7. CAPITAL STRATEGY 2023/24 TO 2027/28 (JW)

1. Purpose of the report

The purpose of this report is to update the Capital Strategy approved by the Authority in 2015, including the revision of the principles and to approve the Capital Programme in the medium term. The Capital Strategy is linked to the Treasury Management Policy and the Treasury and Investment Strategy.

Key Issues

- The refresh of the capital strategy is overdue. It is recommended that future reviews of the capital strategy and capital programme is incorporated into the annual treasury management report.
- Approval of the capital budget for 2023/24 and key principles of the capital strategy.
- The planned capital programme to 2027/28.

2. Recommendations

1. **To approve the Capital Budget for 2023/24 at Appendix 1.**
2. **To approve the four key principles of the Capital Strategy at Appendix 2.**
3. **To note the overall Capital Programme at Appendix 3 and that projects will be subject to individual authorisations as per financial regulations.**
4. **To note that future capital strategy reports will be combined with the Treasury Management report and reviewed annually.**

How does this contribute to our policies and legal obligations?

3. The Chartered Institute of Public Finance and Accountancy (CIPFA) requires that a Capital Strategy be produced alongside a Treasury Management and Investment Strategy (also on this agenda). This is because decisions made on capital and treasury management will have financial consequences for a Local Authority for many years into the future.

4. The Capital Strategy is intended to provide a high level, concise overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of the Authority's services.

Background Information

5. Capital investment decisions are made with reference to the approved asset management plan, they need to show an appropriate value for money appraisal, and align fully with Authority objectives. All capital projects over £150,000 are the subject of a committee report and Member approval, in line with Standing Orders. The Authority approves the Prudential code indicators in March of each year – the Prudential code indicators concern the Authority's borrowing, where borrowing is required to support capital investments which cannot be financed by other means. This is included in the Treasury Management report on the same agenda.

6. Capital expenditure is when the Authority spends money on assets such as property

and vehicles that will be used for more than one year. The Authority has some limited discretion on what is classed as capital expenditure, for example assets that cost less than £10k are not classed as capital and charged to revenue. This is often referred to as the de-minimis level.

7. The Authority generally incurs capital expenditure for either new assets (acquisitions), improvements to existing assets (enhancements) or replacement of obsolete assets. Such expenditure is usually from one across five categories; property (land and buildings), information technology (hardware and software), vehicles, fixtures and fittings and equipment.

8. All capital expenditure must be fully financed, either from external sources such as grants and other contributions, the Authorities own resources (revenue budgets, revenue reserves or capital reserves) or from debt (borrowing or leasing)

9. The prudential code allows Local Authorities to determine their capital strategy and capital programme but provides a framework to ensure that capital expenditure and investment plans are affordable and that external borrowing ang long term commitments are prudent and sustainable.

Proposals

10. The previous capital strategy was for the five year period 2015 to 2020, therefore the review of the capital strategy was overdue. Work has been completed to pull together the business plans for Asset Management and IT into one capital programme document (see appendix 1).

11. To prevent a delay like this in the future it is recommended that the capital strategy be incorporated into the annual Treasury Management report. Another advantage of this is that the current Treasury Management reports and appendices set the annual prudential indicators and borrowing limits as well as the minimum revenue provision (MRP) which are directly linked to the capital programme and have an impact on how much the Authority can borrow (internally or externally) for capital expenditure.

12. The capital budget is usually approved with the revenue budget in February each year, however it has been included in the capital strategy report this year. Members are asked to approved the budget at Appendix 1, but will also note that any new projects included in the budget will be subject to individual business case approvals as per the Authority's financial regulations. The Capital budget for 2023/24 included expenditure of £991k of previously approved projects that will continue into 2023/24 plus an additional £750k for new projects (subject to the appropriate approvals). This is financed by £1.36m of capital receipts, £246k of internal borrowing as well as £72k from revenue reserves and £65k of revenue budget.

13. Members are also being asked to approve the key principles at Appendix 2 which can be used as a guide for making capital decisions in the future. The four key principles are:

- Capital expenditure for health and safety and other regulations.
- Capital projects that fit strategically with the Authority's purposes.
- Whole life costs of the project are fully assessed and included
- Creation and replacement assets have long term sustainability.

14. The overall plans from the asset management and IT services have been pulled

together to show the long term planned capital programme to 2027/28 as shown at Appendix 3. New and approved projects between 2023/24 and 2027/28 total £2.98m of which £1.93m is expected to be funded by capital receipts (net proceeds of the sale of capital assets). Appendix 3 also shows that actual capital expenditure was £510k in 2021/22 and forecast expenditure for 2022/23 is £1.17m. This planned capital programme does not prevent any other business cases being brought forward at any time to be assessed on their own merits subject to the key principles as well as being affordable, prudent and sustainable.

15. The Asset Management service have an asset disposal plan which forms part of the overall asset management plan. This plan is reviewed annually and reported separately to members. The assets for disposal include a range of operational assets and those from our estates, however these will be subject to individual approvals through the disposal toolkit. It should be noted that receipts received from any disposal from the Warslow Estate will need to be reinvested back in the Estate as per the disposal approvals from the Department for Digital, Culture, Media and Sport (DCMS). The forecast capital receipts are as follows:

	2023/24 £'000s	**2024/25 £'000s**	**2025/26 £'000s**	**2026/27 £'000s**	**2027/28 £'000s**	**Total £'000s**
Forecast capital receipts	425	150	275	200	200	**1,250**

16. As per the prudential code, capital receipts can only be spent on future capital projects and other capital expenditure, unspent capital receipts are held in the capital receipts reserve. The balance as at 31 March 2022 was £1.597m of which only £126k is currently unallocated, therefore the disposal of surplus assets will be required to fund the capital programme. This was a part B report brought to Members in March 2022 as part of the Action and Disposal Plan (Min 28/22).

17. Finally, the actual and estimated capital financing requirement (the underlying need for borrowing) underpinning any borrowing requirements in the capital programme to 2027/28 is included in Appendix 2 of the Treasury Management report on this same agenda. The estimates are that borrowing will be £1.23m at the end of 2022/23 and reduced slightly to £1.11m at the end of 2023/24 as more repayments are made than new borrowing entered into. Actual external debt will be £361k at the end of 2022/23 and £330k at the end of 2023/24, therefore the remaining balances of £869k and £780k respectively is internal borrowing.

Are there any corporate implications members should be concerned about?

Financial:

18. The issues have been covered in the report.

Risk Management:

19. The Prudential Code indicators help to manage risks inherent in borrowing for capital expenditure. The Treasury Management and Investment Strategy manages and minimises the risks inherent in the Authority's investing activities. The current plans is reliant on the disposal of surplus assets and as such some projects would be affected or may not go ahead if sufficient receipts are not available and these would need to be addressed in the relevant business case when brought to committee for approval.

Sustainability:

20. This report represents ensuring the sustainability of the Authority's Capital Programme and being able to manage the investment required in the Authority's assets in the future.

Equality, Diversity and Inclusion:

21. There are no implications to identify in this report.

22. Climate Change

There are no implications to identify in this report.

23. Background papers (not previously published)

None

24. Appendices

Appendix 1 – Capital Budget 2023/24

Appendix 2 – Capital Strategy Key Principles

Appendix 3 – Capital Programme to 2027/28

Report Author, Job Title and Publication Date

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