1,370</b>
Dorchester Road/Mercery Road, Weymouth	55	0	0	0	0	<b>55</b>
Schools Access Initiatives	202	115	317	318	0	<b>952</b>
Relocation of Dorchester Learning Centre	0	0	0	0	0	<b>0</b>
E&E minor capital works	0	0	0	0	0	<b>0</b>
006738 - Dorset Innovation Park, Quadrant 2 - Light Industrial Units	4,441	16	0	0	0	<b>4,457</b>

Project Name	2023/ 24	2024/25	2025/26	2026/27	2027/28	Total Project Budget (Up to 27/28)
Children's minor capital works	16	0	0	0	0	16
Children's modular urgent works programme	64	65	0	0	0	129
Weymouth Relief Road	0	1,350	1,349	0	0	2,699
County Buildings minor capital works	0	0	0	0	0	0
Raise/Mosaic	200	201	0	0	0	401
Property Improvements Programme (R&M)	6,182	6,000	6,000	0	0	18,182
Dorset Council Fleet Replacement Programme	6,146	9,838	4,890	0	0	20,874
DWP Containers & Infrastructure	940	800	800	800	0	3,340
Weymouth Harbour Walls (W&PBC)	887	888	0	0	0	1,775
DTEP	150	187	0	0	0	337
North Dorset Business Park	41	41	0	0	0	82
SOCA Residential Sufficiency	43	0	0	0	0	43
East Street/Damory Court Street, Blandford	200	0	0	0	0	200
A30 Kitt Hill/Marston Road, Sherborne	0	0	0	0	0	0
Buxton Road, Weymouth	42	0	0	0	0	42
Slipway Extension and Storage Solutions	23	0	0	0	0	23
Compulsory Purchase of Long Term Empty Property	192	193	0	0	0	385
ICT Housing Software	73	73	0	0	0	146
Acquisition of temporary accommodation	467	466	0	0	0	933
Aster Hostels	34	34	0	0	0	68
Dinahs Hollow	129	1,079	3,183	0	0	4,391
Minor capital works (Property Improvements)	340	940	600	600	500	2,980
St Mary's School Shaftesbury	500	0	0	0	0	500
SEND capital strategy	6,434	11,079	5,000	3,214	0	25,727
Capital Contingency	415	3,245	2,000	2,000	0	7,660
Moors Valley Adventure Golf	63	0	0	0	0	63
Crematorium Improvements - Overflow Provision	13	13	0	0	0	26
Car Parking Ticket Machines	1,094	300	0	0	0	1,394
Improvements to Carey Outdoor Education Centre	127	128	0	0	0	255
Improvements to Leeson House	24	224	0	0	0	248
Rushcombe First School Boundary Safety Works	0	0	0	0	0	0
Demolition of 9-11 High St Fortuneswell, Portland	0	85	0	0	0	85
New Building for Dive Compressor and Stock Room for Shops	0	0	0	0	0	0
Weymouth Hotel Balconies	30	90	0	0	0	120

Project Name	2023/ 24	2024/25	2025/26	2026/27	2027/28	Total Project Budget (Up to 27/28)
Children's Foster Parents Adaptations	0	0	0	0	0	0
Customer Access points in Libraries £280k	0	0	0	0	0	0
East Dorset Household Recycling Centre	0	0	0	0	0	0
Cranborne Middle School Classroom Accommodation Replacement	190	191	0	0	0	381
Minor Capital Works Coast Protection	0	752	596	0	0	1,348
Converging Customer Services - key ICT applications	0	275	0	0	0	275
Bridport Harbour boat stack	0	202	0	0	0	202
Children's Residential Sufficiency Programme	250	0	0	0	0	250
ICT Minor Capital Works & Projects	2,096	2,471	2,250	0	0	6,817
Replacement Weighbridge - Hybris Business Park	0	0	0	0	0	0
Weymouth Bowl Acquisition (2021/22 bid)	105	0	0	0	0	105
Capital Leverage Fund	240	155	155	0	0	550
Investing in cycleways and traffic control assets	360	720	360	360	0	1,800
Weymouth Dorchester Bike Share	0	400	0	0	0	400
Sewerage Treatment Services Improvement works A	0	100	148	0	0	248
QELC -Capital Maintenance works	365	366	0	0	0	731
Sea defence works at Sandsfoot Castle, Weymouth	31	81	0	0	0	112
Beaucroft School - replacement modular classroom	420	0	0	0	0	420
Ferndown Highways Depot	0	0	0	0	0	0
Gibbs Marsh Highways Depot - Surfacing of Depot yard	35	35	0	0	0	70
Installation of ANPR at HRC sites	0	0	0	0	0	0
Maintenance of Cycleways and Traffic Control Equipment	33	392	360	360	0	1,145
31SC - Bridport Road/Williams Avenue, Dorchester	25	25	0	0	0	50
East Street, Blandford	0	0	0	0	0	0
Hanham Rd, East of Allenview Rd, Wimborne	4	0	0	0	0	4
Remote Monitoring Upgrade Works	0	0	0	0	0	0
Travel & Transport software procurement	0	0	0	0	0	0
Climate Schemes	300	542	806	1,091	0	2,739
Streetlighting schemes	499	600	575	575	0	2,249
Memorial Project County Hall	0	0	0	0	0	0
High East Church Street	25	25	0	0	0	50
Active Travel fund	0	0	0	0	0	0
Former District Council Assets	75	275	245	0	0	595

Project Name	2023/ 24	2024/25	2025/26	2026/27	2027/28	Total Project Budget (Up to 27/28)
Replacement - Upgrading of Sign Shop Equipment	81	0	0	0	0	81
Investing to Save in Highway's Infrastructure Assets 2027/28	0	0	0	0	7,100	7,100
Compliance with EPC Legislation	112	338	0	0	0	450
Gibbs Marsh Highways Depot	84	0	0	0	0	84
West Bay Harbour Wall Emergency Works	638	730	0	0	0	1,368
Council Farms: Electrical and Heating Renewal	36	108	0	0	0	144
Sewerage Treatment Services Improvement Works B	0	1,204	1,308	938	0	3,450
Dorset Centre of Excellence - Property Improvement Programme (Strategic)	117	117	0	0	0	234
Greenhill Chalets	0	643	0	0	0	643
Contribution towards the Replacement of the QE Leisure Centre Artificial Pitch	150	0	0	0	0	150
North Quay Archaeology	0	290	0	0	0	290
North Quay Planning Consent for Scheme and Demolition	70	70	0	0	0	140
Westport House Refurbishment	252	756	0	0	0	1,008
Public Toilets - Footfall Counters	33	33	0	0	0	66
Furzehill - Former East Dorset District Council Offices	1,305	0	0	0	0	1,305
Purbeck Sports Centre -Squash Court Conversion	38	39	0	0	0	77
Verwood Hub - Installation of a Softplay Centre	0	400	0	0	0	400
County Hall Capital Works	250	1,290	0	0	0	1,540
Monkton Park - Old Radio Station	0	0	0	0	0	0
Wimborne Developments	0	500	2,000	3,000	0	5,500
Children's Services - Residential Sufficiency	117	352	0	0	0	469
Improvement to Site and Facilities Carey Outdoor Education Centre	0	0	0	0	0	0
Dorset Centre of Excellence - Phase 2	312	5,688	600	0	0	6,600
Innovation Park Capital Programme	200	3,759	5,300	0	0	9,259
Replacement of Parking Machines	0	0	0	0	0	0
Housing Capital Project Fund	15	2,122	1,965	1,965	314	6,381
Capital Funding for Annual Developments (housing)	0	1,500	1,500	0	0	3,000
Acquisition of Long-Term Empty Properties	0	1,200	600	600	600	3,000
Healthy Homes - additional 22/23 support	0	0	0	0	0	0
Dorset History Centre - extension/redevelopment	0	0	0	0	0	0
LAHF - Ukraine & Afghan Refugee Housing	7,071	1,395	0	0	0	8,466
Shared Prosperity Fund Capital	223	565	0	0	0	788
Adults Care Home	329	9,675	7,996	0	0	18,000

Project Name	2023/ 24	2024/25	2025/26	2026/27	2027/28	Total Project Budget (Up to 27/28)
Family Hubs	125	2,875	0	0	0	3,000
Installation of new PV	100	231	250	250	0	831
Ecological Investment Opportunity	0	0	0	0	0	0
Milborne St Andrew Traffic Management	2	0	0	0	0	2
School Streets	10	90	0	0	0	100
Low Carbon Dorset	378	479	0	0	0	857
DCIA Wessex	250	250	0	0	0	500
Swanage & Durlston Bay Cliff Management	210	0	0	0	0	210
Blandford Bus Stop Improvements	19	0	0	0	0	19
Rural Prosperity Fund	370	1,110	0	0	0	1,480
Lewell Bridge	50	100	0	0	0	150
04PC - Station Road, West Moors	100	0	0	0	0	100
52PC - Station Road, West Moors	100	0	0	0	0	100
HI9081 Abbotsbury Road and B3154 Chickerell Road Junction Improvement	5	278	0	0	0	283
Tilly Whim	2,202	0	0	0	0	2,202
LUF Weymouth Peninsula	1,422	10,084	0	0	0	11,506
LUF Weymouth North Quay	1,316	2,804	0	0	0	4,120
LUF Weymouth New Bond Street	573	3,427	0	0	0	4,000
Giddy Green Footpath	27	0	0	0	0	27
Single Homelessness Accommodation Project	349	0	0	0	0	349
B2SA Specialist Housing Development Fund	0	2,000	2,000	0	0	4,000
ERP Replacement	0	5,500	5,500	0	0	11,000
Bridport Connect - Demolition	0	170	0	0	0	170
Dorset History Centre	0	0	0	546	0	546
Spend & financing profile revision	0	-30,000	30,000	0	0	0
<b>Programme Totals</b>	<b>98,779</b>	<b>119,345</b>	<b>105,970</b>	<b>40,336</b>	<b>8,514</b>	<b>372,944</b>

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