Audit and Governance Committee

Date of meeting:	18 February 2025
Title of Report:	**Updated Capital Financing Strategy 2025/26**
Lead Member:	Councillor Mark Lowry (Cabinet Member for Finance)
Lead Strategic Director:	David Northey (Interim Service Director for Finance)
Author:	Wendy Eldridge, Lead Accountancy Manager for Capital and Treasury Management
Contact Email:	Wendy.eldridge@plymouth.gov.uk
Your Reference:	Finance/WE/CFS Final 25-26
Key Decision:	No
Confidentiality:	Part I - Official

Purpose of Report

This report includes updated financial projections to the Capital Financing Strategy report for 2025/26 that was presented to the Audit & Governance Committee on 12 November 2024. It incorporates latest capital strategy information published in January 2025 by Arlingclose, the Councils Treasury Management advisors.

Recommendations and Reasons

1. The Audit and Governance Committee notes the updated Capital Financing Strategy, that will go to City Council on 24 February 2025 as part of the Annual Revenue and Capital budget setting report.

   This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.

Alternative options considered and rejected

1. It is a statutory requirement under the Local Government Act 2003 and supporting regulations to set an annual capital financing strategy. The Council has adopted the CIPFA Code of Practice for Treasury Management.

Relevance to the Corporate Plan and/or the Plymouth Plan

Effective financial management is fundamental to the delivery of corporate improvement priorities. Capital financing activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities

Implications for the Medium Term Financial Plan and Resource Implications:
The cost of capital affects the Treasury Management Strategy and the Council's budget in terms of borrowing costs and investment returns. The Capital Strategy provides an overarching policy framework for the Council's capital programme and planning, and will form part of a suite strategies which provide a holistic view of the Councils financial planning framework. With this in mind this document should be considered in conjunction with the Medium-Term Financial Strategy, Treasury Management Strategy and Investment Strategy.

Financial Risks

There is an inherent risk to any capital financing activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved strategy, and keeping the capital programme under constant review.

Carbon Footprint (Environmental) Implications:
No direct implications

Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:
** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*
A robust capital programme is key to ensuring a successful delivery of our Medium Term Financial Strategy and ensuring the Council can achieve its objectives to be a Pioneering, Growing Caring and Confident City.

Appendices
**Add rows as required to box below*

Ref.	**Title of Appendix**	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
		1	**2**	**3**	**4**	**5**	**6**	**7**
A	Capital Financing Strategy 2025/26							

Background papers:

**Add rows as required to box below*

Please list all unpublished, background papers relevant to the decision in the table below. Background papers are <u>unpublished</u> works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.

Title of any background paper(s)	**Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.*						
	1	**2**	**3**	**4**	**5**	**6**	**7**
Capital Financing Strategy 2025/26 presented to Audit & Governance Committee on 12 November 2024							

https://democracy.plymouth.gov.uk/documents/s149756/A%20G%20Capital%20Strategy%20Report%202025-26.pdf							

Sign off:

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Originating Senior Leadership Team member: David Northey											
Please confirm the Strategic Director(s) has agreed the report? Yes Date agreed: 31/01/2025											
Cabinet Member approval: Approved by email Date approved: 31/01/2025											

APPENDIX A – CAPITAL FINANCING STRATEGY 2025/26

1. 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.

Decisions made this year on capital and treasury management will have financial consequences for Plymouth City 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.

2. GOVERNANCE OF THE COUNCIL'S CAPITAL PROGRAMME

Plymouth City Council have developed a set of procedures and operational guidance (the Capital Handbook) to strengthen capital governance. The Capital Handbook details how capital projects are approved and added into the capital programme.

All proposed capital projects are considered by a senior officer group (the Capital Programme Officer Group) before being considered by the Capital Programme Board, a senior Member and Officer group including the Chief Executive, the Section 151 Officer, the Leader of the Council and the Cabinet Member for Finance.

Capital projects with a value of up to £0.200m are approved under delegation by the Section 151 Officer; projects with a value above £0.200m must be endorsed by the Capital Programme Board prior to a decision approved in accordance with the Council's constitutional executive decision-making process.

Each proposed new capital project will need to demonstrate how it meets the objectives of the City Council, through a business case presented for approval explaining the outcomes achieved by the project and how the scheme will address Corporate Plan priorities. The business case will also set out:

- A project description and option analysis
- Project risks, outcomes and benefits
- Public consultation proposals (where applicable) and feedback
- Legal and procurement implications
- Equalities Impact Assessment and Climate Impact Assessment
- Financial implications for Capital including funding and spend profile
- VAT and Revenue implications including further costs if relating to a corporate property.

Due diligence is carried out on all new proposals to determine whether the scheme is deemed suitable and affordable. If accepted and supported, all new projects with a value over £0.200 are published as an Executive Decision.

The Capital Financing Strategy is agreed annually alongside 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 quarterly Capital Programme monitoring process.

3. CAPITAL PLAN

The Capital Plan is the collective term which includes 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 following consideration of a robust, evidence-based business case.

The Capital Pipeline includes projects where funding has not been secured and / or where a business case has not been developed. The affordability of the council's potential Capital Pipeline is kept under review by the Council's Capital Programme Officer Group, with reference to the limits set through the Council's Treasury Management Strategy and capital financing budget estimates.

4. CAPITAL EXPENDITURE AND FINANCING

Capital expenditure is where the Authority 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. All capital expenditure must be financed, either from external sources (e.g. government grants and other contributions), the Council's own resources (revenue funding, reserves and capital receipts) or debt (borrowing or leasing).

In 2025/26, the Authority is planning capital expenditure of £162.315m (as summarised in Table 1 below) which also includes full five year programme broken down by Directorate and financing source. Table 1 sets out the Capital Programme (agreed as at 31 December 2024) which forms part of the 2025/26 budget setting report which will be considered by the City Council on 24th February 2025. The table also sets out the planned financing of the expenditure.

Table 1. Five Year Capital Programme by Directorate

Directorate	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£m	£m	£m	£m	£m	£m
Children's Services	1.716	1.991	-	-	-	**3.707**
Adults, Health and Communities	16.809	20.935	3.617	0.164	-	**41.525**
Growth - Economic Development	30.810	48.482	42.181	16.575	12.427	**150.475**
Growth - Strategic Planning & Infrastructure	40.963	65.375	28.090	8.280	0.275	**142.983**
Growth - Street Services	18.673	20.359	0.372	0.241	0.212	**39.857**
Customer & Corporate Services	4.548	4.903	0.728	0.280	0.100	**10.559**
Office for Director of Public Health	6.488	0.270	-	-	-	**6.758**
Total	**120.007**	**162.315**	**74.988**	**25.540**	**13.014**	**395.864**
Finance by:	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**Total**
	£m	£m	£m	£m	£m	£m
Capital Receipts	2.002	3.048	9.379	0.180	2.008	**16.617**
Grant Funding	70.477	63.094	0.741	3.269	0.193	**137.774**
Corporate Funded borrowing	23.108	39.638	27.198	3.666	0.378	**93.988**
Service dept. supported borrowing	21.117	43.423	36.655	18.080	10.334	**129.609**
Developer contributions	1.705	11.430	1.015	0.082	0.101	**14.333**
Other Contributions	1.598	1.682	-	0.263	-	**3.543**
Total	**120.007**	**162.315**	**74.988**	**25.540**	**13.014**	**395.864**

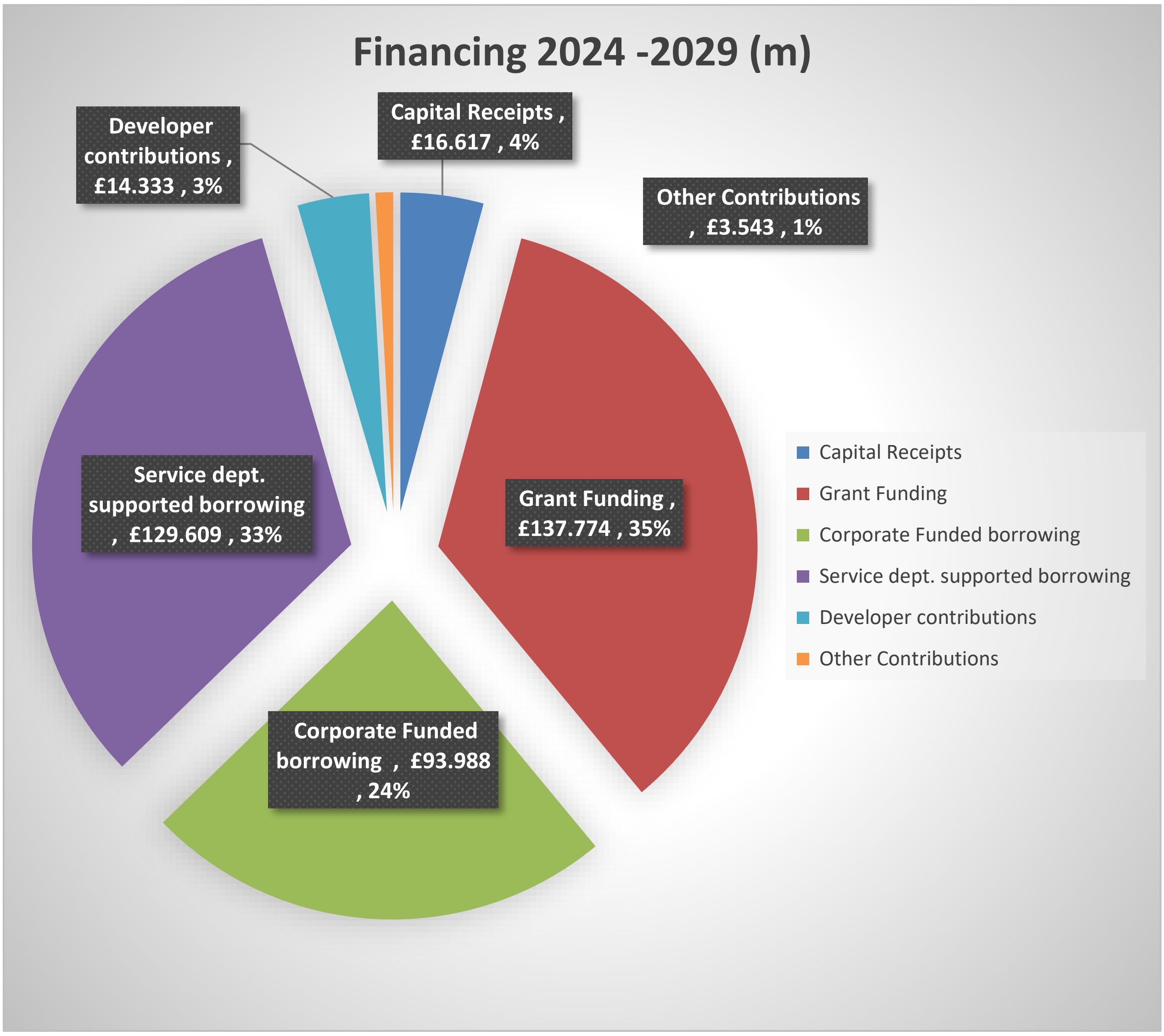
Note that the table does not reflect the full implications of adopting recent changes to accounting standard IFRS16 which changes the accounting treatment of leases. These changes will not have implications for the affordability of the Council's Capital Programme.

Capital expenditure is financed by a range of sources which may either be ringfenced for a particular purpose or un-ringfenced (available for general use). The source of financing is always identified and approved at the point of approving a capital project. 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 borrowing funded corporately, or (where schemes deliver a saving or a new income stream for the Council) borrowing that is offset against the project and repaid by the appropriate service (known at Plymouth City Council as 'Service Borrowing). Service Borrowing requires the continued delivery of efficiency savings and / or income as a result of capital investment, and (as shown in the chart below) forms a significant proportion of the capital programme funding across the next 5 years.

A further analysis of the financing of the Council's 5 year capital programme is presented below.



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. MRP, loans fund repayments and the use of capital receipts planned by the council are set out in Table 2 below:

Table 2: Replacement of prior years' debt finance

	2023/24 actual £m	2024/25 forecast £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
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 Council's full minimum revenue provision statement is included as part of the Treasury Management Strategy which forms Appendix 12 of this budget setting report.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). The CFR increases with new debt-financed capital expenditure and reduces with MRP, loans fund repayments and capital receipts used to replace debt. The CFR is expected to increase by £65.385m during 2025/26. Further details on the Capital Financing Requirement and associated Treasury Management Policies and procedures are set out in the Council's Treasury Management Strategy in Appendix 12.

The Council will review its capital programme and associated financing requirements and borrowing limits if there is a significant change in the balance of costs and income forecast in the Council's rolling Medium-Term Financial Plan. This Capital Strategy has been developed in conjunction with a Medium-Term Financial Plan for the period 2025-28. There is a high degree of confidence that assumptions on costs and income made for the first year of this period are robust; as such the Council can be confident that the revenue consequences of the Capital Programme set out in this document for 2025/26 are affordable. However, looking forward to 2026/27 there are significant uncertainties over the level of demand for statutory services (and associated cost pressures), as well as levels of income in what will be the first year following a significant review of local government funding.

5. ASSET MANAGEMENT

To ensure that capital assets continue to be of long-term use, the Council maintains asset management strategies and policies for different categories of asset. The Highways Asset Management Strategy and Property Asset Management Strategy are published documents. The Property Asset Management Strategy will be reviewed during 2025/26, and any implications for the council's Capital Strategy and Capital Programme will be fed into the 2026/27 budget setting process.

6. 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 is currently also permitted to spend capital receipts "flexibly" on service transformation projects up until and including 2029/30. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £8.788m of capital receipts in the coming financial year as set out in Table 3 below:

Table 3: Capital receipts receivable

	2023/24 actual £m	2024/25 forecast £m	2025/26 forecast £m	2026/27 forecast £m	2027/28 forecast £m
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**

7. TREASURY MANAGEMENT

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. Plymouth City Council typically holds excess cash in the short-term as revenue income is received before it is spent, but is required to borrow 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.

As at 31st December 202 Authority currently has £665m borrowing at an average interest rate of 3.23% and £77.6m treasury investments at an average rate of 5.49%. The Treasury Management Strategy document (included as Appendix 12 of the Council's 2025/26 budget report) sets out a range of contextual information, projected levels of borrowing, and a framework of limits and indicators which will govern the Council's borrowing and Treasury Management activities during the 2025/26 financial year. The key, statutory Prudential Indicators are set out in Table 4 below for ease of reference, further information and detail is found in the Treasury Management Strategy.

Table 4: Prudential Indicators: Authorised Limit and Operational Boundary for debt

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Authorised limit – borrowing	750.225	838.286	1,007.139	1.033.886
Authorised limit – PFI and leases	219.000	217.000	215.000	213.000
Authorised limit – total external debt	969.225	1,055.286	1,222.139	1,246.886
Operational boundary – borrowing	700.225	788.286	957.139	986.886
Operational boundary – PFI and leases	219.000	217.000	215.000	213.000
Operational boundary – total debt	919.225	1,005.286	1,172.139	1,196.886

8. NON-TREASURY INVESTMENT: THE PROPERTY AND REGENERATION FUND

Plymouth City Council manages a portfolio of assets known as the Property and Regeneration Fund (PRF). The strategic objectives of the PRF portfolio are to deliver regeneration, economic and employment growth with associated income benefits in the Plymouth functional economic area. The Council has invested in direct developments and forward funding opportunities to promote regeneration, safeguarding and create new jobs as well as encouraging economic growth. The Property and Regeneration Fund helps deliver the Council's 'Plymouth Plan' and assists in the redevelopment of brown field sites in the Plymouth area where it can be 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.

The Property and Regeneration Fund (previously known as the Asset Investment Fund) has approved investment of over £250 million in commercial property. The principle objective of this investment is to drive economic growth and regeneration, however there are associated long-term income generation benefits (via rental revenues) which support the wider financial position of the Council.

The PRF portfolio forms the Council's principle "Non-Treasury" investment, and the detailed strategy, governance and risk management framework for the portfolio is set out in the Council's Non-Treasury Investment Strategy, along with further information on investment appraisal procedures, key financial indicators, and the capability and skills of staff and professional advisors involved in managing the assets. The Non-Treasury Investment Strategy is included as part of Appendix 12 in the 2025/26 budget report.

The Property and Regeneration Fund portfolio, alongside historic ('legacy') commercial property investments, form an important part of the Council's overall Capital Strategy. Currently the approach is to continue to operate these assets and develop the portfolio for the economic benefit of Plymouth and the surrounding area, and to generate income which repays associated capital investment and provides a return over and above financing costs. However, this position will be kept under review as part of the Council's evolving Medium Term Financial Strategy and Capital Strategy as the portfolio also provides a potential source of capital receipts, which could be used to repay borrowing and / or finance investment.

9. REVENUE BUDGET IMPLICATIONS, AFFORDABILITY AND RISK

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue. The net annual charge is known as 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 5 below sets out the forecast financing costs for the current and next two financial years, together with the percentage of forecast revenue resources represented by these forecast financing costs in each financial year. This is a key indicator of affordability for the Council's capital expenditure plans.

Table 5: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24 actual (£m)	2024/25 forecast* (£m)	2025/26 budget (£m)	2026/27 budget (£m)
Financing costs	34.820	41.519*	50.262	53.887
Proportion of net revenue stream	16.01%	17.18%	19.87%	21.09%

** The increase in financing costs in 2025/26 is subject to outcome of capitalisation direction and currently excludes the impact from a change in the accounting for leases that does not represent additional cost to the authority*

The Council considers all financial decisions from a prudent perspective; this includes the assessment of the 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. As much of the capital programme is funded by borrowing, assumptions and decisions on the cost and affordability of the Council's borrowing are 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.

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, and the regular review of risks. 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.

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Service Director of Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable based on a clear five-year capital programme. However, as noted above the affordability of capital financing will be reviewed as the Council's Medium Term Financial Plans evolve; in addition, budget assumptions around interest rates have risk which will be reviewed regularly and may lead to a wider review of the capital programme to ensure it remains affordable.