Appendix 3: Capital Strategy 2025-2028

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 this appendix, with total planned capital expenditure in 2025/26 and the following two years is summarised in the table below:

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

	2024/25	2025/26	2026/27	2027/28
Capital Expenditure	100	147	134	79

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

	2024/25	2025/26	2026/27	2027/28
Grants and contributions	60	65	3	3
Capital receipts applied	6	10	1	1
Debt	22	59	115	59
Minimum Revenue Provision (MRP)	12	13	15	16
TOTAL	**100**	**147**	**134**	**79**

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 2026/27. 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 2024 Actual	31-Mar 2025 Forecast	31-Mar 2026 Budget	31-Mar 2027 Budget	31-Mar 2028 Budget
Capital Financing Requirement	388	410	470	585	645

3. <u>Treasury Management</u>

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

	31-Mar 2024 Actual	31-Mar 2025 Forecast	31-Mar 2026 Budget	31-Mar 2027 Budget	31-Mar 2028 Budget
Capital Financing Requirement	**388**	**410**	**470**	**585**	**645**
External Debt (incl. PFI & leases):					
External borrowing	225	315	375	490	550
Other debt liabilities	19	20	20	20	20
Total Debt*	**244**	**335**	**395**	**510**	**570**
Internal Borrowing	**144**	**75**	**75**	**75**	**75**
*Total Debt as a % of Net Revenue Stream	70%	89%	95%	124%	134%

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

	31-Mar 2024	31-Mar 2025	31-Mar 2026	31-Mar 2027	31-Mar 2028
Existing borrowing	225	224	171	168	165
Forecast borrowing (a)	225	315	375	490	550
Liability benchmark (b)	182	270	340	465	535
Difference (a-b)	43	45	35	25	15

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

	2024/25 Limit	2025/26 Limit	2026/27 Limit	2027/28 Limit
Authorised Limits:				
Borrowing	503	490	605	665
PFI and leases	29	30	30	30
Total External Debt	**532**	**520**	**635**	**695**
Operational Boundary:				
Borrowing	483	470	585	645
PFI and leases	24	25	25	25
Total External Debt	**507**	**495**	**610**	**670**

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 2024 Actual	31-Mar 2025 Forecast	31-Mar 2026 Budget	31-Mar 2027 Budget	31-Mar 2028 Budget
Cash and cash equivalents	22	40	35	30	30
Treasury investments	51	35	30	25	15
Total cash and investments	**73**	**75**	**65**	**55**	**45**

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 5, 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

	2024/25 Forecast	**2025/26 Forecast**	**2026/27 Forecast**	**2027/28 Forecast**
Interest Payable	10	14	18	23
Minimum Revenue Provision (MRP)	12	13	15	16
Gross Financing Costs	**22**	**27**	**33**	**39**
Proportion of net revenue stream	**5.9%**	**6.5%**	**8.1%**	**9.1%**
Less Investment Income	-5	-4	-4	-4
Net Financing Costs	**17**	**23**	**29**	**35**
Proportion of net revenue stream	**4.5%**	**5.5%**	**7.1%**	**8.1%**

4.3. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP) and is calculated with regard to the then Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance), most recently issued in 2018. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year, included as Annex 2 to the Treasury Management Strategy.

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.