Mid Devon
DISTRICT COUNCIL

Report for:	**Cabinet**
Date of Meeting:	6 February 2024
Subject:	**2024/25 Capital Strategy and 2024/25 – 2028/29 Capital Programme**
Cabinet Member:	Cllr James Buczkowski – Cabinet Member for Finance
Responsible Officer:	Andrew Jarrett – Deputy Chief Executive (S151)
Exempt:	N/a
Wards Affected:	All
Enclosures:	Appendix 1 – 2024/25 – 2028/29 Capital Programme

Section 1 – Summary and Recommendation(s)

The Capital Strategy is a key document for the Council and forms part of the Council's integrated financial planning processes which includes the setting of the capital and revenue budgets, business plan and council tax for the year ahead, consideration of the medium-term financial plans and production of a Treasury Management Strategy.

To agree the proposed 2024/25 Capital Strategy and to seek approval of the 2024/25 Capital Programme and note the indicative Capital Programmes for 2025/26 to 2028/29.

Recommendation(s):

That Cabinet recommend to Full Council:

1. **That the proposed 2024/25 Capital Strategy is approved.**
2. **To approve in principal the current estimated amounts of Slippage of £28,833k from the 2023/24 Deliverable Capital Programme and £44,947k of 2023/24 Capital Programme expenditure profiled over the life of the remaining MTFP. This will be finalised and formal approval sought as part of 2023/24 Outturn report.**
3. **The overall Capital Programme for new projects commencing in 2024/25 of £18,967k be approved and the indicative Capital Programmes across**

the four remaining years of this Medium Term Financial Plan covering 2025/26 to 2028/29 be noted.

4. **To approve the 2024/25 Deliverable Budget based on the forecast spend profile of £40,701k, this will include elements of amounts detailed in recommendations 2 and 3 above and will form the budget to monitor against as part of the Council's quarterly budget monitoring processes in 2024/25, subject to any changes referred to in recommendation 2 at Outturn.**

Section 2 – 2024/25 Capital Strategy

1.0 <u>Introduction</u>

1.1 The Capital Strategy 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 The strategy is designed to be a user-friendly document, which can direct stakeholders to the relevant documents relating to Treasury decisions, Asset Management and the Capital Programme for the coming years. It provides a link between these activities and reiterates the need for these to be co-ordinated to support the objectives of the Corporate Plan.

1.3 This strategy brings together the statutory requirements of the Chartered Institute of Public Finance Accountants (CIPFA) and the CIPFA Prudential Code for Capital Finance in Local Authorities. There is also a strong link with the Treasury Management Strategy that provides a framework for the borrowing and lending activity of the Council.

1.4 The Capital Strategy needs to be relevant in the current financial and economic climate and therefore needs a cautious and measured, yet flexible, approach that reflects the fact that:

- The impact on the Revenue Budget arising from the Capital Investment Programme must be affordable and sustainable, and be used to aid the bottom line;
- Capital resources available to the Council are limited, with little direct funding provided from Government and currently limited scope to raise income from Capital Receipts;
- Local Government's range of responsibility is constantly changing along with the role that it plays within the community, leading to an expectation that Society will assist in the delivery of services.

1.5 The Council is required, by regulation, to publish a number of indicators relating to the Capital Investment Programme, Treasury Management and the revenue implications of the programme, known as the Prudential Indicators. This report, along with the Treasury Management Strategy, publishes those indicators, based on the assumption that Cabinet / Council will approve the proposals contained within the Revenue Budget and Capital Programme.

2.0 Strategic Aims

2.1 The key objective of the Capital Strategy is to deliver a Capital Programme that:

- Ensures that the Council has assets that are fit for purpose and enable the delivery of the priorities set out in the Corporate Plan;
- Supports the Council's service specific plans and strategies;
- Facilitates income generation that aids the Revenue Budget;
- Is affordable, financially prudent and sustainable.

This should not however prevent the authority from:

- Reducing the on-going liability of holding assets by engaging with communities to develop alternative service delivery options including asset transfer;
- Fully utilising resource opportunities available for Capital Investment from outside sources where this does not create ongoing revenue liabilities or commitments that cannot be met.

3.0 Priorities

3.1 The Council's priority areas for investment can be summarised as:

3.1.1 **Asset replacement and/or enhancement**: The services delivered by the Council depend upon a variety of assets such as Plant, Property and Equipment (PPE) or vehicles. These need to be updated/upgraded on a regular basis to ensure service delivery is maintained or enhanced. Asset maintenance is a revenue cost; the purchase or enhancement is a capital cost.

3.1.2 **Income Generation:** The Council is looking to identify investments that generate an income to replace the lost grant funding and ease the pressure on the Revenue Budget. Specific projects / investment opportunities will be brought forward for approval by the Cabinet as they are identified.

3.1.3 **Economic Regeneration:** The Council is committed to investing in the District's future through regeneration projects. Any schemes will need to be self-financing so that borrowing costs are covered by either Grant, investment income or capital receipts leaving no ongoing impact on the Council's Revenue Budget.

3.1.4 **Invest to save**: The Council is always looking for opportunities to deliver future efficiencies in service provision, known as 'Invest to Save'. This could include investment in technology or processes. The "green" investments are a good example of this, where investment in more efficient heating systems reduces the ongoing cost of energy consumption.

3.1.5 **Health and Wellbeing:** The Council's receives the Disabled Facilities scheme, which pays for essential housing adaptations to help disabled people stay in their own homes. In the current climate, it is also important that the Council plays a wider role in the health and wellbeing of its local community.

4.0 Capital Expenditure and Financing

4.1 Capital expenditure is incurred on the acquisition or creation of assets, or expenditure that enhances or adds to the life or value of an existing asset that is needed to provide services. Assets can be tangible or intangible assets and yield benefits to the Council generally for a period of more than one year e.g. land, buildings, vehicles. This contrasts with revenue expenditure which is spending on the day-to-day running costs of services such as employee costs and supplies and services. In Local Government, this includes spending on assets owned by other bodies, or loans and grants to other bodies enabling them to buy/build assets. The Council has limited discretion on what counts as capital expenditure, for example assets costing below £20k are deemed deminimis and are not capitalised but are instead charged to revenue in-year.

4.2 The detail of our approach to capitalisation is shown in our Accounting Policies in the Statement of Accounts that are produced each year. The Audit Committee have approved the latest draft Accounts subject to some minor outstanding queries. The latest Accounts can be found here:

https://www.middevon.gov.uk/your-council/finance/annual-accounts/

4.3 Service managers bid annually to include projects in the Council's Capital Programme. Bids are collated by Finance who calculate the financing cost (which can be nil if the project is fully externally financed). The relevant PDGs consider the Capital Programme and the funding thereof and can make recommendations to Cabinet. The final Capital Programme is then presented to Cabinet in February who recommend it to Full Council for approval the same month each year.

4.4 In 2024/25, the Council is requesting approval of new capital expenditure of £18,967k for new projects due to start in 2024/25 as well as estimated £21,734k of expenditure approved in prior years that has slipped in timescale or was planned for future years. These projects have an expenditure profile within 2024/25 of £40,701k which forms the Deliverable Budget for the year (as detailed in **Appendices 1 and 2**). It can be summarised as follows:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure £000	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
General Fund Projects	4,910	4,459	24,675	21,780	2,580
HRA Projects[1]	6,957	7,414	16,025	16,290	25,236
Loans to Subsidiary Company*	5,363	2,639	0	0	0
Total	**17,230**	**14,512**	**40,701**	**38,070**	**27,816**

**This figure is gross loans and excludes repayments and working capital loans (which are treated as Revenue)*

4.5 All capital expenditure must be financed, whether 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).

4.6 Borrowing may be internal or external:

4.6.1 **Internal borrowing** uses the cash balances of the Council. Currently, these balances yield small returns on the investment market and is therefore cheaper than the interest rate payable on an external loan and so is maximised as far as possible. This has been a significant funding source in recent years.

4.6.2 **External borrowing** is via loans. Within Local Government, the main provider for long-term borrowing has traditionally been the Public Works Loan Board [PWLB]. However, the Council also uses other organisations, such as other Local Authorities for shorter-term cash flow requirements.

4.7 An increasing number of assets are leased, such as the new vehicles within our fleet. These are normally taken through Finance Leases where the asset remains owned by the finance company, but the Council rents them.

4.8 The planned financing of the expenditure in Table 1 above is as follows:

Table 2: Capital financing

Financing of Capital Expenditure £000	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Capital receipts	865	1,306	1,394	1,855	1,097
Capital grants	4,967	4,665	15,943	21,240	12,295
Revenue Contributions	0	0	0	0	0
Borrowing	4,018	4,593	5,120	3,799	2,746
Total	**7,380**	**3,948**	**18,244**	**11,176**	**11,678**

[1] The Housing Revenue Account (HRA) is a ring-fenced account, which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately.

4.9 Debt is only a temporary source of finance, as loans and leases must be repaid and is therefore replaced over time by other financing, usually from revenue, which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as Capital Receipts) may be used to replace debt finance.

4.10 The Council's full Minimum Revenue Provision / loans fund repayments statement is shown in **Appendix 1** of the Treasury Management Strategy Statement. This strategy is also included elsewhere on the meeting agenda. Planned MRP is as follows:

Table 3: Planned MRP payments

Planned MRP Payments £000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	2,868	803	989	1,086	1,125
Housing Revenue Account	972	991	1,008	1,099	1,342
Total	**3,840**	**1,794**	**1,997**	**2,184**	**2,568**

4.11 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 / loan repayments and capital receipts used to replace debt. Members should note the reduction in the 2023/24 estimate resulting from closing 3 Rivers Developments Ltd. Based on the above figures for expenditure and financing, the Council's estimated CFR is expected to increase by £15,721k during 2024/25 and continue to gradually increase over future years as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

Capital Financing Requirement £000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund Services	9,623	9,722	18,657	21,892	21,880
Council Housing (HRA)	40,552	40,163	46,949	52,651	61,719
Loans to Subsidiary Company*	14,417	0	0	0	0
Total CFR	**64,592**	**49,885**	**65,606**	**74,543**	**83,599**
Movement in CFR	**3,464**	**-14,707**	**15,721**	**8,937**	**9,056**

** Loans to Subsidiary Company investments relate to capital expenditure on housing developments and investment properties.*

This table is cumulative including existing and future borrowing. This is reduced as and when repayments are scheduled.

5.0 Treasury Management

5.1 Treasury Management is concerned with keeping sufficient, but not excessive cash, available to meet the Council's spending needs, while managing the risks involved. To avoid excessive credit balances or overdrafts in the bank current account, surplus cash is invested until required while a shortage of cash will be met by borrowing. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

5.2 Due to decisions taken in the past, at 31 March 2024 the Council is forecast to have £31,373k of borrowing (excluding finance leases) at an average interest rate of 2.91% and £17,901k of short term treasury investments earning interest at an average rate of 5.48%.

5.3 **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (up to 1 year, mainly through other Local Authorities - currently available at around 5%) and long-term fixed rate loans where the future cost is known but higher (currently around 5.4% from PWLB[2]).

5.4 Projected levels of the Council's total outstanding debt (which comprises borrowing and leases) are shown below, compared with the Capital Financing Requirement.

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

Gross Debt and The Capital Financing Requirement £000	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Debt (including Leases)	35,291	33,465	41,179	45,362	53,626
Capital Financing Requirement (CFR)	64,592	49,885	65,606	74,543	83,599
Under / (Over) Borrowing	**29,301**	**16,420**	**24,427**	**29,181**	**29,973**

5.5 Statutory guidance is that Debt should remain below the Capital Financing Requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in 2024/25 through to 2026/27.

5.6 **Affordable borrowing limit:** The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year

[2] As at the time of drafting this report – 26 January 2024

and to keep it under review. In line with statutory guidance, a lower "Operational Boundary" is also set as a warning level should debt approach the limit. Further details on borrowing are included with the Treasury Management Strategy, which is also included elsewhere on the meeting agenda.

Table 6: Prudential Indicators: Authorised Limit and Operational Boundary for external debt

Authorised Limit and Operational Boundary for External Debt £000	2022/23 Limit	2023/24 Limit	2024/25 Limit	2025/26 Limit	2026/27 Limit
Authorised Limit	81,000	60,000	75,000	85,000	93,000
Operational Boundary	72,000	51,000	66,000	76,000	84,000

5.7 **Investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of Treasury Management.

5.8 The Council's policy on treasury investments is to prioritise Security and Liquidity over Yield (SLY Principle), to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the Government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice. Further details on treasury investments is included within the Treasury Management Strategy, but can be summarised as follows[3]:

Table 7: Treasury Management investments

Treasury Management Investments £000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate
Short-Term Investments	19,757	17,901	10,000
Long-Term Investments	5,000	5,000	5,000
Total	**24,757**	**22,901**	**15,000**

5.9 **Governance:** Decisions on Treasury Management investment and borrowing are made daily and are therefore delegated to the S151 (Deputy Chief Executive) and finance staff, who must act in line with the Treasury Management Strategy approved by Full Council annually. Reports on Treasury Management activity are presented to Cabinet three times per year.

6.0 <u>Investments for Commercial and Economic Development Purposes</u>

6.1 The Council makes investments to assist local public services, including making loans to other public sector bodies to promote economic development and

[3] As at the 31 March of the appropriate year

provide an income stream. In light of the public service objective, the Council is willing to take more risk than with other treasury investments; however it is still a requirement for such investments to generate a profit after all costs, and after conducting all appropriate due diligence.

6.2 For example, the Council facilitated a loan to fund a GP Surgery/NHS Hub in Crediton. Not only will this provide the Council with a return on its loan, it will also provide an important, modern NHS Hub in Crediton, replacing two existing GP Surgeries and offering further NHS services to the public.

6.3 With Central Government financial support for local public services declining and the tightening of regulations within the Prudential Code that prohibits the Council from investing primarily for financial return, the options for the Council to invest in Commercial and for Economic Development purposes is limited.

6.4 The Council also has commercial activities in retail properties, which expose it to normal commercial risks. The over-arching ethos behind these activities is economic regeneration and retention of premises within the town centre rather than the income stream.

6.5 **Governance:** Decisions on commercial investments are made by the S151 (Deputy Chief Executive) in conjunction with the Leadership Team, in line with the criteria and limits approved by Council in the Treasury Management Strategy Statement (TMSS). Property and most other commercial investments are also capital expenditure and asset purchases will therefore also be approved alongside the capital programme.

7.0 Asset Management

7.1 In order to ensure the Council is allocating its resources in the most effective way, an Asset Management Plan (AMP) is maintained. It outlines where capital investment can assist the Council achieve its goals or where investment and use of resources plays a contributing role to shared priorities. Therefore the AMP helps set out the Council’s approach to the Strategic Management of its land and building assets. It has been developed in consultation with the Senior Officers and Members of the Council who form the Capital Strategy Asset Management Group (CSAG). The AMP seeks to ensure that assets are used in the most effective and efficient way to support the delivery of the Corporate Plan.

7.2 The latest version of the AMP was considered and approved by Cabinet on 4 March 2021. It can be found here:

https://www.middevon.gov.uk/media/353719/supplement-revised-format-for-asset-management-and-capital-strategy-plan-04032021-v1.pdf

7.3 The AMP enables the Council to consider the best use of its assets by identifying those that require investment in planned maintenance; those that it should consider disposal of, those that could generate additional income from leasing out etc. These considerations will then inform the Capital Programme and funding decisions.

7.4 **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as Capital Receipts, can be spent on new assets or to repay debt. The Council expects to receive c£1,000k of Capital Receipts in 2024/25 (net of Government Pooling); these are associated with the sale of Council Houses through the 'Right to Buy' scheme.

8.0 Liabilities

8.1 In addition to debt of £41,179k in 2024/25 detailed in Table 5 above, the Council is committed to making future payments to cover its pension fund deficit (valued at £16,077k in March 2023).

8.2 **Governance:** The risk of liabilities crystallising and requiring payment is monitored by Finance and Legal. Any new material liabilities would be reported to Full Council for approval/notification as appropriate.

9.0 Revenue Budget Implications

9.1 Although capital expenditure is not charged directly to the Revenue Budget, interest payable on loans and Minimum Revenue Provision (MRP) are charged to revenue, offset by any investment income receivable. The net annual charge is known as Capital Financing Costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government Grants.

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

Proportion of Financing Costs to Net Revenue Stream %	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	16.33%	-4.15%	1.57%	4.82%	5.74%
Housing Revenue Account	12.31%	9.16%	9.57%	11.34%	13.76%

**Further details on the revenue implications of capital expenditure are found in the Revenue Budget report.*

9.2 **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the Revenue Budget implications of capital expenditure incurred in the next few years will extend for up to 50 years into the future. The S151 (Deputy Chief Executive) is satisfied that the Council has adequate means of financing and repaying any required borrowing and therefore the proposed Capital Programme is prudent, affordable and sustainable. .

10.0 Knowledge and Skills

10.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the S151 (Deputy Chief Executive) and Corporate Manager for Finance, Property and Climate Change are both qualified accountants with 20+ years' of experience. In addition, the Council employs eight finance staff who hold one or more of the following qualifications CIPFA, ACA, CIMA, ACCA and AAT.

10.2 To support those staff, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Group as treasury management advisers and Ichabod Industries as technical advisers on accountancy matters. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The 2024/25 Capital Programme and 2024/25 – 2028/29 Capital Medium Term Financial Plan (CMTFP)

11.0 The 2024/25 Capital Programme

11.1 The 2024/25 Capital Programme includes significant new investment into Council House building projects and future years indicative programmes include ‘spend to save’ projects improving the energy efficiency of our property estate that will only be undertaken if the Council is successful in securing sufficient external funding and is accompanied by a robust business case that demonstrates an acceptable payback.

11.2 There is also projected slippage detailed on the appendices relating to the 2023/24 Deliverable Programme currently estimated to be £28,833k that will roll into the 2024/25 Capital Programme. In addition there is £44,947k within the 2023/24 Capital Programme with spend profiled over future years. Both of these are detailed in recommendation 2 and are estimates at this stage. The approval of final figures will be sought as part of the Outturn Report to either add to the 2024/25 Capital Programme or relevant year of the CMTFP.

11.3 Full project approval is requested at project inception, for 2024/25 this amounts to £18,967k. This is then profiled by spending managers as their best estimate of when spending will take place to form the Deliverable Budget of £40,701k. This gives a better indication of what is deliverable each year and will better inform our Treasury Management activities.

11.4 **Appendix 1** shows the proposed 2024/25 Capital Programme. The Deliverable Budget includes the proportion of expected spend within the 2024/25 Capital Programme and the estimated slippage and profiled spend of the 2023/24 Capital Budget forecast to be spent in 2024/25. This is the value that will be monitored against in-year.

11.5 **Appendix 1** also shows the updated indicative Capital Programme for the remaining years within this CMTFP, refreshed with up to date information on expenditure and funding. These projections are likely to alter, as we get closer to those years as greater information becomes available. Therefore, only the Capital Programme for 2024/25 is proposed for approval; the indicative future years are only for information and noting.

11.6 General Fund Investment.

11.6.1 Further investment to enable the Council to update its infrastructure and improve our carbon footprint is included. Within the investment in our Leisure Service, there are a number of investments in new equipment to maintain a competitive service offering.

11.6.2 There is an assumption included in respect of the Cullompton Relief Road. Currently, funding has been secured to cover the initial projected estimated cost of this project. However, costs have dramatically increased since that funding was received. Therefore, the Council have submitted three bids to the Levelling Up Fund to cover the forecast difference for the Cullompton project. These bids have all been rejected and currently other forms of funding are actively being sought to enable this project to be delivered.

11.6.3 As in previous years, the Disabled Facilities Grant funding will be used to improve homes across the district that will enable residents with health problems to remain in their homes, therefore avoiding or delaying the need for them to enter the health care system.

11.7 Housing Revenue Account Investment

11.7.1 A number of projects to enhance the quality of our existing housing stock costing c£3m per annum are undertaken each year through the planned maintenance scheme. In 2024/25, provision has been made to invest in garage refurbishments, replace roofing, windows and doors in properties where required, along with general modernisation works, including updating heating systems.

11.7.2 Significant new investment is planned to deliver new housing within the district predominantly through highly efficient (zero carbon) modular buildings. To fund the proposed Housing Development Schemes, a prudent assumption has been included for the utilisation of 1-4-1 receipts or for additional grant funding to be made available from Homes England and One Public Estate Funding; although a substantial element of the cost remains with the Council. In total, £27,554k is assumed to be secured from 1-4-1 receipts or external grant funding, leaving £30,054k to be funded by borrowing.

11.7.3 A significant amount of work was undertaken when producing the Council's Capital Medium Term Financial Plan (CMTFP) during the year, which helped to scope the size and funding of the 2024/25 Capital Programme. A number of subsequent meetings were held with Corporate Managers, which focused on the essential projects (in terms of end of life asset replacement or health and safety) and involved reprioritising or rescheduling expenditure to future years.

12.0 Funding the Capital Programme

12.1 The 2024/25 Capital Programme is fully funded by a combination of :

Table 10: 2024/25 Capital Programme Funding (based on project inception)

Funding Sources	Funding 2024/25 £000's
Funding from Revenue EMR's	4,971
Funding from Government Grants	16,892
Usable Capital Receipts	1,067
Borrowing	17,772
General Fund Subtotals	**40,701**

12.2 The projected level of usable capital receipts (this includes unring-fenced useable capital receipts and capital receipts ring-fenced for 1:4:1 replacement homes) available for 2024/25 is £1,067k. All other previously generated capital receipts have been used to balance the subsequent years of the MTFP. This only enables a small number of Council funded schemes to be incorporated into the Capital Programme. The figures assumed for receipts from the sale of assets have been calculated prudently and therefore if any additional receipts are generated, the Council could reduce the need for external borrowing, or return to some of the projects which could not be funded in the first instance and consider their inclusion. Any decision to increase the Capital Programme (subject to constraints within the financial rules) would require Full Council approval and be linked to the Corporate Plan priorities.

12.3 The Government Pooling arrangements mean a proportion of the Council House sale proceeds are pooled to the Government; a proportion is retained in a ring-fenced reserve for replacement house building (linked to the HRA self-financing arrangements that have been in place since 01/04/12). The balance is retained by the Authority as a useable capital receipt, which can be used to support our Capital Programme.

12.4 The works programme identified to maintain our existing council house stock will be funded mainly from the Major Repairs Reserve (MRR). The balance of available monies will remain in the MRR in order to deal with future additional spend that has been identified by the stock condition survey.

12.5 The Council continues to set aside sinking funds for future asset maintenance, replacement of Leisure plant and equipment and for future replacement of ICT systems and equipment. This ensures the Revenue base budget is more robust. However, given the pressure on its finances, the Council will need to assess whether this remains affordable, or whether alternative options should be explored.

13.0 <u>Council Borrowing</u>

13.1 Prudential borrowing has been estimated for 2024/25 at £17,772k, this will be used to fund General Fund schemes amounting to £9,978k and HRA schemes amounting to £7,794k. All schemes will be subject to a rigorous business case assessment; their cost and timing of spend will determine the amount of actual prudential borrowing required. The use of internal borrowing will be applied wherever possible.

13.2 New Borrowing is also envisaged across the remainder of this MTFP i.e. 2025/26 to 2028/29 amounting to £29,207k (excluding those projects being rolled forward from the already approved 2023/24 Capital Programme); of this £6,397k will be used to deliver General Fund projects and £22,810k to deliver HRA projects.

13.3 Borrowing will be supported or supplemented with short and medium term Treasury Management decisions based on prevailing and future interest rates and will only be considered in exceptional circumstances. This is in relation to the projects detailed above or for spend to save projects following a robust cost/benefit analysis exercise that would be able to demonstrate both an acceptable 'payback period' and that savings would be generated in excess of the annual revenue cost of servicing the debt.

14.0 Conclusion

14.1 As previously mentioned, the Capital Programme for the next five years is limited due to the scarce availability of funding (with the exception of borrowing). It is, therefore, imperative that capital funds are only spent on those projects that enable the Council to deliver its Corporate Plan objectives, reduce operational cost, or generate a financial return.

14.2 The Capital Programme encompasses a broad range of expenditure including operational assets, which will be used for more than one year; assets owned by other bodies, or loans and grants to other bodies enabling them to buy/build assets.

14.3 Funding for this programme includes significant borrowing. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Council transparency and control over its debt.

14.4 The Treasury Management Strategy Statement details the approach that the Council will take in ensuring it has sufficient cash available to meet the Council's spending needs. Reports on Treasury 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, will be taken to Full Council via the Cabinet.

Financial Implications

Good financial management and administration underpins the entire strategy. The Capital Strategy sets the boundaries in which the Council's capital and treasury management functions operate. The 2024/25 Capital Programme of £18,967k is fully funded. It does, however, include £17,772k of anticipated PWLB borrowing to fund various projects. Future capital receipts are now estimated at such a low level that the Council needs to continually evaluate ways of making additional provision to fund its long-term capital programme or reduce its property portfolio. This is especially relevant due to the uncertainty around the future of New Homes Bonus and its availability as an income stream going forward.

Legal Implications

Authorities are required by regulation to prepare a Capital Strategy for each financial year that needs to be approved by Full Council prior to the start of the financial year. Authorities must also have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

Risk Assessment

The S151 Officer is responsible for the administration of the financial affairs of the Council. A co-ordinated approach to Asset Management and Financial Planning will help mitigate the risks associated with holding and utilising assets. Financial risk is mitigated by sound Treasury Management practices and defined limits. There is a risk of clawback of external funds if sums received are not spent in accordance with the terms on which they were given, or not within agreed timescales. New Capital Receipts for 2024/25 have been projected at a prudent level but there is a risk that if these do not materialise, the Authority may need to delay scheme start dates to the following financial year or identify an alternative funding mechanism to ensure full programme delivery. Other risks, such as cash flow management are managed through the operation of the Treasury Management Strategy.

Impact on Climate Change

The Council has committed to a net zero carbon policy by 2030. Any major asset replacements/upgrades will consider the environmental impact in relation to carbon footprint.

Equalities Impact Assessment

Each of the capital investments will be, where appropriate, subject to an impact assessment. This is done with a view to identifying possible actions to mitigate negative impacts. However, many of the proposals do not have a direct impact on the public and therefore do not require an Impact Assessment.

Relationship to Corporate Plan

A strategic approach to Asset Management supports our Corporate Plan priorities of business retention, growth and development. Maximising our return from all associated treasury activities enables the Council to support current levels of spending in accordance with our Corporate Plan. The Capital Programme identifies the capital investment proposed across all strands of the Corporate Plan over the next five years.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett
Agreed by or on behalf of the Section 151
Date: 26 January 2024

Statutory Officer: Maria De Leiburne
Agreed on behalf of the Monitoring Officer
Date: 26 January 2024

Chief Officer: Stephen Walford
Agreed by or on behalf of the Chief Executive/Corporate Director
Date: 26 January 2024

Performance and risk: Steve Carr
Agreed on behalf of the Corporate Performance & Improvement Manager
Date: 26 January 2024

Cabinet member notified: (yes)

Section 4 - Contact Details and Background Papers

Contact: Andrew Jarrett, Deputy Chief Executive (S151)
Email: ajarrett@middevon.gov.uk
Telephone: 01884 234242

Contact: Paul Deal, Corporate Manager for Finance, Property and Climate Change
Email: pdeal@middevon.gov.uk
Telephone: 01884 234254

Background papers:

- 2024/25 – 2028/29 Medium Term Financial Plan update (December 2023 Cabinet)
- 2024/25 – 2028/29 Medium Term Financial Plan update (January 2024 Cabinet)