CAPITAL STRATEGY 2025/26

INTRODUCTION AND CONTEXT

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

It is a requirement of the amendments implemented in the 2018 Treasury Management Code of Practice Guidance that all Local Authority's will need to produce a Capital Strategy each year.

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.

The strategy will provide an overarching policy framework for the Council's capital programme and planning and will form part of a suite of strategies which provide a holistic view of the Council's financial planning framework. This document should be considered in conjunction with the Medium-Term Financial Strategy and Treasury Management Strategy.

GOVERNANCE

The council have published a capital handbook to strengthen capital governance in line with the constitution which details how capital projects are approved and added into the capital programme.

All projects will go through the Capital Programme Officer Group.

Schemes up to £0.200m require approval under Section 151 Officer powers, schemes above £0.200m will be endorsed for Capital Programme Board approval.

Each scheme will need to detail:

- the aim of the project and any other ways of achieving it
- how it will be funded
- if there are any future revenue implications from the project e.g., building maintenance.
- effects on staffing
- legal, contractual, and prudential borrowing code implications
- if the Council is acting through an agent or partnership, legal advice must be sought on whether it has the power to act in this way.

any comments made during any consultation and the Council's response.

- the estimated amount and timing of any capital and revenue spending.

All proposed new schemes will need to demonstrate how they meet the requirements of the City by presenting a Business Case for approval and detail which of the City's outcomes are being achieved and how the scheme will address this need.

Due diligence is carried out on all new proposals to determine whether the scheme is deemed suitable.

Once accepted, all new schemes, which will require both finance and legal signoffs, are published as an Executive Decision including the Leaders decision to add the agreed spend to the capital programme.

The Capital Financing Strategy is agreed annually with the Capital Programme as part of the annual budget setting process. Variations to the Capital Programme or in-year additions (subject to delegation), will be agreed by Cabinet through the presentation of quarterly Capital Programme monitoring.

CAPITAL PLAN

The Capital Plan is the collective term which defines two key elements; the Capital Programme as approved by the Leader or S151 Officer and the Capital Pipeline which refers to possible future funding that may be available for future projects yet to be approved.

The Capital Programme is the list of schemes which have a confirmed funding source and have been approved for capital investment by the Leader following consideration of a robust, evidence-based business case.

"The Capital Pipeline" is the term used to refer to funding that the Council hopes to receive in the future but has not yet been approved. These consist of both ring-fenced and unringfenced resources.

Ring-fenced resources are essentially those that can only be applied to a specific purpose and include specific grants and S106 contributions etc. Unringfenced resources can be applied to any project and include unringfenced grants and borrowing etc.

With the increased cost of borrowing, additional challenge is required on projects with service and corporate borrowing implications. This is to ensure that the approved Capital Programme (with allowances for re-profiling) remain within the financial constraints of the 2024/25 treasury management budget.

CAPITAL PROGRAMME

Once approved, schemes are added to the Capital Programme for delivery.

The table below details the Capital Programme as at 30 September 2024 which is due to be reported to Cabinet and then Full Council 25 November 2024.

If any adverse variances are identified to approved schemes, there is a requirement for the schemes to identify the funding and to seek further approval. This is to enable authorisation for the increased expenditure and provides details of the variance.

Table 1. **<u>Five Year Capital Programme by Directorate</u>**

Directorate	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Children's Services	0.735	0.114	-	-	-	**0.848**
Adults, Health and Communities	28.120	11.922	0.842	0.164	-	**41.048**
Place - Economic Development	34.082	32.181	42.215	16.715	12.582	**137.775**
Place - Strategic Planning & Infrastructure	61.444	49.298	28.915	0.672	0.275	**140.605**
Place - Street Services	24.860	11.835	0.295	0.234	0.212	**37.435**
Resources	3.465	4.093	0.728	0.280	0.101	**8.667**
Office for Director of Public Health	6.221	0.070	-	-	-	**6.291**
Total	**158.927**	**109.513**	**72.995**	**18.065**	**13.170**	**372.669**

Financed by:						
Capital Receipts	3.230	1.763	9.368	0.180	2.008	**16.549**
Grant Funding	87.765	34.565	0.023	0.023	0.193	**122.570**
Corporate Funded borrowing	32.621	35.352	22.539	0.860	0.545	**91.918**
Service dept. supported borrowing	28.800	33.872	34.100	16.920	10.322	**124.014**
Developer contributions	3.968	3.129	6.921	0.082	0.102	**14.202**
Other Contributions	2.542	0.831	0.043	-	-	**3.416**
Total Financing	**158.927**	**109.513**	**72.995**	**18.065**	**13.170**	**372.669**

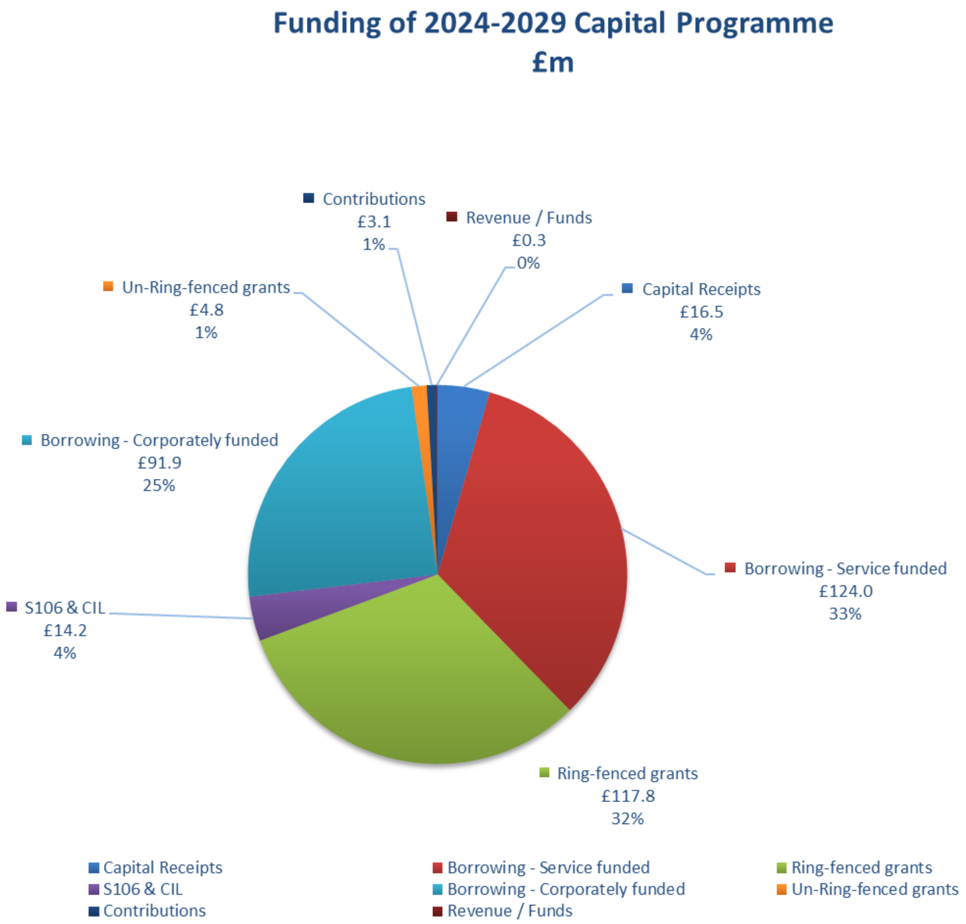
CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is defined as money spent on assets, such as property or vehicles, which will provide a service benefit for more than one year. In local government, this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 (land and buildings) and £5,000 (vehicles, plant, or equipment) are not capitalised and are charged to revenue in year.

Capital expenditure is financed by a range of sources which may either be ringfenced or unringfenced. The source of financing is always identified and approved at the time of capital project approval. The Capital Programme is currently financed by:

- Capital Receipts.
- Grants and contributions.
- S106 and Community Infrastructure Levy (CIL).
- Revenue Contribution to Capital Outlay (RCCO).
- Borrowing – both funded corporately, or where schemes deliver a saving, this is offset against the project and repaid by service. This requires directorate efficiencies and as shown in funding chart below service borrowing is the highest proportion of the capital programme funding across the next 5 years at 33%.

The Capital Programme is £372.669m. This is summarised below by funding source.



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) / loans fund repayments. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP / repayments and use of capital receipts are as follows:

Table 2: Replacement of prior years' debt finance in £ millions

	2023/24 actual	2024/25 forecast	2025/26 forecast	2026/27 forecast	2027/28 forecast
Minimum revenue provision (MRP)	22.676	23.350	24.600	25.850	27.100
Loans fund repayments	0.451	0.489	0.501	0.512	0.516
Capital receipts	0.305	1.500	0.500	0.500	0.500
TOTAL	**23.432**	**25.339**	**25.601**	**26.862**	**28.116**

The Authority's full minimum revenue provision statement is available with Treasury Management Strategy: [link]

Table 3: Capital receipts receivable in £ millions

	2023/24 actual	2024/25 forecast	2025/26 forecast	2026/27 forecast	2027/28 forecast
Asset sales	0.147	2.408	6.555	8.716	0.000
Loans etc repaid	4.080	2.402	2.233	1.990	1.973
TOTAL	**4.267**	**4.810**	**8.788**	**10.706**	**1.973**

Treasury Management

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

Due to decisions taken in the past, the Authority currently has £640m borrowing at an average interest rate of 3.16% and £85.6m treasury investments at an average rate of 5.17%.

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

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

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

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

The treasury management prudential indicators are on pages to of the treasury management strategy [link]

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and staff, who must act in line with the treasury management strategy approved by full Council. Reports on treasury management activity are presented to full Council within quarterly monitoring reports. The Audit & Governance committee is responsible for scrutinising treasury management decisions.

PROPERTY AND REGENERATION FUND

The Property and Regeneration Fund's strategic objectives are to deliver regeneration, economic and employment growth with associated income benefits in the Plymouth Functional Economic Area.

This will enable the Council to invest in direct developments and forward funding opportunities to promote regeneration, safeguarding and creating new jobs as well as encouraging economic growth in the Plymouth Functional Economic Area.

The Property and Regeneration Fund helps deliver the Plymouth Plan and assists in the redevelopment of brown field sites in the Plymouth area where it is difficult to attract external investment. Any regenerated areas encourage other private companies to invest in the locality as well as attracting external investment from inward investment by companies moving into the area.

EXISTING INVESTMENT PROPERTIES

The Property and Regeneration Fund (previously known as the Asset Investment Fund) has approved investment of over £250 million in commercial property including direct development and forward funding commercial property schemes to deliver:

- Stimulation of economic and employment growth and regeneration in the Plymouth Functional Economic Area.
- Associated long-term income generation (via rental revenues) to support the wider financial position of the Council.

All investment decisions have been fully accountable and followed a sequence of internal reporting and signoffs. In addition, verification of the purchase price by external suitably qualified RICS Approved Valuers were obtained prior to any investment.

In terms of on-going governance arrangements, the fund's properties are managed alongside the Council's existing commercial property portfolio in accordance with delegated land and property procedures as set out in the Council's Constitution. In addition, the team undertake regular analysis at both a portfolio and property-level to benchmark performance and manage risk. To improve transparency and disclosure, a regular fund managers' report is produced, and a Management Group of key stakeholders meet regularly to review outputs.

AFFORDABILITY

The Council considers all finances from a prudent perspective; this includes the assessment of affordability of all capital investments.

At the point of approval of a scheme, both the funding implications and any ongoing revenue implications are evaluated to enable informed decisions to be made regarding investment opportunities.

The short, medium, and longer-term impacts are all assessed taking into account any other wider policy implications which could impact on the decision.

As much of the capital programme is funded by borrowing, assumptions and decisions on the cost and affordability of the Council's borrowing is linked to the Public Works Loan Board (PWLB) interest rates, prudential indicators and the approved borrowing strategy as set out in the Treasury Management Strategy 2025/26.

RISK MANAGEMENT

Risks are assessed continually from both an operational and financial perspective.

In carrying out due diligence, potential project risks are identified, and relevant mitigation measures documented prior to approval.

All risks are then managed in line with the Council's risk management policy which includes documenting risks on a risk register, assigning owners, regular review of risks and Red Amber Green (RAG) rating.

Subject to careful consideration, the Council may consider investing in a higher risk initiative should there be a significant direct gain to the Council's resources or enable more effective delivery of its statutory duties.

KNOWLEDGE AND SKILLS

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director for Finance is a qualified accountant with over 35 years' experience.

The Council pays for staff to study towards relevant professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as their treasury management advisers. 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.

CONCLUSION

The Capital Strategy sets the context and framework for formulating the capital programme. It has been written to meet the requirements of CIPFA's Prudential Code and recommended best practice. The financial implications of this report will be fully detailed throughout the Revenue and Capital Budget 2024/25 when presented to Full Council for approval in February 2025.

Local authorities are required by regulation to have regard to the Prudential Code for Capital Finance in Local Authorities (published by the Chartered Institute of Public Finance and Accountancy, CIPFA) when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003. The Prudential Code requires local authorities to: "have in place a capital strategy that sets out the long-term context in which capital expenditure, borrowing and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes."

The Audit and Governance Committee is asked to agree the Capital Strategy, setting out the Council's priorities for capital investment and providing a framework for formulating the capital programme for approval by Full Council in February. It is an important part of the framework underpinning the budget setting process.